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# NBR ANALYSIS

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

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## Foreword

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

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

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

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

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

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

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

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

Richard J. Ellings  
President  
The National Bureau of Asian Research

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

*Zachary Abuza*

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

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## Introduction\*

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

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

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

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

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

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

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

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

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

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

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

the *shura majlis*. The finance *shura* was traditionally the largest of the four, with about 20 members. As Rohan Gunaratna notes, “Al Qaeda’s finance and business committee—comprising professional bankers, accountants, and financiers—manages the group’s funds across four continents.”<sup>5</sup> A Council on Foreign Relations task force notes that:

Al Qaeda’s financial backbone is built from the foundation of charities, non-governmental organizations, mosques, websites, fund-raisers, intermediaries, facilitators, and banks and other financial institutions that helped finance the *mujiheddin* throughout the 1980s. This network extended to all corners of the Muslim world.<sup>6</sup>

“The goal of counter-terrorism,” according to Mathew Levitt, “should be to constrict the environment in which terrorists operate,” including “their logistical and financial support networks,” which “denies terrorists the means to travel, communicate, procure equipment and conduct attacks.”<sup>7</sup> This is arguably the most difficult part in the war on terrorism, as terrorist organizations use myriad ways to fund their operations, both legal and illegal, overt and covert, some with paper trails, and some without. It has also never been a priority for law enforcement or counter-terrorism officials. Terrorist financing was always seen as ancillary to counter-terrorist operations, but never a priority in its own right.

How does Al Qaeda fund its operations in Southeast Asia? How does its regional affiliate Jemaah Islamiyah support itself? While Jemaah Islamiyah and Al Qaeda are linked, through some joint membership, financial support, and expertise, Jemaah Islamiyah has its own agenda

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*Jemaah Islamiyah has its own agenda and is not subordinate to Al Qaeda.*

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and is not subordinate to Al Qaeda. Al Qaeda does not control JI operations, although it has provided financial support and expertise to JI. Malaysian intelligence officials believe that Hambali, the head of JI’s operations and a member of Al Qaeda’s

*shura*, had approximately \$500,000 in assets at his disposal for use in operations. A senior Al Qaeda operations chief, Khalid Sheikh Mohammed, who himself had considerable experience in Southeast Asia, was known to be impressed with Hambali’s financial management. According to Mohammed’s interrogation report, Hambali and JI, “Unlike Gulf Arabs, were poor, and therefore take great care in how they spend money for operations.”<sup>8</sup>

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<sup>5</sup> Rohan Gunaratna, *Inside Al Qaeda: Global Network of Terror*, London: Hurst, 2002, p. 61.

<sup>6</sup> “Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations,” New York: The Council on Foreign Relations, October 2002, p. 7.

<sup>7</sup> Mathew Levitt, “Stemming the Flow of Terrorist Financing: Practical and Conceptual Challenges,” *Fletcher Forum of World Affairs*, vol. 27, no. 1 (Winter/Spring 2003).

<sup>8</sup> Cited in Ellen Nakashima, “Inquiry Shows Indonesian’s Ties to Al Qaeda,” *Washington Post*, March 29, 2003.



Jl has wisely and effectively diversified its sources of revenue; relying on no single mechanism. There are eight primary sources of income, both internal and external, though most funds come from external sources.<sup>9</sup> As Ali Ghufron (Mukhlis), the leader of the cell that perpetrated the Bali bombings, said, “Hambali is not known to have any big [local] funding sources.” To that end, Indonesian investigators unequivocally stated that “Jemaah Islamiyah’s *jihad* operations were funded by Al Qaeda.”<sup>10</sup> The primary sources of funding include:

- Cash brought into the country on person;
- Funds skimmed from Islamic charities;
- Corporate entities (some legitimate business, others front companies for terrorist activities);
- Proceeds from *hawala* (underground banking) shops;
- Gold and gem smuggling;
- Contributions (*zakat* and *infaq*) from Jl’s own members and outside supporters;
- Al Qaeda investments and accounts already established in the region, especially in the Islamic banking system; and
- Proceeds from petty crime, racketeering, extortion, gun-running, and kidnapping.

These sources will be discussed in detail below, using examples from Jl cells and affiliates across the region, but it is important to know that none of the funding mechanisms has been effectively shut down since the war on terrorism began. In part this is due to the near impossibility of shutting down *hawala* networks, for instance, or of stopping petty crime. In part it is also due to bureaucratic inertia, a lack of political will and diplomatic pressure. Indeed, one of the aspects that made Southeast Asia so appealing to the Al Qaeda leadership in the first place was the network of Islamic charities, poorly-regulated Islamic banks, business-friendly environments, and economies that already had records of extensive money laundering. It is likely that Al Qaeda saw the region first and foremost as a back office for its activities (especially to set up front companies, fundraise, recruit, forge documents, and purchase weapons), and only later as a theater of operations in its own right, as its affiliate organization in Southeast Asia, Jemaah Islamiyah, developed its own capabilities.

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<sup>9</sup> In 2000, for example, when Jl operatives blew up the Philippine ambassador’s residence in Jakarta, the money for the operation came from a Qatari bank account.

<sup>10</sup> Simon Elegant and Jason Tedjaskmana, “The Jihadis’ Tale,” *Time Asia*, January 27, 2002.

Southeast Asia has long been a center for transnational criminal activity: drug- and gun-running, money laundering, people smuggling, document forging, etc. Indeed, money laundering has still not been criminalized in every Southeast Asian state. The Organization for Economic Cooperation and Development's Financial Action Task Force (FATF) still has Burma, Indonesia, and the Philippines on its blacklist of money laundering states.<sup>11</sup> In most cases terrorists differ from transnational criminal organizations, which are driven by profit. Money is important to JI, but only as much as it needs funds to buy weapons, explosives, pay for transport, maintain safe-houses, and bribe local officials. But if you strip away the terrorist act itself, terrorists require the same infrastructure on which transnational crime relies. Southeast Asia thus becomes an important area of counter-terrorist operations.

Finally, it is also important to be cognizant of the fact that it is not an inordinate amount of money that is needed to perpetrate terrorism. The Bali bombings, which killed 202 people and led to the estimated loss of more than \$1 billion in tourist revenue for Indonesia, cost under \$35,000 to plan and execute. It is not the intrinsic value of money, but the capabilities that it gives terrorist organizations, that justifies targeting terrorist financing. Terrorism is thus truly asymmetrical warfare. But the terrorist organization itself does require funds. Recruits need training, they need to travel to Mindanao or Pakistan, safe houses need to be bought, operatives are constantly on the move and need funds for living expenses as well as false identity papers and travel documents, and of course funds are needed for equipment and bomb-

making matériel. Shutting down terrorist funding is difficult but not futile. It is also an important investigative tool and a vulnerability that can be exploited.

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*Counter-terrorist strategy has not focused on targeting the "institutions of terror."*

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One of the problems in the current counter-terrorist strategy is that it is too focused on decapitation. U.S. and regional security officials believe

that arresting the leaders of Al Qaeda and Jemaah Islamiyah will degrade these organizations to the point of collapse. Yet both have proven adept at replacing their leadership and developing new command and control structures. Counter-terrorist strategy has not focused on targeting the "institutions of terror." Disrupting terrorist infrastructure, including sources of fund-

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<sup>11</sup> The Financial Action Task Force (FATF) was established at the G-7 summit in 1989 to create international norms for combating money laundering. It has since come up with a list of 40 recommendations. Following the September 11 terrorist attacks, the FATF has used its knowledge of money laundering to tackle terrorist financing. On October 30, 2001 it adopted eight special recommendations on terrorist financing, which can be found at <<http://www1.oecd.org/fatf/>>.

ing, and eliminating the space that terrorists need to plan, train, and execute attacks must be given as much attention as the arrests of individual terrorists for the war on terrorism to be successful. Yet, as this paper will show, little has been done to disrupt the extensive financial networks that Al Qaeda and JI have established in Southeast Asia. Weak domestic legislation, resource-strapped financial investigative agencies, poor enforcement capacity, and a lack of political will have hampered this important front in the war on terrorism. To that end, Southeast Asia likely remains an important financial hub for Al Qaeda organization, while JI will most likely be able to support its reconstitution.

## **Jemaah Islamiyah**

### ***Organization of Jemaah Islamiyah***

To begin, it is important to start with a conceptualization of what JI is.<sup>12</sup> JI was established in 1993 or 1994 by two radical Indonesian clerics, Abu Bakar Ba'asyir (Bashir) and the late Abdullah Sungkar, who had been living in exile in Malaysia since 1984. They built up a following among radical Malaysians and Indonesian exiles, and were active recruiters for the *mujahidin* in Afghanistan.<sup>13</sup> Two of their closest associates, Riduan Isamuddin (Hambali) and Mohammed Iqbal Rahman (Abu Jibril), both of whom fought in the *mujahidin* and were recruited into Al Qaeda, were instructed to establish a network of cells across Southeast Asia beginning in 1994. Shortly thereafter, Abdullah Sungkar visited Afghanistan, where he met with Osama bin Laden, and JI was brought into the Al Qaeda fold.

There has been considerable debate in the region and beyond over the extent to which the JI is affiliated with Al Qaeda. Indeed Indonesian police chief D'ai Bachtiar recently dismissed any such links between the two.<sup>14</sup> Although Al Qaeda encouraged and assisted in the development of JI, it did not create the organization. Yet while JI has its own regional

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<sup>12</sup> For a history of Jemaah Islamiyah, see Zachary Abuza, *Militant Islam in Southeast Asia: Crucible of Terror*, Boulder, Colo.: Lynne Rienner, 2003. See also Zachary Abuza, "The War on Terrorism in Southeast Asia," in Richard J. Ellings and Aaron L. Friedberg with Michael Wills, eds., *Strategic Asia 2003-04: Fragility and Crisis*, Seattle, The National Bureau of Asian Research, 2003.

<sup>13</sup> Alan Sipress and Ellen Nakashima, "A Quiet Voice Among Islamic Radicals," *Washington Post*, January 3, 2003.

<sup>14</sup> "Police Fail to Connect al-Qaeda with Bali Bombers," *Jakarta Post*, January 9, 2003.

agenda and is not a global jihadist organization, it should be seen as an integral part of the Al Qaeda network. Although there is no evidence that JI members pledged *bayat* (an oath of personal loyalty) to Osama bin Laden, the organization was very much at Al Qaeda's disposal. The relationship exists at many levels. First, there is much overlapping membership. In addition to Hambali, several others are members of both organizations, likewise Al Qaeda dispatched important operatives and trainers to work with the JI leadership. Second, based on his

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*While JI has its own regional agenda and is not a global jihadist organization, it should be seen as an integral part of the Al Qaeda network.*

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interrogation report, Al Qaeda member Omar al-Faruq relied not just on JI personnel for his operations but indicated that he even worked through Ba'asyir to plan all operations.<sup>15</sup> Third, Al Qaeda and JI officials planned operations together at two important meetings—the January 2000 meeting in Kuala Lumpur in which the suicide attack on the

*USS Cole* and the September 11 attacks on the United States were planned, and the January 2002 meeting in Bangkok in which Mohammed Mansour Jabarah represented Khalid Sheikh Mohammed in the planning of the Bali bombings.<sup>16</sup> Fourth, some operations were planned and conducted jointly. For example, JI cells in Indonesia and Singapore often planned suicide attacks and were charged with surveillance and bomb-making, but the attacks themselves were to be executed by Al Qaeda operatives from the Middle East.<sup>17</sup> Yet other operations, such as the Bali attack were autonomous. Hambali has confessed that Al Qaeda was so pleased with the attack they sent \$100,000 for Hambali to use at his own discretion for future attacks. Finally, Al Qaeda dispatched numerous trainers to camps of the Moro Islamic Liberation Front (MILF) in Mindanao, and JI camps in Indonesia, to train JI members.

Jemaah Islamiyah has a formal structure, with Abdullah Sungkar and Abu Bakar Ba'asyir serving as the group's *amirs*, or spiritual leaders.<sup>18</sup> Hambali became the chairman of JI's five-member *shura* (regional advisory council). Other members included Abu Jibril, Agus Dwikarna,

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<sup>15</sup> Romesh Ratnesar, "Confessions of an Al Qaeda Terrorist," *Time*, September 16, 2002; Badan Intelijen Negara (BIN), "Interrogation Report of Omar al-Faruq," June 2002.

<sup>16</sup> Canadian Security and Intelligence Service, "Interrogation Report of Mohammed Mansour Jabarah," 2002.

<sup>17</sup> Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism," Singapore, 2003.

<sup>18</sup> Abu Bakar Ba'asyir is suspected of being more than simply the spiritual leader of JI; he also had operational authority. Omar al-Faruq, the Al Qaeda operative captured in Indonesia in June 2002, has admitted to working closely with Ba'asyir and coordinating operations and attacks with the cleric. See Ratnesar, "Confessions of an Al Qaeda Terrorist"; BIN, "Interrogation Report of Omar al-Faruq"; also see Sipress and Nakashima, "A Quiet Voice Among Islamic Radicals."

Abu Hanafiah and Faiz bin Abu Bakar Bafana. Bafana, a Malaysian businessman, was a key aide to Hambali and served as JI's treasurer.<sup>19</sup> Beneath the *shura* were the secretaries and the five functional sub-*shura*:<sup>20</sup>

- Operations – This *shura* was responsible for both training members, dispatching them to Afghanistan or Mindanao for training, planning, conducting operations, and liaising with the MILF.
- Communications – This *shura* was responsible for establishing primarily electronic communications. It was also in charge of maintaining web pages, such as <www.fatidah.com>, that were affiliated with JI.
- Security – This small *shura* was responsible for internal control, discipline, and counter-intelligence.
- Finance – This *shura* was in charge of fundraising, liaising with charities, establishing bank accounts, laundering money, and establishing front companies.
- Missionary (*dakwah*) – This *shura* was responsible for recruitment, training, and running JI's network of *madrassas*. It also engaged in mosque outreach and fundraising for jihadist operations in Indonesia.

Also beneath the *shura* were the heads of the 4 regional commands, or *mantiqis*.

- Mantiqi 1 – peninsular Malaysia, Singapore, and southern Thailand.
- Mantiqi 2 – Java and Sumatra (Indonesia).
- Mantiqi 3 – the Philippines, Brunei, eastern Malaysia, Kalimantan, and Sulawesi (Indonesia).
- Mantiqi 4 – being developed to establish cells in Australia and Papua (formerly Irian Jaya), but not Papua New Guinea.

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<sup>19</sup> Classified interrogation report of Faiz bin Abu Bakar Bafana, Singapore, 2002. See also transcripts of Bafana's video-testimony in the Trial of Abu Bakar Ba'asyir, June 26, 2003; and Indictment of Abu Bakar Ba'asyir, Office of the Attorney General, Indonesia, April 2003.

<sup>20</sup> Written in 1996, the *Pedoman Umam Perjuangan Al-Jemaah Al-Islamiah (The General Guidebook for the Struggle of Jemaah Islamiah)*, known as the PUPJI, outlines the authority structure, organization, goals, and rights and duties of its members. There are 15 chapters in addition to preambles, definitions, conclusions, and explanations. The fact that they took the time to develop and write such a thorough and complex document is telling, and it says a lot about their patient and deliberative attempt to develop their network.

Each *mantiqi* in turn had several sub-cells, or *fiah*. Altogether, JI has between 500 and 1,000 members, though the former is more a likely estimate, spread throughout the region.<sup>21</sup>

Mantiqi 1, with an estimated 200 members, was perhaps the largest JI cell in the 1990s. It was led by Abu Hanafiah and Faiz bin Abu Bakar Bafana, and recruited actively among both Indonesian exiles and educated Malays, especially technical students. At least five senior JI members and recruiters were lecturers in the Universiti Teknologi Malaysia (UTM).<sup>22</sup>

Mantiqi 1 had four discernable functions. First, it worked very closely with the Kampulan Mujahidin Malaysia (KMM), with which there was some overlap in membership and goals. Second, it was the primary conduit between JI and Osama bin Laden and Al Qaeda in Afghanistan. The Malaysian cell was the logistical hub for up to 100 JI operatives who were sent to Afghanistan for training in Al Qaeda camps, in addition to running its own camp in southern Malaysia.<sup>23</sup> Third, it was responsible for recruiting and education. Much of the recruiting was done through two *madrassas*, Tarbiyah Luqmanul Hakiem school in Johor Bahru and the Sekolah Menengah Arab Darul Anuar in Kota Baru. Fourth, Mantiqi 1 was responsible for establishing dozens of front companies that were used to channel Al Qaeda funds and procure weapons and bomb-making matériel. These include Green Laboratory Medicine, which was responsible for procuring 21 tons of ammonium nitrate, and Infocus Technology, an Internet firm that was used to get Zacarias Moussaoui into the United States.<sup>24</sup> Front companies were not the only businesses established by JI. There were also many cases in which JI members established legitimate businesses, received contracts and business from JI supporters, and then plowed the proceeds back into the organization. According to the Singapore government's white paper, "all JI-run businesses had to contribute 10 percent of their total earnings to the group. This money was to be channeled into the JI's special fund called *infaq fisbilillah* (contributions for the Islamic cause or jihad fund)."<sup>25</sup>

Mantiqi 2 has become the operational epicenter of the organization and now provides the bulk of the membership. In the mid-1990s, there appears to have been little JI activity in Indonesia. Following the fall of Suharto in May 1998, there was a surge in JI activity as

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<sup>21</sup> Indictment of Abu Bakar Ba'asyir, Office of the Attorney General, Indonesia, April 2003.

<sup>22</sup> Associated Press, "KL Arrest Prime Terror Suspect," September 27, 2002.

<sup>23</sup> Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism," Singapore, 2003, p. 6.

<sup>24</sup> "Indictment Chronicles 'Overt Acts' That it Said Led to Sept. 11 Attacks," *New York Times*, December 12, 2001, p. B6.

<sup>25</sup> Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism," p. 6.

hundreds of radical Indonesians returned to the archipelago. The Indonesian cell provided the bulk of the membership and developed JI's two paramilitary arms: the Laskar Mujahidin and the Laskar Jundullah in 1999 and 2000. Mantiqi 2 is connected to Abu Bakar Ba'asyir's overt political organization, the Majelis Mujahidin Indonesia (MMI, or the Mujahidin Council of Indonesia), a large umbrella grouping for approximately 100 small radical and militant groups from across the archipelago that were committed to establishing an Islamic state.<sup>26</sup> In addition to recruitment and running a network of radical *madrassas*, Mantiqi 2 was responsible for running a network of training camps, including seven in Sulawesi and one in Kalimantan. Mantiqi 2 was also important in liaising with Al Qaeda-linked Islamic charities, especially Al Haramain, and became an important conduit for foreign funding.

Mantiqi 3 was a major logistics cell for the network, responsible for acquiring explosives, guns, and other equipment, as well as liaising with the Moro Islamic Liberation Front and supporting Al Qaeda operatives and trainers in the region (such as Omar al-Faruq, al-Mughira al-Gaza'iri, and Omar al-Hadrani).<sup>27</sup> These trainers also played an important role in establishing the MILF's own terrorist arm, the Special Operations Group, in 1999.<sup>28</sup> The cell leader was Fathur Rohman al-Ghozi, an Indonesian who had studied at Al Mukmin from 1984 to 1990, before going to a Pakistani *madrassa* where he was recruited into JI. In addition to explosives, al-Ghozi was responsible for the purchase of light arms and assault rifles that were used by Laskar Jundullah in Poso and Laskar Mujahidin in Ambon starting in 1999.<sup>29</sup>

Mantiqi 4 was the smallest and least developed of the JI cells. It included northern Australia, which JI leaders frequented to recruit and raise funds from the large population of Indonesian exiles.<sup>30</sup>

Until his arrest in Thailand in August 2003, Hambali was the operations chief of JI. One of Hambali's legacies is the importance placed on maintaining the integrity of the organization. Press reports note that Hambali confessed that Dr. Azahari bin Husin had replaced him, while Zulkarnaen, has become the military chief, indicating that JI had contingency plans in place.

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<sup>26</sup> Ba'asyir established the MMI in 2000. Because many MMI leaders, such as Abu Jibril and Agus Dwikarna, were also senior JI officials, the MMI is considered the public face of the covert terrorist organization.

<sup>27</sup> Ratnesar, "Confessions of an Al Qaeda Terrorist"; BIN, "Interrogation Report of Omar al-Faruq."

<sup>28</sup> Philippine National Intelligence Coordinating Agency, "An Update on the Recent Bombings in Mindanao and Metro Manila," November 25, 2002.

<sup>29</sup> Fathur Rohman al-Ghozi, written deposition, July 2002.

<sup>30</sup> For revelations on the extent of JI's penetration of Australia, see Sally Neighbour, "The Australian Connections," Australian Broadcasting Corporation, June 9, 2003.

Although the *mantiqi* structure—the middle level of the organization—seems to be in disarray, there appears to be more direct interaction between the top leaders and the *fiah*—the individual cells—which have more operational autonomy. JI places a premium on maintaining the integrity of the organization. When leaders are arrested, they are quickly replaced. Just like Al Qaeda, JI is able to quickly tap new leaders to maintain its command and control network. Although the new leaders may not have as much experience or authority; the organization is still able to hold meetings and maintain some degree of command and control.

However, JI is not a top-down structure, nor is it a chain of affiliated organizations or a “star hub” with Ba’asyir at its center (see Figure 1). JI, modeled on Al Qaeda, is an “all-channel network” with a small center.<sup>31</sup> One cell relies on the strength of the others (see Figure 2). As John Arquilla notes, “These groups share the principles of the networked organization—relatively flat hierarchies, decentralization and delegation of decision-making authority and loose lateral ties among dispersed groups and individuals.”<sup>32</sup> Thus, while much of JI’s leadership has been arrested in the past two years, it is still able to conduct operations. JI truly is a network, which makes combating it so difficult. It is not an organization that can simply be killed through decapitation of the leaders.

### *Jemaah Islamiyah’s Operations*

Although JI was founded in 1993 or 1994, it did not commit any known terrorist acts until 2000. This is a hallmark of a mature organization. JI spent the years from 1994 to 2000, developing its network, recruiting, training, and assisting in Al Qaeda operations.<sup>33</sup> JI members were sent to Al Qaeda camps in Afghanistan and MILF camps in the Philippines for training. *Madrasahs* were opened to recruit new members, while front companies were established at a steady rate. JI liaised with the MILF and other militant groups such as the KMM. In 1999, with Al Qaeda funding, JI established its own militant groups—the Laskar Mujahidin and the Laskar Jundullah—to take part in sectarian conflicts in Indonesia’s Sulawesi and Maluku regions.<sup>34</sup> These sectarian conflicts dominated the attention of JI’s leaders, who understood that in order to grow, the organization had to replicate the Afghan experience for a new generation of members, giving them a “taste” of jihad.

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<sup>31</sup> John Arquilla, David Ronfeldt, and Michele Zanini, “Networks, Netwar and Information-Age Terrorism,” in Ian O. Lesser, et al., *Countering the New Terrorism*, Washington, D.C.: RAND, 1999, p. 50.

<sup>32</sup> *Ibid.*, p. 61.

<sup>33</sup> Sipress and Nakashima, “A Quiet Voice Among Islamic Radicals.”

<sup>34</sup> Ratnesar, “Confessions of an Al Qaeda Terrorist”; BIN, “Interrogation Report of Omar al-Faruq.”



By 2000, JI felt that it had the capabilities and technically proficient manpower to execute its own terrorist attacks. At that time, JI carried out such operations as the assassination attempt against the Philippine ambassador to Indonesia in August 2000, a spate of church bombings across the Indonesian archipelago in late 2000, a series of bombings in Manila in December 2000, the assassination of a local politician in Malaysia in November 2000, and bombings in Yala, southern Thailand, in April 2001. These attacks were conducted against soft targets and the loss of life was limited. At the time, none of these attacks were connected to one another. Few saw, for example, the attempted assassination of the Philippine ambassador as an operation conducted by JI operatives to “thank” the MILF for its establishment of training camps for JI. Likewise, there was little awareness at the time that the December 2000 bombings in Manila were a joint JI-MILF operation, in which JI had trained the predominantly conventional armed forces of the MILF in urban warfare and terrorist tactics. Officials at the time erroneously attributed the bombings in southern Thailand to criminal gangs.

As more JI operatives were recruited and trained in Afghanistan and the southern Philippines, and their technical proficiency increased, JI plotted larger-scale operations against harder targets. When the first JI cells were broken up in December 2001 by Singaporean and Malaysian officials, the organization was alarmingly close to executing a major terrorist attack on U.S. and Western embassies in Singapore, Manila, and Jakarta, as well as launching a *USS Cole*-style attack against U.S. naval vessels making port calls in the region.

With the arrest of so many senior leaders between December 2001 and January 2002, JI was unable to conduct these large-scale operations, and in January 2002 Hambali held a meeting in Bangkok where he ordered cells to switch to attacks on soft targets such as tourist venues, where primarily Westerners would be the victims and where maximum damage would be done to the already fragile economies of Southeast Asia. Thus, a planned suicide attack against U.S. naval vessels visiting Indonesia was aborted in May 2002 in favor of bomb attacks against a Balinese nightclub, in which 202 people were killed.<sup>35</sup> While JI had to abandon its planned operations against hard targets in Singapore, it went back to the drawing board and planned attacks against economic targets, such as oil refineries and the water pipeline to the island from Malaysia.<sup>36</sup>

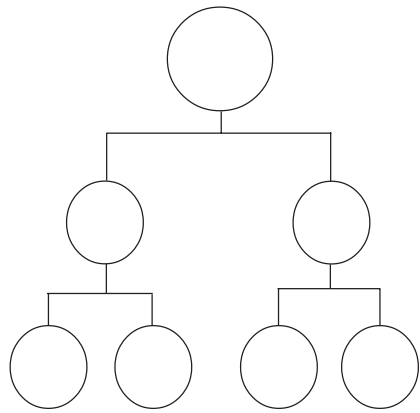
Other likely soft targets in the region include less well-guarded embassies, especially those in office towers; symbols of U.S. economic power, such as office towers housing major corporations; and critical infrastructure, such as refineries or pipelines and power-grids.

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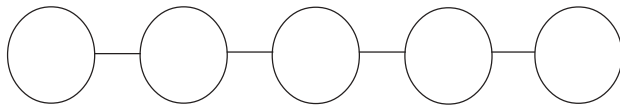
<sup>35</sup> Ratnesar, “Confessions of an Al Qaeda Terrorist”; BIN, “Interrogation Report of Omar al-Faruq.”

<sup>36</sup> Ministry of Home Affairs, “White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism.”

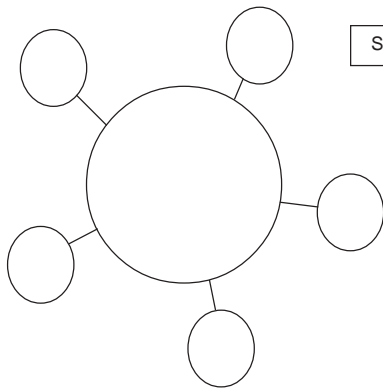
**Figure 1: Terrorist Organization Structures**



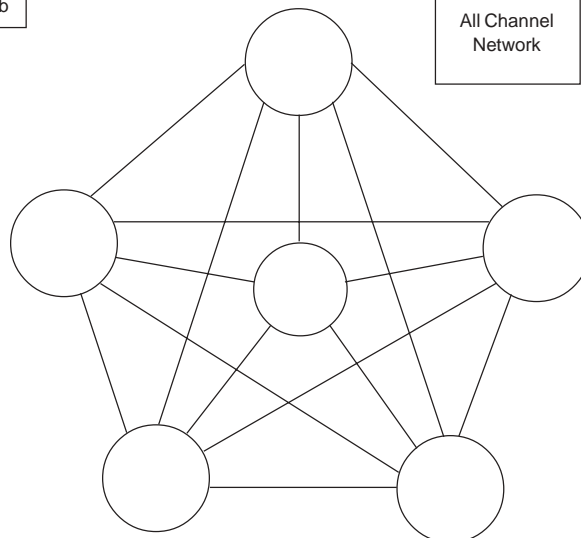
Hierarchical Network



Chain Network



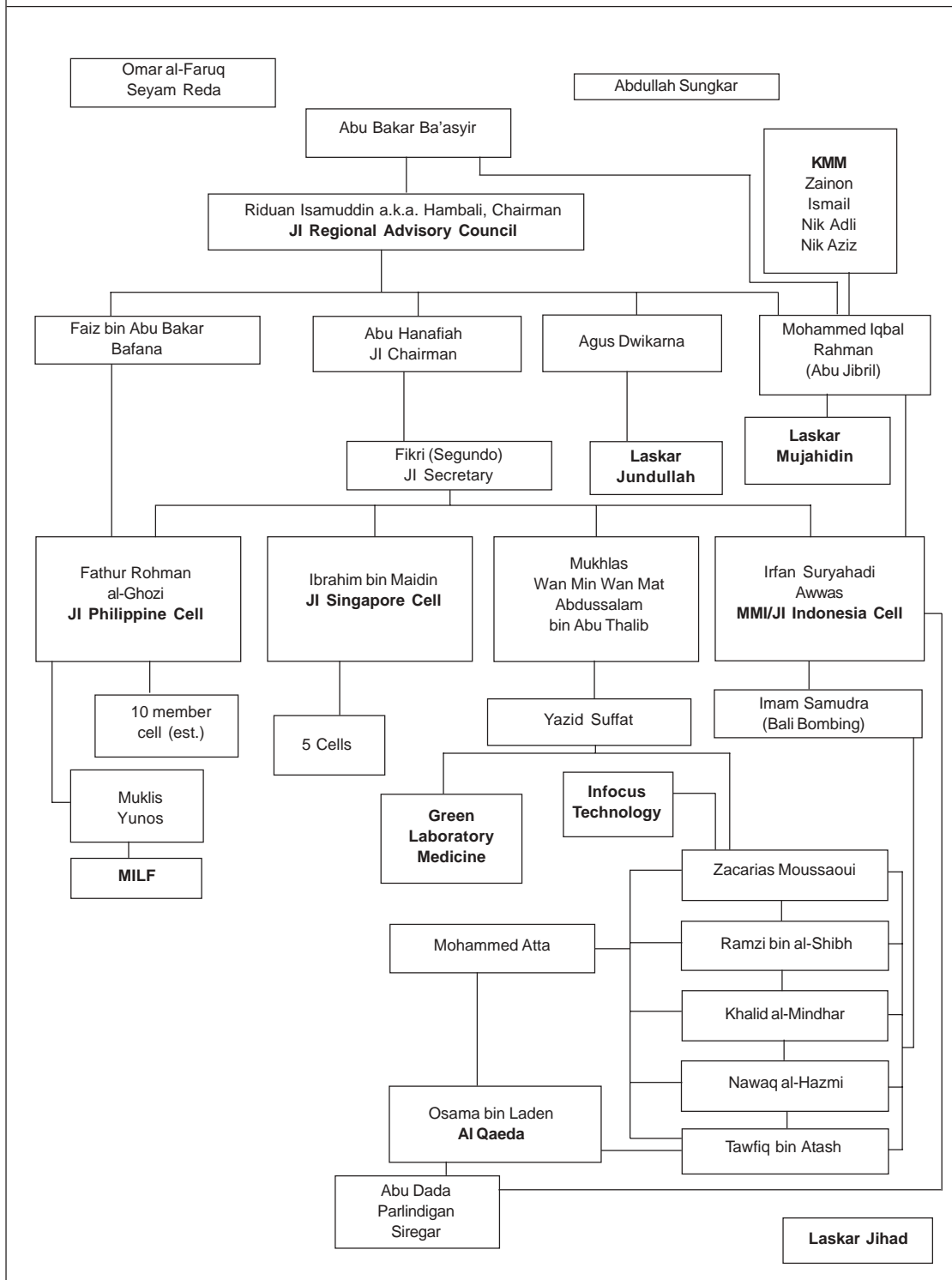
Star Hub



All Channel Network

Source:  
John Arquilla, David Ronfeldt, and Michele Zanini, "Networks, Netwar and Information-Age Terrorism" in Ian O. Lesser, et al., *Countering the New Terrorism*, Washington, D.C.: RAND Corporation, 1999, p. 50.

**Figure 2: Jemaah Islamiyah and the Terrorist Network in Southeast Asia**



JI members arrested during a July 2003 raid in Semarang, Indonesia, stated that U.S. gas and mining firms (Unocal, Halliburton, ExxonMobil, Caltex, Conoco-Philips, and Union Texas) were being specifically targeted, while footage of Freeport McMoran appears on a video produced by an Al Qaeda suspect. In addition to such targets, Indonesia has a huge range of soft targets: hotels, shopping malls, nightclubs, housing complexes, and international schools. The August 2003 bombing of the J.W. Marriott Hotel in Jakarta was indicative of the technical competency and priorities that JI now has.

### **Funding Jemaah Islamiyah**

Jemaah Islamiyah's technical capability has improved markedly since it began terrorist operations in 2000. Despite a series of region-wide arrests, including much of its leadership, the organization retains the capacity and will to execute attacks that can inflict serious economic and human damage. Both the rebuilding of the network and future attacks are dependent on a steady flow of funding. Whereas most of its money for attacks has come from Al Qaeda coffers, funds for daily operations come from JI's own diversified sources of revenue. There are eight primary sources of income, both internal and external. They include cash brought into the country on person; funds skimmed from Islamic charities; corporate entities (some legitimate business, others front companies for terrorist activities); proceeds from *hawala* (underground banking) shops; gold and gem smuggling; contributions (*zakat* and *infaq*) from JI members and outside supporters; Al Qaeda investments and accounts already established in the region, especially in the Islamic banking system; and proceeds from petty crime, racketeering, extortion, gun-running, and kidnapping.

#### ***Bags of Cash***

The most direct way that the JI is funded is through deliveries of cash by personal couriers. The head of Indonesian intelligence, A. M. Hendropriyono, complained that: "Their money comes from private donations sent to Jemaah Islamiyah through couriers, such as Indonesian workers who work in foreign countries and then return home. This is incredibly difficult to clamp down on."<sup>37</sup> According to Malaysian and Singaporean intelligence reports, JI received more than 1.3 billion rupiah (about \$130,000) from Al Qaeda between 1996 and 2001.<sup>38</sup>

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<sup>37</sup> Associated Press, "Terrorist Money Impossible to Stop," July 9, 2003.

<sup>38</sup> Derwin Pereira, "Is There an Al-Qaeda Connection in Indonesia?" *Straits Times*, January 20, 2002.

Omar al-Faruq testified to transferring \$200,000 to JI's Indonesian cell after 2000.<sup>39</sup> Wan Min Wan Mat, a JI treasurer, stated in court that "Through Mukhlas, I have been told that some of the money [for the Bali bombings] came from Al Qaeda."<sup>40</sup> Sheikh Abu Abdullah al Emarati (an alias of Osama bin Laden) was also involved in funding JI operations. He purportedly gave \$74,000 to Omar al-Faruq via Reda Seyam and Aris Munandar, high ranking Al Qaeda and JI officials, to purchase three tons of explosives for JI operations.

Since his capture in August 2003, Hambali has revealed that JI was increasingly dependent on funds from Al Qaeda after so many of JI leaders had been arrested. Hambali has confessed that most of these funds, some \$130,000 through June 2003, came from Khalid Sheikh Mohammed. According to reports of Hambali's interrogation, "The prisoner said that al Qaeda sent the money to him without any condition and without any instruction."<sup>41</sup> Hambali used the first \$30,000 to fund the Bali bombings, after which Al Qaeda was so pleased that it forwarded him an additional \$100,000 for operations. Of the \$100,000, Hambali allocated \$45,000 to the Indonesian cell (including \$15,000 to support the families of arrested JI members), and transferred \$27,000 to the MILF.<sup>42</sup> Yet he made it clear that Al Qaeda funds were for operations only, not for routine daily expenses of the organization.

Personal couriers, often not even JI members, were used in the Bali bombings, when Wan Min Wan Mat transferred \$15,000 and some Thai baht to Mukhlas in two installments via Indonesian laborers working in Malaysia.<sup>43</sup> Khalid Sheikh Mohammed, the most senior Al Qaeda leader captured to date, admitted that he used a Pakistani courier, Majid Khan, to deliver \$50,000 to Hambali in Thailand in early 2003. About \$45,000 of this money was transferred to Indonesia in June 2003 to finance the Marriott Hotel bombing. This money, as well as payments to the MILF and other JI cells, were handled by a personal courier who went by the name Johan.

It is worth noting that senior JI operatives never appeared to have any trouble getting cash when they needed it. When Hambali was arrested, he had about \$70,000 dollars on him in a number of different currencies. The case of Mohammed Mansour Jabarah provides another case in point.

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<sup>39</sup> Ratnesar, "Confessions of an Al Qaeda Terrorist"; BIN, "Interrogation Report of Omar al-Faruq."

<sup>40</sup> Sian Powell, "Al-Qaeda Money for JI Ops," *The Weekend Australian*, June 14, 2003.

<sup>41</sup> Simon Elegant, "The Terrorist Talks," *Time Asia*, October 5, 2003.

<sup>42</sup> *Ibid.*

<sup>43</sup> For more on the transfer, see Associated Press, "Police: Man Sent Money to Bali Suspect," December 10, 2002. See also "Indictment of Ali Ghufron, alias Mukhlas," Denpasar Office of the Counsel of the Prosecution of Justice, Indonesia, June 2, 2003, p. 6. More details on the funding for the Bali bombing are discussed in following sections of this essay.

Jabarah, a Canadian-Kuwaiti Al Qaeda operative, was dispatched to Southeast Asia in 2001 with \$10,000 in seed money provided by Khalid Sheikh Mohammed to conduct operations against U.S. targets in Singapore and Manila. Jabarah was given \$30,000 in three \$10,000 installments in November 2001 from a man he identified as Al Qaeda's main money man in Malaysia. Jabarah was the primary conduit for Al Qaeda funds to Fathur Rohman al-Ghozi, the head of JI operations in the Philippines, who was responsible for purchasing TNT for JI operations in Manila and Singapore. When Jabarah left Singapore for Kuala Lumpur (and later Thailand when he was on the run), he relied on infusions of cash from Al Qaeda operatives.<sup>44</sup>

Another example is the case of a Jordanian man, Hadi Yousef al-Ghoul, who was arrested in his home west of Manila in December 2001. Police officials contended that "Al-Ghoul is a member of one of the terrorist cells in the Philippines assigned to carry out a string of bombings in Metro Manila," but more importantly, he was seen as a mid-level Al Qaeda money man who provided cash to local JI operatives. Every Thursday, al-Ghoul "withdrew a huge amount of money from a local bank," but police investigations did not reveal the source of the funding.<sup>45</sup>

### *Islamic Charities*

Much of Jemaah Islamiyah's funding is thought to come from charities, either unwittingly or intentionally siphoned off. This is possible because JI and Al Qaeda inserted top operatives into leadership positions in several Islamic charities in Southeast Asia in the late 1990s. Indonesian intelligence officials estimate that 15–20 percent of Islamic charity funds are diverted to politically-motivated and terrorist groups.<sup>46</sup> In the Philippines, estimates range from 50 to 60 percent.<sup>47</sup> Indeed, the abuse of Saudi-based charities in Southeast Asia has become a major

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<sup>44</sup> Canadian Security and Intelligence Service, "Interrogation Report of Mohammed Mansour Jabarah."

<sup>45</sup> Hadi Yousef al-Ghoul had been arrested by Philippine police in March 1995 for his links to other Al Qaeda operatives arrested in the *Bojinka* plot. He was later released due to lack of evidence but was kept under surveillance. At the time of his arrest in December 2001, police seized 281 sticks of dynamite, three cell phones (thought to be detonators for the explosives), dry cell batteries and wires, Islamist poems in Arabic, as well as anti-American documents. Al-Ghoul was released from prison after posting bail in January 2002, but within hours was taken into custody by immigration agents. Philippine investigators also believe there was a link between al-Ghoul and Fathur Rohman al-Ghozi. See Tonette Orejas, "Cops Nab Jordanian; Al Qaeda Links Eyed," *Philippine Daily Inquirer*, December 28, 2001; Interview with a major in the Philippine intelligence service, Camp Aguinaldo, Quezon City, January 24, 2001.

<sup>46</sup> Interview with a BIN official, Jakarta, January 21, 2003.

<sup>47</sup> Interview with a major in the Philippine intelligence service, Camp Aguinaldo, Quezon City, January 24, 2001; Interview with a colonel in Philippine intelligence, Manila, June 27, 2002.

point of diplomatic contention. Overall estimates are that Saudi charities have disbursed more than \$10 billion around the world, much of which promotes a Wahhabi-Islamist agenda. The Saudi government is either explicitly complicit in this or is wantonly negligent. In a May 2003 meeting with Australian Foreign Minister Alexander Downer, Saudi Foreign Minister Prince Saud al-Faisal stated that “any funding to Islamic groups in Indonesia [has] been frozen indefinitely.”<sup>48</sup> Yet, all evidence on the ground belies this assertion. Saudi-based charities now have a lower profile in Indonesia, but they are still fully operational.<sup>49</sup> Indeed one charity, Al Haramain, recently completed construction of a new *madrassa* on the outskirts of Jakarta.

Muslims are expected to donate 2.5 percent of their net revenue to charity, known as *zakat*. “In many communities, *zakat* is often provided in cash to prominent, trusted community leaders or institutions, which then commingle and disperse the donated moneys to persons and charities they determine to be worthy.”<sup>50</sup> *Zakat* donations are common throughout Southeast Asia. Indeed, in late 2001 the Indonesian government agreed to make *zakat* tax deductible in order to encourage charitable donations. In addition to *zakat* donations, which are obligatory, there are also *infaq* and *shadaqah* donations, both are voluntary and made depending on the circumstance. All of these practices are unregulated, un-audited, and thus open to terrible abuse by groups such as Al Qaeda. Some charities may wittingly divert funds to militant groups, while “terrorists or their supporters may also infiltrate legitimate charitable organizations and divert funds to directly or indirectly support terrorist organizations.”<sup>51</sup>

There are some 300 private charities in Saudi Arabia alone, including 20 established by Saudi intelligence to fund the Afghan *mujahidin* that send more than \$6 billion a year to Islamic causes abroad.<sup>52</sup> More disturbing, a Canadian intelligence report concluded that Saudi

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<sup>48</sup> Saudi Arabia announced that it had “closed the door on terrorist financing and money laundering.” The new rules issued in May require charities to keep their money in a single bank account and establish a new clearing agency, yet there are many loopholes. For example, the new regulation does not apply to foreign charities that simply raise money in Saudi Arabia, nor does it apply to Hamas-run organizations. Mark Forbes, “Saudis Target Islamic Charities,” *The Age*, May 23, 2003.

<sup>49</sup> For example, Al Haramain moved its office from a large villa on the outskirts of Jakarta to a smaller office nearby. See Jane Perlez, “Saudis Quietly Promote Strict Islam in Indonesia,” *New York Times*, July 4, 2003.

<sup>50</sup> “Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations,” p. 7.

<sup>51</sup> General Accounting Office (GAO), “Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Funding Mechanisms,” Report no. GAO-04-164, November 2003, p. 14.

<sup>52</sup> Jeff Gerth and Judith Miller, “Threats and Responses: The Money Trail,” *New York Times*, November 28, 2002; Brian Bennett, “Wahhabism: Money Trail,” *Time Asia*, March 10, 2003. During the war against the Soviet occupation of Afghanistan, the Saudis established three charities, the Islamic International Relief Organization (IIRO), the Al Haramain Foundation, and the Islamic Relief Agency. Al Qaeda itself has established more charities since then. Mark Hubard, “Bankrolling Bin Laden,” *Financial Times*, November 28, 2001.

charities alone were funneling \$1–2 million annually to Al Qaeda’s coffers.<sup>53</sup> A 2002 United Nations Security Council report found that Al Qaeda and other militant Islamic groups had received between \$300 and \$500 million from Saudi charities.<sup>54</sup> The Council on Foreign Relations, in one of the most authoritative accounts of the problems of terrorist funding, concluded that: “For years, individuals and charities based in Saudi Arabia have been the most important source of funds for Al Qaeda; and for years, Saudi officials have turned a blind eye to this problem.”<sup>55</sup> A former senior U.S. Treasury official, Stuart Eizenstat, stated that Saudi Arabia was treated “with kid gloves,” even though U.S. officials were aware of the use of Saudi charities by terrorists.<sup>56</sup> An Indonesian official complained that “the Saudi money has had a profound effect on extremist groups [in Indonesia], allowing some to keep going and inspiring others to start recruiting.”<sup>57</sup>

The four most important Saudi charities operating in Southeast Asia are the Islamic International Relief Organization (IIRO),<sup>58</sup> the Al Haramain Foundation,<sup>59</sup> the Medical Emergency

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<sup>53</sup> Edward Alden, “The Money Trail: How a Crackdown on Suspect Charities is Failing to Stem the Flow of Funds to Al Qaeda,” *Financial Times*, October 18, 2002.

<sup>54</sup> David Kaplan, “The Saudi Connection,” *US News and World Report*, December 15, 2003.

<sup>55</sup> “Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations,” p. 8.

<sup>56</sup> Gerth and Miller, “Threats and Responses: The Money Trail.”

<sup>57</sup> Perlez, “Saudis Quietly Promote Strict Islam in Indonesia.”

<sup>58</sup> The IIRO was established in November 1978 at the 22nd session of the World Muslim League in Saudi Arabia as a humanitarian non-governmental organization (NGO). It has branch offices throughout the world: 36 in Africa, 24 in Asia, 10 in Europe, and 10 in Latin America, the Caribbean, and North America. (The Muslim World League has some 30 branches worldwide.) Both were used extensively by the Saudi intelligence services to channel Saudi, U.S., and Gulf-state funding to the Afghan *mujahidin* from 1979 to 1989. The IIRO directly funded six Afghan training camps; and the head of the Muslim World League’s office in Peshawar during the Afghan war was Abdullah Azzam, Osama bin Laden’s ideological mentor. The IIRO’s mission statement is to “Provide relief and aid to Muslims as peoples and groups wherever they are should they face disasters endangering their being, their religious beliefs or their freedom; provide funds to protect Muslims from disasters and elevate their living standards in general with the aim of preserving their entity; and care for Muslim minorities and develop their societies through education and other means.” The IIRO and Muslim World League “are overseen by the grand Mufti of Saudi Arabia, the kingdom’s highest religious authority. They receive substantial funds from the government and members of the royal family and make use of the Islamic affairs offices of Saudi embassies abroad.” For more see Kaplan, “The Saudi Connection.”

<sup>59</sup> Al Haramain dispenses \$50 million annually through its 50 offices worldwide. In March 2002, the United States froze the accounts of Al Haramain’s offices in Bosnia and Somalia. The Bosnian branch was re-opened in August 2002 under Saudi pressure. See Mathew Levitt, “Combating Terrorist Financing, Despite the Saudis,” *Washington Institute for Near East Policy—Policy Watch*, no. 673 (November 2002). In September 2002, Bangladeshi authorities raided Al Haramain’s offices in Dakka, which they suspected of funneling Saudi money to recruit Bangladeshis to fight in Kashmir and Afghanistan. See Bennett, “Wahhabism: Money Trail.” U.S. officials believe that Al Haramain branches in at least ten countries support insurgencies and militant activity. Kaplan, “The Saudi Connection.”



Relief Charity (MERC),<sup>60</sup> and the World Assembly of Muslim Youth.<sup>61</sup> The President of the World Assembly of Muslim Youth is Sheikh Saleh al-Sheikh, the Saudi Minister of Islamic Affairs, who is also the “superintendent of all foundation activities for Al Haramain.”<sup>62</sup>

Although most of the donations to Islamic charities go to legitimate social work, such as construction of mosques and cultural centers, translations of religious texts, and NGOs, a significant amount is diverted to terrorist and paramilitary activities. The IIRO credits itself with funding 575 mosques in Indonesia alone. It is doubtful that the central leadership of many of these charities has set out to assist terrorists, but there is a surprising lack of knowledge of what their branch offices are doing on the ground, and paltry oversight of how their funds are actually being used and allocated. For example, in 2000 Al Haramain signed a formal memorandum of understanding with the Indonesian Ministry of Religion that allowed it to finance educational institutions. To that end, it has funded various *pesantren*—Darul Istiqamah al Haramain in Makassar, Al Irsyad, in the central Javanese town of Salatiga, and Gontor in East Java. Despite revelations by Omar al-Faruq that Al Haramain was the primary conduit of Al Qaeda funds into the region, it has not been shut down, although it has lowered its profile in the past year. Nonetheless, an Al Haramain official continues to oversee the construction of the charity’s expensive new religious boarding school on the outskirts of Jakarta.<sup>63</sup>

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*Although most of the donations to Islamic charities go to legitimate social work, a significant amount is diverted to terrorist and paramilitary activities.*

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In addition to Saudi-based charities, which are increasingly coming under scrutiny, Al Qaeda and JI have used a large number of smaller Pakistan-based charities. For example, Faiz bin Abu Bakar Bafana has acknowledged that JI front organizations included the NGO Global Peace Watch based in Peshawar, Pakistan.<sup>64</sup> The lack of regulation of charities in Southeast Asia also encouraged Al Qaeda’s initial forays into the region, when Osama bin Laden’s brother-in-law, Mohammed Jamal Khalifa, opened charitable offices in the Philippines (including a branch of the IIRO).<sup>65</sup>

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<sup>60</sup> MERC played a facilitating role in the 1998 bombings of the U.S. embassies in Kenya and Tanzania. See Mathew Levitt, “The Political Economy of Middle East Terrorism,” *Middle East Review of International Affairs*, vol. 6, no. 4 (December 2002), p. 56.

<sup>61</sup> Levitt, “Combating Terrorist Financing, Despite the Saudis.”

<sup>62</sup> Ibid.

<sup>63</sup> Perlez, “Saudis Quietly Promote Strict Islam in Indonesia.”

<sup>64</sup> Interrogation summary of Faiz Bin Abu Bakar Bafana, October 29–30, 2002.

<sup>65</sup> The second of Khalifa’s four wives is the older sister of bin Laden.

*1) Mohammed Jamal Khalifa's Philippine Charities*

Mohammad Jamal Khalifa had long been engaged in radical Islamist politics and was a senior member of the Muslim Brotherhood in his native Lebanon. From 1985, he ran the Peshawar office of the Saudi-based charity the Muslim World League, where he was active in sending recruits to join the Afghan *mujahidin*. Khalifa had close ties to two of bin Laden's top financiers, Wael Hamza Jalaidin and Yasin al Qadi.<sup>66</sup> In 1988 Osama bin Laden dispatched Khalifa to the Philippines to recruit fighters for the war in Afghanistan.

Khalifa established several other charities and Islamic organizations in the Philippines, including a branch office of MERC International and two local NGOs (Islamic Wisdom Worldwide and the Daw' l Immam Al Shafee Center), ostensibly for charity and religious work, but which channeled money to extremist groups. He established Al Maktum University in Zamboanga using funds from the IIRO. He also established a branch office of the IIRO in Zamboanga. According to the IIRO's head office in Saudi Arabia, the organization's activities in the Philippines include an orphanage and dispensary in Cotabato City, pharmacies in Zamboanga (including a floating dispensary that served remote coastal communities in western Mindanao), providing food and clothing to internally displaced people who had fled war zones, and funding schools and scholarships. The IIRO asserted that its activities were undertaken with at least official approval, if not in cooperation with the government.<sup>67</sup> However, all of these projects, although legitimate charitable work, were located in MILF zones or in urban population centers where the MILF was trying to make inroads as it began to focus on a political strategy that would move toward an East Timor-like referendum process for Mindanao.

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<sup>66</sup> Wael Hamza Jalaidin, a Saudi businessman, was described by U.S. intelligence officials as a founding member of Al Qaeda and a key financial backer of Bin Laden. He was designated as a terrorist funder by the U.S. government in September 2002. He sits on the board of the Pakistani-based charity Rabita Trust, which the United States also considers to fund terrorism. The Saudi government announced in 2001 that Jalaidin had cut his ties with Osama bin Laden in 1992. See Douglas Frantz, "Front Companies Said to Keep Financing Terrorists," *New York Times*, September 19, 2002. Yasin al Qadi was the head of the Muwafaq Foundation, which was designated by both the Saudi and U.S. governments as a terrorist front. Muwafaq, which had a \$20 million endowment, was found to have sent millions of dollars to Al Qaeda in the 1990s before it was shut down. See Mathew Levitt, "Saudi Financial Counter-Terrorism Measures (Part II): Smokescreen or Substance," *Washington Institute for Near East Policy—Policy Watch*, no. 687 (December 2002); Levitt, "The Political Economy of Middle East Terrorism," p. 51; Gerth and Miller, "Threats and Responses: The Money Trail."

<sup>67</sup> Adnan Khalil Basha, "Largest Islamic Relief Organization Maligned," *Philippine Daily Inquirer*, letter to the editor, August 22, 2000.

Perhaps the most important charity established by Khalifa was the little-known International Relations and Information Center (IRIC).<sup>68</sup> The charity was run by Abu Omar, Khalifa's brother-in-law, who was an Islamist student activist and supporter of the MILF at Mindanao State University, where he first met Khalifa in the late 1980s. IRIC was engaged in numerous activities: livelihood projects, job training (e.g., carpentry, fish farming, farming), orphanages, Islamic schools, and other social work.<sup>69</sup> IRIC was also the primary funding mechanism for Khalid Sheik Mohammed, Ramzi Yousef, and Wali Khan Amin Shah's attempt to blow up 11 U.S. passenger planes in early 1995, in what was known as *Oplan Bojinka*.<sup>70</sup>

According to Philippine National Security Advisor Roilo Golez, Khalifa "built up the good will of the community through charity and then turned segments of the population into agents."<sup>71</sup> A Philippine intelligence report noted that "the IIRO which claims to be a relief institution, is being utilized by foreign extremists as a pipeline through which funding for the local extremists" is provided.<sup>72</sup> An Abu Sayyaf defector acknowledged that "The IIRO was behind the construction of mosques, school buildings and other livelihood projects" but only "in areas penetrated, highly influenced and controlled by the Abu Sayyaf."<sup>73</sup> For example, in Tawi Tawi, the director of the IIRO branch office was Abdul Asmad, who was the Abu Sayyaf's intelligence chief until his death in June 1994. The defector said the IIRO was used by bin Laden and Khalifa to distribute funds for the purchase of arms and other logistical requirements of the Abu Sayyaf and MILF: "Only 10 to 30 percent of the foreign funding goes to the legitimate relief and livelihood projects and the rest go to terrorist operations."<sup>74</sup>

Yet, even though the IIRO quickly caught the interest of the Philippine police and military intelligence, which saw it as a front organization for insurgent activities, it was still able to operate for many years. The links between Khalifa and Yousef, and the fact that Wali Khan Amin Shah was supposedly an employee of the IIRO, was too much for the Philippine

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<sup>68</sup> Abu Omar started working at IRIC in 1993, first as a "volunteer," and became its director in 1994. The chair of IRIC was Dr. Zubair, described by Philippine intelligence as Khalifa's "business partner." Philippine National Police, "After Intelligence Operations Report," Camp Crame, Quezon City, February 27, 1995.

<sup>69</sup> Philippine National Police, "After Intelligence Operations Report."

<sup>70</sup> Ibid.

<sup>71</sup> Mark Lander, "US Advisors May Aid Philippine Anti-Terror Effort," *New York Times*, October 11, 2001.

<sup>72</sup> Christine Herrera, "Bin Laden Funds Abu Sayyaf Through Muslim Relief Group," *Philippine Daily Inquirer*, August 9, 2000.

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

authorities to countenance. Yet, one senior intelligence official complained, “we could not touch the IIRO.”<sup>75</sup> It took the Philippine government almost six years to shut the IIRO office in the Philippines. Although the Philippine government in 2001 asserted that all of the charities run by Khalifa in the Philippines that were used to funnel money to the Abu Sayyaf group and the MILF had been shut down, it is not clear that this is the case.<sup>76</sup> The IRIC’s operations and staff were taken over by another Islamic charity, the Islamic Wisdom Worldwide Mission, headed by a close Khalifa associate Mohammed Amin al-Ghafari.<sup>77</sup> The Daw’l Immam Al Shafee Center, likewise, remains operating. There is also evidence that despite the closure of the IIRO’s offices in the Philippines, the charity is still active. The IIRO was renamed the Islamic Mercy Foundation with two offices in Mindanao, in Makate and Marawi, and channels funds to MILF “missionaries” who recruit and win hearts and minds.

Why was the IIRO allowed to remain open so long? The simple answer was that there was intense diplomatic pressure from Saudi Arabia on the Philippines. The IIRO is politically well-connected, and its supporters include the Saudi royal family and the top echelon of society. One of the board members of the IIRO office in the Philippines was the Saudi ambassador. The Saudis’ most important source of leverage in this was the visas and jobs for several hundred thousand Filipino guest workers.

## 2) *Malaysian and Indonesian-based Charities*

Hambali established the charity Pertubuhan al Ehasan in Malaysia 1998 in order to fund jihad activities in the Malukus in Indonesia. According to Faiz bin Abu Bakar Bafana, Pertubuhan Al Ehasan was one of the main functional bodies that “takes care of JI front NGOs, including the Global Peace Watch in Peshawar, Pakistan.”<sup>78</sup> Senior leaders of Pertubuhan al Ehasan were Zulkifli Marzuki and Abdul Manaf Kasmuri. The charity remained open until 2002 and raised 500,000 ringgit (approximately \$200,000) in total.<sup>79</sup> The money went to train, clothe, feed, and purchase weapons for recruits for the jihads in the Malukus and Poso. Much of the money came from donors within Malaysia, although foreign donors were solicited through the Internet. It is not clear if the donors were aware that their money went to militant activities, since they were told that they were supporting humanitarian causes in the Malukus.

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<sup>75</sup> Interview with a major in Philippine intelligence service, Camp Aguinaldo, Quezon City, January 24, 2002.

<sup>76</sup> “Full Text of Palace Letter to the *New York Times*,” *Philippine Daily Inquirer*, October 12, 2001.

<sup>77</sup> Interview with a colonel in the Philippine intelligence service, Malate, June 2002.

<sup>78</sup> Interrogation summary of Faiz Bin Abu Bakar Bafana.

<sup>79</sup> Associated Press, “Terror Suspects Used Donations to Fund Bombings, Train Islamic Extremists,” January 1, 2003.

Indonesia saw a similar development of charities as terrorist fronts, with JI and Al Qaeda leaders assuming leadership positions, and often becoming regional branch chiefs, or forming alliances with important Saudi-based charities, including MERC, the IIRO and Al Haramain.

One of the most important Indonesian charities was the Komite Penanggulangan Krisis, better known as KOMPAK. KOMPAK was founded in August 1998 as an independent arm of the Dewan Dakwah Islam Indonesia (DDII)<sup>80</sup> to address the humanitarian needs arising from the sectarian conflict that erupted in the Maluku in 1998. The organization has a simple structure: a chairman, secretary, and treasurer, with about 30 staff in its Jakarta headquarters and 13 provincial representative offices. KOMPAK officials, while acknowledging that the group operates in regions struck by sectarian conflict (Aceh, Poso, the Maluku, and Bangunan Beton Sumatra), assert it is there to alleviate the crises and provide relief, and deny any links to jihad: "We never give our money to the *mujahidin* or terrorists. We give our money to the needy, unemployed of the *ummah*."<sup>81</sup> These assertions should be taken guardedly. Without a doubt, KOMPAK has been involved in charitable work, distributing food, clothing, and medicine. By KOMPAK's own admission, between 1998 and 2001 it had made some 8 billion rupiah (about \$800,000) in disbursements. Yet there is considerable evidence that KOMPAK played an important role in supporting sectarian conflict in the Maluku and Poso, channeling funds from Al Qaeda to the cause.<sup>82</sup> Even its humanitarian work in the regions supported the Muslim paramilitaries, since it freed up their own resources for weapons. In the Maluku, KOMPAK disbursed more than 100 million rupiah alone.

In fact, KOMPAK has never been neutral; it was founded and coalesced around the issue of sectarian fighting in the Maluku and South Sulawesi. A recent report from the International Crisis Group recounts how a KOMPAK representative from Solo, Imam Hanafi, was in Mindanao buying weapons for the jihad in Ambon in March 2000, while another JI member, Suryadi Mas'uf, had made seven trips to the southern Philippines to purchase weapons with money from KOMPAK.<sup>83</sup> Many KOMPAK officials themselves have been tied to

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<sup>80</sup> The Dewan Dakwah is one of Indonesia's most important Muslim social organizations. It was founded in February 1967 by Muhammad Nasir (the first prime minister of Indonesia), following the 1965 coup that brought President Suharto to power, and at a time when Suharto began emasculating the political role of Muslim political parties and organizations. The group, despite its activist agenda, survived under the New Order regime and earned the widespread respect for standing up to Suharto and promoting Islamic causes.

<sup>81</sup> Interview with Dr. H. Asep R. Jayanegara, Secretary of KOMPAK, Jakarta, January 2003.

<sup>82</sup> BIN, "Interrogation Report of Omar al-Faruq."

<sup>83</sup> International Crisis Group (ICG), "Jemaah Islamiyah in Southeast Asia: Damaged but Still Dangerous," *ICG Asia Report*, no. 63 (August 2003), p. 20.

terrorism. At least two of its 13 provincial representatives were senior JI members. One of Abu Bakar Ba'asyir's top lieutenants, Aris Munandar was the head of KOMPAK's Central Java office. Munandar had been the head of Dewan Dakwah for Central Java and an original founder of KOMPAK. He was also a representative of the Jakarta branch of the Abu Dhabi-based charity Darul Birri. Munandar was labeled a terrorist financier by the U.S. Treasury Department in September 2003, one of 20 individuals so designated, and one of the few who has not yet been arrested, although he is currently under surveillance by Indonesian authorities. The former chairman of KOMPAK's South Sulawesi office was Agus Dwikarna, while the head of the Jakarta office was Tamsil Linrung. Linrung, a member of Dewan Dakwah, was identified by Omar al-Faruq as a JI operative and a participant in three planning meetings in Malaysia from 1999 to 2000.<sup>84</sup> Dwikarna, meanwhile, was the head of a group called the Committee to Implement Sharia in South Sulawesi, the number four official the MMI, and the founder of Laskar Jundullah. Dwikarna was arrested at Manila's international airport in March 2002 carrying C4 explosives in his suitcase.<sup>85</sup> When asked about the arrest, the secretary of KOMPAK stated, "What he does outside of KOMPAK is not our responsibility."<sup>86</sup> Arguing that the provincial representatives were simply volunteers rather than paid staff, he contended that KOMPAK itself had no link to militant activities. When pressed about how he can be sure that none of KOMPAK's money goes to Laskar Mujahidin or Laskar Jundullah, he curtly replied, "We have no link to them."<sup>87</sup>

Yet KOMPAK has produced propaganda and recruitment videos for Laskar Jundullah and Laskar Mujahidin, emphasizing both organizations' military strength and their sense of Muslim persecution. The videos are graphic and one-sided, portraying the Muslim communities being victimized by Christian vigilantes, with small groups of poorly armed Muslims fighting back. Although the KOMPAK videos do show the organization distributing food aid to beleaguered refugees, the context of the documentaries is highly biased. The graphic footage conveys a sense of brutality and utter victimization, and the narration justifies fighting in "self defense." Several of the videos are professional in their footage and music, with little narration. Moreover, a number of them viewed by the author were clearly produced by KOMPAK, with the organization's logo on screen throughout. Aris Munandar's name appears in the credits of at least one as the video's producer.

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<sup>84</sup> Ratnesar, "Confessions of an Al Qaeda Terrorist"; BIN, "Interrogation Report of Omar al-Faruq."

<sup>85</sup> Dwikarna asserted that he was framed. "I Don't Have a History of Violence," interview with Agus Dwikarna, *Tempo*, January 6, 2003, pp. 38-41; "Suspected Terrorists Arrested at NAIA," *Philippine Daily Inquirer*, March 15, 2002; "Jakarta Asks Manila to Clarify Arrests," *Philippine Daily Inquirer*, March 17, 2002.

<sup>86</sup> Interview with Dr. H. Asep R. Jayanegara.

<sup>87</sup> *Ibid.*

In KOMPAK's Jakarta headquarters there are wall board posters of the exhumation of mass graves of Muslims killed by Christians. The photos are exceedingly graphic, and again, one-sided. When questioned about them, representatives said that KOMPAK was exhuming the mass graves for humanitarian reasons, to provide proper Muslim burials for the victims. The same officials denied all knowledge of the propaganda videos, and insisted that the videos' producers had mis-appropriated the KOMPAK logo.

KOMPAK has joint projects with important Saudi charities, notably the IIRO, Al Haramain, and MERC, often serving as their executor or sub-contracting agency. Both MERC and the IIRO were engaged in "projects" in Ambon and Poso. MERC itself has been engaged in "documentary" production in Indonesia. Unlike KOMPAK's videos, MERC's do not show fighting nor convey a sense of hope by showing Muslim militias or *jihadis* fighting back. MERC's videos are high quality productions by the charity's own information office and production company, and focus on the victims of sectarian conflict, showing makeshift hospital wards or squalid refugee quarters. The videos stay close to MERC's core mission of providing emergency medical and humanitarian relief, but like the KOMPAK videos they convey a sense of Muslim victimization at the hand of Christian militias.

Al Haramain was also tied in with militant groups and JI in Southeast Asia. Again, a similar cast of characters emerges, with overlapping leadership. Agus Dwikarna was the local representative of Al Haramain in Makassar in South Sulawesi, which al-Faruq admitted was the largest single source of Al Qaeda funds into Indonesia.<sup>88</sup> Al-Faruq lived near Agus Dwikarna in Makassar (Ujung Pandang) in South Sulawesi, and was the key backer of Dwikarna's Laskar Jundullah.<sup>89</sup> Al-Faruq also worked closely with Ahmed al-Moudi, the head of the Al Haramain office in Jakarta.

Indonesian intelligence sources contend that the head of Al Haramain's headquarters in Saudi Arabia, a Saudi citizen identified only as Sheikh Bandar, was a frequent visitor to Indonesia and kept a wife in Surabaya. A senior Al Haramain official, he was known to deliver briefcases of money on his visits to Indonesia, which were delivered by Ahmed al-Moudi.<sup>90</sup> Another central figure to this was a Middle Easterner. According to the CIA's September 2001 Orange Alert document, one of the key financiers in Southeast Asia, according to al-Faruq, was Rashid, a senior lieutenant to Osama bin Ladin: "Rashid also acts as a representative of a committee of Gulf-state sheiks who are Al Qaeda financiers and who have committed

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<sup>88</sup> BIN, "Interrogation Report of Omar al-Faruq."

<sup>89</sup> Al-Faruq organized training for Laskar Jundullah at facilities of the Afghanistan-based NGO Wafa and then at the Hidayatullah Islamic school, both in Balikpapan, Kalimantan.

<sup>90</sup> BIN, "Interrogation Report of Omar al-Faruq."

ample funds, weapons, ammunition and computers to support this war. Funds are channeled through the Al-Haramayn NGO.” BIN’s report on Omar al-Faruq corroborated this account: “Faruq was given orders by Rashid to get money transferred to the [Al Haramain] foundation’s office in Jakarta through Ahmed Al-Moudi.”<sup>91</sup>

In the investigation of Reda Seyam, the man BIN officials believe to be the most senior Al Qaeda financier in Southeast Asia, further links between Al Haramain and KOMPAK were uncovered. Although investigators found significant evidence of suspect financial dealings on his computer, Reda was never arrested for terrorism, although he was returned to Germany after serving a sentence for immigration violations in Indonesia. Reda was also linked to several other charities, including the Komite Zakat Infaq Dan Shadaqah (KZIS), which solicits most of its donations from Indonesians living overseas, and Al Hayat.<sup>92</sup> KZIS was making direct appeals through the Internet for funds to support jihad in the Maluku and Poso. In addition, KZIS has appealed for funds to support refugees, clinics, and the distribution of *jilbabs* (the Muslim head covering for women).

Reda Seyam also was linked to KOMPAK in one other way. He was a trained cameraman, indeed, he had applied to Al Jazeera in Jakarta for a job, although was turned down. Reda had 18 videos of training camps and sectarian conflict in his possession, three of which had been edited into professional, polished videos ready for distribution. Reda was engaged in similar activities for Al Qaeda in Bosnia in the late 1990s, where he was believed to be the producer of an Al Qaeda documentary, “The Martyrs of Bosnia.” In both countries, his video production was done under the front name Yayasan Aman (Peace Foundation) and the results were important propaganda tools for recruitment and fundraising.

Three Indonesia-based Islamists, Abdul Hadi, Syawal Yasin (Abdullah Sungkar’s son-in-law and currently the head of Laskar Jundullah following Agus Dwikarna’s arrest) and Reda were connected to Wafa, an NGO based in Herat, Afghanistan, and had gone to Kalimantan to establish a training school for terrorists at the Hidayatullah *madrassa*.

One additional charity that has been instrumental in funding militant and radical Islamist groups in Indonesia is the Al Irsyad Foundation, although there is no proof that it is linked to Al Qaeda. Founded in 1915, the organization was one of the most important supporters of the Tarbiyah movement. The Tarbiyah movement tended to reflect the views and religious inclina-

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<sup>91</sup> Al-Moudi was the first person al-Faruq contacted after September 11. BIN, “Interrogation Report of Omar al-Faruq.”

<sup>92</sup> “Zakat yang Menembus Batas,” *Majalah Suara Hidayatullah*, December 2000; The Islamic Network, <[www.isnet.org/~kzis](http://www.isnet.org/~kzis)>; Komite Zakat, Infaq dan Shadaqah (KZIS), “Lampiran Pertama, Surat Edaran Zakat.”



tions of the Yemeni and Arab communities in Indonesia and espoused Wahhabism and Salafism. The Tarbiyah movement re-emerged and rose to prominence among students at the major state universities in the late 1980s. The group, which demanded the establishment of an Islamic state, recruited especially from technical universities, such as the Bandung Institute of Technology. The Tarbiyah movement established a strong following among students linked to the Association of Inter-Campus Muslim Student Action (HAMMAS) and the United Action Group of Indonesian Muslim Students (KAMMI). Since the fall of Suharto, the Tarbiyah movement has incorporated radical groups such as Umar Jaffar Thalib's Laskar Jihad and Habib Rizieq bin Hussein Syihab's Front Pembela Islam (FPI). The Al Irsyad Foundation runs *pesantren* (Islamic boarding schools) across the country, plus a large and well-endowed *madrassa* in Salatiga, Central Java, which receives significant funding from Al Haramain. It is believed to be supported by Fuad Bawazir, the former finance minister under Suharto, who since Suharto's resignation has lobbied intensely behind the scenes to prevent any criminal prosecution of the former president for corruption. Bawazir was believed to be a major supporter of militant groups around the country, some with ties to JI, in order to discredit the succeeding post-Suharto administrations.

### 3) *The Cambodia Connection*

One of the most unlikely sources of Al Qaeda funding coming into the region was through the Om Al Qura Foundation in Phnom Penh. Om Al Qura, which has offices in Bosnia, Somalia, and southern Thailand, was ostensibly established to address the needs of Cambodia's small Cham Muslim population, which had been decimated under the Khmer Rouge between 1975 and 1978, when it fell from 300,000 to 70,000 people; it has recovered somewhat and now numbers 120,000. The Cham community has seen a steady inflow of Gulf money and outflow of students to study in foreign *madrassas*. Middle Eastern charities have funded the construction of more than 120 mosques in Cambodia, which now number about 150. About 80 students a year study in Middle Eastern and Pakistani *madrassas*, where doctrinaire Wahhabism dominates; 400 students study in Malaysia on scholarships funded from Gulf charities.

According to documents from the Cambodian Ministry of Education, the Om Al Qura Foundation ran a school in Kandal province for grades 7–10 which had enrolled approximately 580 students. Half the curriculum was Islamic studies. Teachers were paid about \$150 per month. The school was funded entirely by Om Al Qura. Al Qaeda used the foundation for "significant money transfers" for both itself and for JI.<sup>93</sup> Om Al Qura was believed to have laundered several million dollars for Al Qaeda; the Kandal school was receiving \$10,000 wire transfers each month in its account at the Cambodian Public Bank.

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<sup>93</sup> Interview with a Thai intelligence official, Bangkok, July 31, 2003.

On May 28, 2003, three foreign employees of the foundation were arrested, an Egyptian, Esam Mohamid Khadir Ali and two Thai Muslims, Haji Thiming Abdul Aziz and Muhammad Jalludin Mading, for plotting to carry out terrorist attacks in Cambodia.<sup>94</sup> Soon after, a fourth suspect, Sman Ismael, a Cambodian Muslim, was arrested. Haji Thiming was the conduit for money going to JI cells in southern Thailand, and was closely linked to four Thai JI members who were arrested in the summer of 2003.<sup>95</sup> The operation, which was conducted with a tip from and the support of U.S. intelligence officials, led to the deportation of 28 teachers and 22 dependents from the Al Mukara Islamic School.<sup>96</sup> Yaser Elsayed Mohamed Rousha, another Egyptian who was one of the founders of the school, remains at large.

In addition to their role in money laundering, Cambodian officials said that the four Muslims connected to Om Al Qura who were arrested in Phnom Penh in May had \$50,000 from Al Qaeda to launch an attack in the region.

### *Shell and Front Companies*

The modus operandi of many Al Qaeda cells was to obtain some seed money and then to become self-sustaining over time. Southeast Asia, with the fastest growing economies in the world in the early- to mid-1990s, had business-friendly environments that encouraged the profusion of firms and general trading companies. Two different types of firms were established for terrorist financing. The most important were shell companies—corporate entities that were established with a minimum amount of capital, without substance or commercial purpose, that generated few (if any) profits, and whose primary purpose was to purchase materials or cloak other aspects of terrorist operations. The second type were those firms that were given Al Qaeda

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<sup>94</sup> The threat from terrorism in predominantly Buddhist Cambodia was already high. On the basis of Omar al-Faruq's confession and that of Mohammed Mansour Jabarah, U.S. embassies in Malaysia, Indonesia, Cambodia, and Vietnam had been shut down for the first anniversary of the September 11 terrorist attacks. There was also concern that the ASEAN foreign ministers' meeting held in Phnom Penh in June 2003 would be targeted. Ratnesar, "Confessions of an Al Qaeda Terrorist"; Raymond Bonner, "Plan to Attack Embassies in South Asia Cited for Terror Alert," *New York Times*, September 11, 2002.

<sup>95</sup> The Thai detainees are Maisuri Haji Abdollah, Maisuri Muyahi, Waemahdi Waedao, and Samarn Waekaji.

<sup>96</sup> The teachers hailed from Yemen, Sudan, Egypt, Nigeria, Pakistan, and Thailand. See Ker Munthit, "3 Muslim Foreigners Arrested in Cambodia," Associated Press, May 28, 2003; Ek Madra, "Cambodia Cracks Down on Foreign Muslims," Reuters, May 28, 2003.

funds for start-up capitalization, but whose primary purpose was either to generate revenue or to commingle laundered money with revenue derived from legitimate business undertakings.<sup>97</sup> All these firms were controlled by JI members, and all donated 10 percent of their proceeds into the *infaq fisabilallah*, or jihad fund, controlled by Hambali.<sup>98</sup> Front companies are a serious challenge. As one Swiss investigator put it: “The real problem for the Americans is not freezing bank accounts. The bigger challenge is stopping the unknown number of apparently legitimate businesses set up to move money around the globe to terrorists.”<sup>99</sup>

Ji’s most important shell and front companies were established by the Malaysian cell. Malaysia offered a very favorable business environment in the late 1980s and early 1990s and encouraged investment. In particular, in the mid-1990s, Malaysia began to re-orient its foreign policy away from an ASEAN-centric position and toward a more “pro-Muslim” stance. To that end, it encouraged foreign investment, trade, and tourism with the Middle East. At the same time, it emerged as an international center of Islamic banking. Indeed, one of the mitigating factors when the Asian financial crisis hit Malaysia in 1997 was the continued flow of Middle Eastern capital through its banking system.

These Al Qaeda shell companies were established at a rate of more than one a year between 1993 and 1996. They include two general trading companies, a bio-medical lab, and a computer firm. Most had overlapping board membership.

Green Laboratory Medicine was established in October 1993. Its director was Yazid Sufaat, a former Malaysian army captain who studied bio-chemistry at California State University, graduating in 1987. Upon his return to Malaysia, Sufaat was reproached by his family for his loss of Islamic values while abroad, and he began attending prayer sessions which brought him into contact with Hambali. Sufaat was then sent to Pakistan for religious training, where he was recruited into JI/Al Qaeda. In June 2001 Sufaat traveled to Afghanistan for training from Al Qaeda. He was arrested on December 9, 2001, when he tried to return to Malaysia from Afghanistan. Green Laboratory Medicine was instructed to purchase 21 tons of ammonium nitrate for use in terrorist attacks in Singapore (by way of comparison, the Oklahoma City bombing perpetrated by Timothy McVeigh used two tons of ammonium ni-

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<sup>97</sup> Financial Action Task Force on Money Laundering, “Report on Money Laundering Typologies, 2002–2003,” February 14, 2003, p. 3.

<sup>98</sup> Ministry of Home Affairs, “White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism,” Singapore, 2003, p. 6.

<sup>99</sup> Frantz, “Front Companies Said to Keep Financing Terrorists.”

trate). At the time of his arrest, Sufaat had already purchased and dispatched four tons that remained unaccounted for until March 2003.<sup>100</sup>

Hambali has revealed since his arrest in mid August 2003, that Yazid Sufaat and Green Laboratory Medicine also were selected by Al Qaeda “to play a leading role” in the development of chemical and biological weapons for the organization. Sufaat, who was with Hambali in Kandahar, Afghanistan in the fall of 2001 where he was working with Al Qaeda weapons experts, discussed anthrax production in Southeast Asia. As one U.S. intelligence official remarked, “We are very anxious to find out what [Sufaat] knows” about Al Qaeda’s biological- and chemical weapons programs. “We think he can answer a lot of those questions.”<sup>101</sup> There is no evidence, however, that Sufaat was able to obtain a virulent strain of Anthrax.

Konsojaya, established in 1994, was a trading company that ostensibly exported Malaysian palm oil to Afghanistan and imported honey from Sudan and Yemen. The firm was capitalized with 100,000 ringgit, and 5,998 of its 6,000 shares were controlled by Wali Khan Amin Shah and Medhat Abdul Salam Shabana. Konsojaya’s original board of directors also included Hambali and his wife, Noralwizah Lee Binti Abdullah (a subsequent five-member board did not include Hambali or his wife).<sup>102</sup> The company played an important role in Ramzi Yousef and Khalid Sheikh Mohammed’s *Oplan Bojinka* as a front for moving money and purchasing chemicals and equipment for bomb-making.<sup>103</sup> Ramzi Yousef and Wali Khan Amin Shah established another shell company, the Bermuda Trading Company, in 1994 as a cover to import chemicals for bomb-making.

Infocus Technology was established in July 1995, also by Yazid Sufaat. The company was partially owned by his wife. Infocus Technology hired Zacarias Moussaoui, alleged to be the 20th September 11 hijacker, as a marketing consultant and was able to get him a visa to the United States. Infocus was to have paid Moussaoui a lump sum of \$35,000 and a monthly stipend of

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<sup>100</sup> Yazid Sufaat was wanted by Malaysian investigators because they knew that his Kuala Lumpur apartment was used by the 11 senior Al Qaeda lieutenants (including Khalid Sheikh Mohammed, Ramzi Bin al-Shibh, Hambali, Khalid al Mindhar, Nawaq al-Hazmi, Hikmat Shakir, and Tawfiq bin Attash) who met in January 2000 to plan the attacks on the *USS Cole* and the September 11 attacks. For more on the seizure of the chemicals, see Kimina Lyall, “Police Unearth Missing Terror Cache,” *The Australian*, March 22, 2003.

<sup>101</sup> Cam Simpson, “U.S. Seeks Access to Malaysian Al Qaeda Suspect,” *Chicago Tribune*, December 7, 2003.

<sup>102</sup> The complete board included: Wali Khan Amin Shah, Medhat Abdul Salam Shabana, Hambali, Hemeid H. Alghamdi, Noralwizah Lee Binti Abdullah (Hambali’s wife), Amein Mohammed, Amein Alsanani (managing director), and Annamalai al Sundrasan (secretary).

<sup>103</sup> Philippine National Police, “After Intelligence Operations Report.”

\$2,500 to cover his flight training in the United States. Sufaat has told Malaysian investigators that the money was never actually paid, but there is no evidence that this is the case.

Another front company was Secure Valley, established in October 1996. Little is known about the purpose or operations of this general trading company, but it had many of the same boards of directors as the other three JI-linked firms.

In addition to these, there were several other JI-linked front companies. Zulkifli (Zulkepli) Marzuki, according to Canadian intelligence, owned a security company in Kuala Lumpur called MNZ Associates (sometimes referred to as MNZ Management Services) in which many key meetings took place.<sup>104</sup> Zulkifli co-owned MNZ with Mohamad Nasir Ismail, who was arrested in January 2002 under Malaysia's Internal Security Act. Marzuki was a trained accountant, and MNZ Associates did the auditing for most JI/Al Qaeda front companies in Malaysia, including Infocus Technology and Green Laboratory Medicine. (MNZ Associates changed hands in January 2003 and is now named Wan Ali Jaafar Associates.)

Another JI-linked firm was uncovered in February 2003 with the arrest of Abdul Manaf Kasmuri, a former Malaysian army colonel who had headed a UN peacekeeping operation in Bosnia. Kasmuri was a high-flyer in the military and the highest ranking officer to be recruited by JI. He attended Malaysia's Royal Military College and then Sandhurst, the British military academy, from which he graduated with honors. Kasmuri led the Bosnian peacekeeping operation with distinction for nine months from 1993 to 1994 until he became disenchanted with the UN's failure to protect the Bosnian Muslim community, especially after the massacres following the Serb invasions of the six UN-designated "safe havens." Kasmuri began supporting the Bosnia army's 7th and 9th battalions, which were comprised of foreign *jihadis*, many of whom were Al Qaeda members and veterans of the *mujahidin* in Afghanistan. After he grew too close to them, he was recalled and pressured to take early retirement in 1995, but he returned to Bosnia and became involved in aid work, during which time he was recruited into Al Qaeda. He spent time in Afghanistan, and then returned to Malaysia, where even though he was wanted by Malaysian police, he became the human resources manager for a Kuala Lumpur-based Islamic financial institution, Koperasi Belia Islam, and a director of a charity, Al Ehsan, established by Hambali to support the Jihad in the Maluku.<sup>105</sup>

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<sup>104</sup> Canadian Security and Intelligence Service, "Interrogation Report of Mohammed Mansour Jabarah"; Interrogation summary of Faiz bin Abu Bakar Bafana, October 29–30, 2002.

<sup>105</sup> "Ex-Army Officer Detained Under the ISA," *Malaysiakini*, February 25, 2003; "ISA Arrest of Ex-Colonel Must be in Good Faith: Sukham," *Malaysiakini*, February 27, 2003; see also <<http://abimjohor.org.my/kbi.htm>>; Interrogation summary of Faiz bin Abu Bakar Bafana.

Kasmuri was also involved in a JI-linked company called Excelsetia as a shareholder and director. Excelsetia was a privately-owned general trading company that was run out of the off-shore haven of Labuan. Marzuki and Kasmuri established the firm as a “source of funds for JI and as a front for the paramilitary training of JI members.”<sup>106</sup> Faiz bin Abu Bakar Bafana, however, denied reports that one of Excelsetia’s purposes “was as a front for the procurement of weapons. The company has been reported in the press, but its license to operate a security agency was still pending.”<sup>107</sup> Kasmuri managed the security company before he fled to Pakistan. Two of the other four directors/shareholders were senior JI officials, Zulkifli Marzuki and Bafana, both of whom are now under detention.<sup>108</sup>

Front companies were not the only businesses established by Jemaah Islamiyah. There are also cases in which JI members established legitimate businesses in order to generate income for the organization. The Al Risalah Trading Company of Malaysia is one such example. The Al Risalah Trading Company was established by the son-in-law of Abdullah Sungkar, Feri Muchlis bin Abdul Halim, with some 25,000 ringgit (\$10,000) in start-up capital. Halim, an Indonesian with permanent residency in Malaysia, obtained a coveted license that allowed Al Risalah to contend for government contracts, and the firm had been awarded contracts to install water pipes in Selangor, to provide school stationery, and to build two schools in Selangor.<sup>109</sup> In the first two cases the person who accepted the tender was a suspected JI member; and both he and Halim have been detained under the Internal Security Act.

Most JI fronts in Malaysia were general trading companies, but a number were construction firms. Gulf Shores Sdn. Bhd., a general contractor and construction material supplier business with an office in Johor Baru, was owned by JI members Abdul Nassir bin Anwarul and Amran bin Mansour, and is now run by Abdul’s sister-in-law, Aliza Abas, whose sister is the wife of Mukhlas, the former head of Mantiqi 1. Aliza Abas is the sister of Hashim Abas, the former head of Mantiqi 3. Abdul Nasir has now been arrested, along with his two brothers, and the company is now known as Maple Enterprises.

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<sup>106</sup> Interrogation summary of Faiz bin Abu Bakar Bafana.

<sup>107</sup> Ibid.

<sup>108</sup> The firm was capitalized with 300,000 ringgit, the shares of which were distributed as follows: Abdul Manaf Kasmuri, 83,999 (28 percent), Faiz bin Abu Bakar Bafana, 83,999 (28 percent), Zulkifli Marzuki, 72,000 (22 percent), and Shaharudin Othman, 60,000 (20 percent). There is no evidence that Othman is a member of Jemaah Islamiyah. There is evidence that the firm had been effectively dormant for the past two years.

<sup>109</sup> Wong Chun Wai and Lourdes Charles, “Terror Suspect Awarded Pipe Project,” *The Star*, January 1, 2003.

The firms increasingly are taking on different characteristics. A Malaysian named Zubair, who was recruited into Al Qaeda while a student in Karachi, was the driving force behind laundering money through nursery schools, kindergartens, orphanages, and schools across Southeast Asia. In addition to the Om Al Qura Foundation's operations in Cambodia, Zubair established a number of educational fronts in Malaysia. One such example is Aliran Salam, which was established in April 1996 as a private Selangor-based kindergarten and nursery. Another JI-controlled firm, Shafatex Niaga was a 20 percent owner of the school, while Zulkifli Marzuki was its secretary. The school, which had hosted Abu Bakar Ba'asyir in the past, now asserts that it has nothing to do with JI. Nonetheless, it fits into an alarming pattern of money being hidden in the places least expected.

Less well-known are front companies in Indonesia, where the process of establishing a company is much less well-organized. It is easy to establish companies in Indonesia; it costs only 150 million rupiah to register a firm; and only a little more to get an import-export license. Unlike in Malaysia, where the system is well-organized, transparent, and efficient there is not really a central registry for companies, which makes them harder to track and investigate. One U.S. official also noted that whereas the Malaysians were helpful in investigating suspect firms, the Indonesians and the Thais were both reluctant to even assist in investigations. Nonetheless, joint U.S. and Thai investigations led to the 2003 seizure of the assets of three Middle Eastern general trading companies that had offices in Bangkok since 1997, including Al Jallil Trading Company, the Al Amanah Enterprise Company, and Sidco Company, even though these firms have not yet been designated on the UN list of terrorist-supporting organizations.<sup>110</sup> At least three more Thai-based firms are currently under investigation.

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*The primary conduit for terrorist financial transfers is through the unregulated remittance system known as hawala.*

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### *Hawala*

The primary conduit for terrorist financial transfers is through the unregulated remittance system known as *hawala*, or underground banking sector, which is common across the Middle East and other parts of the Muslim world. In the *hawala* system no money is ever wired,

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<sup>110</sup> Kavi Chongkittavorn, "Al Qaeda in Thailand: Fact or Fiction?" *The Nation*, January 13, 2003.

names or accounts of either senders or receivers are not used, and no records are kept.<sup>111</sup> With commissions of only 1 to 2 percent, compared to average bank transfer fees of up to 15 percent, *hawala* is the transfer system of choice. Estimates on the annual flows through the informal banking sector around the globe vary wildly from the United Nation's estimate of \$200 billion to World Bank's figure of tens of billions of dollars.<sup>112</sup> In Pakistan, for example, only \$1.2 billion of the \$6 billion in foreign exchange that is remitted to the country annually arrives through the formal banking system.<sup>113</sup> Although the U.S. Treasury Department froze the assets of 62 subsidiaries of and organizations affiliated with two of the world's largest *hawala* networks, Al-Barakat and Al-Taqwa, in November 2001, most *hawala* operators are so small as to go unrecognized.

*Hawala* is used extensively in Malaysia, Singapore, Indonesia, and the Philippines. A World Bank report dated December 2002 estimated that the share of *hawala* transfers as a percentage of total private transfers in 2000 was: 5 percent for the Philippines, 21 percent for Indonesia, and 50 percent for Pakistan.<sup>114</sup> As one U.S. official noted to the author, "Established mechanisms to move money illegally already exist in Indonesia."<sup>115</sup> There is no idea how much money is coming into the country illegally through the underground banking sector.

In downtown Manila's Ermita district there are blocks upon blocks of *hawala* shops. About \$6 billion is remitted annually to the Philippines, mainly through the *hawala* system, and there are some 1.4 million Filipino laborers in the Middle East alone.<sup>116</sup> Overseas workers, who represent 10 percent of the labor force, have literally kept the Philippine economy afloat in the past two decades. Although overall remittances from overseas workers dropped by 13

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<sup>111</sup> Douglas Frantz, "Secretive Money Moving System Scrutinized For bin Laden Funds," *International Herald Tribune*, October 3, 2001. The *hawala* system is based on working relationships between different *hawala* dealers in various countries. For example, if a Philippine guest worker in Lahore wants to wire money home to his family in Cotabato, Mindanao, he would go to a *hawaladar* who has a relationship with a *hawaladar* in Cotabato. The *hawala* dealers are known for their business contacts, which could be business partners or often family members. The Lahore *hawaladar* will take the money (in whatever currency) and then send a message to his partner in Cotabato to disburse the funds to whomever the guest worker designates. Over time, the two *hawaladar* will settle accounts.

<sup>112</sup> GAO, "Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Funding Mechanisms," Report No. GAO-04-164, November 2003.

<sup>113</sup> "Cheap and Trusted," *The Economist*, November 24, 2001. It is estimated that between \$2 and \$5 billion passes through the *hawala* system in Pakistan alone each year.

<sup>114</sup> World Bank and International Monetary Fund, "Informal Funds Transfer Systems: An Analysis of the Hawala System," December 18, 2002.

<sup>115</sup> Interview with a U.S. State Department Official, Jakarta, June 25, 2003.

<sup>116</sup> In 2000, overseas laborers remitted some \$6 billion, and in 2001, \$5.4 billion. Luz Baguioro, "Overseas Filipinos Feel Pinch of Global Slump," *Straits Times*, December 14, 2001. Also see "An Anthropology of Happiness," *The Economist*, December 22, 2001.



percent in the first half of 2001 compared to the first half of 2000, from \$3.1 billion to \$2.7 billion, receipts from the Middle East actually rose in that period, from \$270 million to \$352 million, an increase of more than 30 percent.<sup>117</sup> The Philippines has a weak banking sector, with little regulatory oversight, especially over the flow of remittances, so it is easy to make fund transfers. Money wired from the Middle East even to small post office accounts in the villages does not raise eyebrows. As one Singaporean *hawaladar* said, “My company does not question the amount or the purpose of sending the money. They trust us, and I don’t ask questions. Why would I, when I have a license to operate?”<sup>118</sup>

Wali Khan Amin Shah, Khalid Sheikh Mohammed, and Ramzi Yousef used an account of the Al Ansari Exchange Establishment (AAEE) to transfer funds for *Oplan Bojinka*. The AAEE, some times known as the Reza al-Ansari Exchange, was founded in 1979 and is based in Abu Dhabi. It currently has 33 branches in the United Arab Emirates (UAE) in addition to its headquarters.<sup>119</sup> It has extensive ties with money launderers and banks across Europe and the Middle East, including two other major *hawaladars*, A. M. Shouman & Sons and Al Reems Exchange. The UAE was a favorite hub of terrorist funding as it had lax financial reporting, and banks and financial institutions did not have to report cash deposits. The AAEE provides legitimate exchange services, in particular for Philippine overseas foreign workers in the Middle East. In one advertisement in the *Gulf News*, the AAEE offers “fast and reliable door to door remittance service to the Philippines through an excellent arrangement with the Bank of the Philippine Islands.”<sup>120</sup> The AAEE was also used extensively by the Middle East-based terrorist organizations Hamas and Hizbullah.

*Hawala* become even more important in countries that have currency controls. For example, in the fall of 1998, when the Malaysian government imposed capital controls and stopped the conversion of the ringgit in order to prevent capital flight, the *hawala* system was one of the few sources of foreign exchange available.<sup>121</sup> Likewise, after the Philippines abolished currency exchange controls in 1992, remittances through the legal and regulated banking sector quadrupled.<sup>122</sup>

Some of the economies in the region are so dependent on remittances that tend to come in through *hawala* networks that there is a reluctance to crack down on them, even though

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<sup>117</sup> “Filipinos Send Less Money Home Due to Global Insecurity,” *Straits Times*, November 1, 2001.

<sup>118</sup> Michelle Cottle, “Eastern Union: Hawala v. the War on Terrorism,” *New Republic*, October 24, 2001, pp. 24–28.

<sup>119</sup> For more on the company, see <[www.alansariuae.com](http://www.alansariuae.com)>.

<sup>120</sup> Philippine National Police, “After Intelligence Operations Report.”

<sup>121</sup> Cottle, “Eastern Union: Hawala v. the War on Terrorism.”

<sup>122</sup> “Cheap and Trusted.”

regional intelligence analysts concede that they are the primary way that money moves around the region and to and from the Middle East. Even if a crackdown occurred, one regional intelligence official conceded, it would simply drive the brokers underground, making monitoring and regulation even more problematic.

### *Gold and Gem Smuggling*

*Hawala* is closely linked to another aspect of terrorist financing, gold and gem smuggling. Gold smuggling has always been a problem in Southeast Asia, and jewelry shops are often a side business for *hawaladars*. As a former senior official in the U.S. Treasury Department's Financial Crimes Enforcement Network said, "There can be no doubt that Al Qaeda has placed a large share of its assets in gold. This metal is indeed the best means of transferring secret funds." The FATF notes that "the advantages that gold provides are also attractive to the money launderer, that is, the high intrinsic value, convertibility, and potential anonymity in transfers."<sup>123</sup>

The FATF also noted the similar role of gems in terrorist financing: "The high intrinsic worth and their compact nature appear to make the gold and diamond sectors attractive as a cover for laundering illegal funds from other crimes as well as a laundering vehicle in and of itself."<sup>124</sup> The liquid nature of gems, the anonymity of transfers, the ability to over-invoice, and the high value per gem are all attractive to non-state actors. Al Qaeda's interest in the gem trade began in 1998 following the seizure of financial assets in the wake of the East African embassies bombings.<sup>125</sup> One senior U.S. official acknowledged that prior to the September 11 attacks Al Qaeda purchased significant amounts diamonds: "We are talking about millions and maybe tens of millions of dollars in profits and laundering."<sup>126</sup> In an alarming report about Al Qaeda and the international trade in diamonds and other gemstones, the British NGO

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<sup>123</sup> Financial Action Task Force on Money Laundering, *Report on Money Laundering Typologies, 2002–2003*, February 14, 2003, p. 19.

<sup>124</sup> *Ibid.*, p. 24.

<sup>125</sup> The source of most of Al Qaeda's diamonds is from Revolutionary United Front (RUF) rebels in Sierra Leone. In 1999 alone, the RUF's diamond exports were worth \$75 million. The top RUF trader is a Senegalese named Ibrahim Bah, who was trained in Libya before fighting in Afghanistan with the *mujahidin*. Douglas Farah, "Al Qaeda Tied to Diamond Trade," *Washington Post*, November 2, 2001. Al Qaeda also mined sapphires in Afghanistan beginning in the late 1990s. According to the General Accounting Office, in 2002 one pound of diamonds was worth \$225,000, while one pound of dollars and gold were worth \$45,000 and \$4,800 respectively. See GAO, "Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists Use of Alternative Funding Mechanisms," p. 20.

<sup>126</sup> Cited in Farah, "Al Qaeda Tied to Diamond Trade," *Washington Post*.

Global Witness estimates the figure to be up to \$20 million.<sup>127</sup> Global Witness presents compelling evidence that Al Qaeda has systematically been involved in the illicit trade of diamonds and gemstones—especially from conflict zones and war-torn states in Africa—since the mid-1990s. The illicit trade in rough diamonds has served Al Qaeda in four separate, but overlapping ways:

- To raise funds for Al Qaeda cells;
- To hide money targeted by financial sanctions;
- To launder the profits of criminal activity; and
- To convert cash into a commodity that holds its value and is easily transportable.<sup>128</sup>

Two of the most important Al Qaeda operatives involved in the illicit gem trade (both of whom were arrested in conjunction with the August 1998 attacks on the U.S. embassies in Tanzania and Kenya) had extensive experience in Southeast Asia. Wadih El Hage, who was Osama bin Laden's private secretary in the latter part of the 1990s, traded gems on behalf of Al Qaeda and established a Tanzanian front company with Mohammed Sadiq Odeh. Following his recruitment into Al Qaeda in 1990 and his subsequent training in Afghanistan (and a brief stint in Somalia), Mohammed Sadiq Odeh lived for many years in Davao in the Philippines, where he participated in terrorist activities, liaised with the MILF, and was an important financial officer for Al Qaeda.<sup>129</sup> Odeh was a suspect in a 1993 bombing of a cathedral in Davao, but left for Kenya in 1994 before he could be charged. He returned to the Philippines in 1995 and was arrested for possession of explosive devices; upon his release in 1996 he returned to east Africa. In court testimony, both El Hage and Odeh revealed that El Hage made several sales trips to Southeast Asia where he sold gemstones to middlemen in Singapore, Malaysia, and Thailand.<sup>130</sup> Odeh himself admitted that he worked with two Sudanese brothers, Samir and Ezaladen Abdel Rahman Mohamed, who were Bangkok-based gem traders.<sup>131</sup> The joint venture netted \$500,000 for Al Qaeda in the six months it was in operation.

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<sup>127</sup> Global Witness, *For a Few Dollars More: How al Qaeda Moved Into the Diamond Trade*, April 2003.

<sup>128</sup> *Ibid.*, p. 28.

<sup>129</sup> Interview with a major in the Philippine intelligence service, Camp Alguinado, Quezon City, January 24, 2001.

<sup>130</sup> Global Witness, *For a Few Dollars More*, p. 32.

<sup>131</sup> *Ibid.*; see also "The United States vs. Usama Bin Laden, et al, Day 29, 16 April 2001," Testimony of Mohammed Ali M. S. Odeh.

Although Bangkok is an international gem trading center for both the legal and illicit trade in precious stones from Burma and Cambodia, and although there is evidence that Al Qaeda used this market throughout the 1990s, there has not been adequate study into Al Qaeda's continued use of the gem trade to launder assets. Thai authorities are currently conducting investigations into a number of diamond dealers that are suspected of being fronts for money launderers.

One clear connection between terrorism and Southeast Asian gem smuggling was brought to light on an August 12, 2003, raid in New York's Diamond District. Two individuals, Yehuda Abraham and Moinudeen Ahmed Hameed, were charged with arranging illegal money transfers to finance the illegal importation into the United States of surface-to-air missiles by Hemant Lakhani. Hameed is an Indian citizen but a resident of Malaysia and an associate of Hambali. He ran a Kuala Lumpur jewelry shop/*hawaladar* for his fellow Gujaratis. The business was established with the help of a Singaporean *hawaladar*—the jewelry business being the front for the *hawala* business and an easy way to settle accounts. Hameed was alleged to have had \$500,000 to purchase the missile from undercover FBI agents posing as Russian mafia contacts.

### *Donations from JI Members (Zakat and Infaq) and Outside Supporters*

One of the most constant and important revenue streams for the organization was donations both from JI members themselves as well as from outside supporters. According to Hambali, all JI members, once they had pledged *bayat* to the organization's *amir*, had to pay 5 percent of their income in *zakat* to their cell. Although most JI members lived fairly humble lives, all contributed financially to JI's cause. Several JI members were quite wealthy and gave considerable amounts to the organization. Faiz bin Abu Bakar Bafana ran a large construction firm in Malaysia, Marebina, and was an important financial backer of JI, becoming a member of its regional *shura*.<sup>132</sup> As one regional intelligence official said, "Faiz was pretty well-off, his companies won decent sized contracts and his personal donations [to JI] were pretty large."<sup>133</sup> Hambali has confessed that JI had some \$55,000 in mid-2002 that came solely from *zakat*.

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<sup>132</sup> Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism."

<sup>133</sup> Cited in MacCartney and Cameron-Moore, "US to Freeze 'Terror' Funds in SE Asia- Sources."

All JI cells were expected to be self sufficient, but the Singapore cell clearly had a primary role in fundraising for the group, owing to the relative wealth of its members. According to detained JI members, members of the Singaporean cell donated 2 percent of their salaries to the organization in the early 1990s and 5 percent by the end of the decade. Singaporean investigators believed that 25 percent of these funds were given to the Malaysian cell and 25 percent to the Indonesian cell. The remaining funds were used by the Singaporean cell for equipment, operations, and overseas training, as well as donations to the Taliban regime.<sup>134</sup> The Malaysian and Indonesian cells likewise required their members to make both *zakat* and *infaq* contributions to the movement, although they were able to contribute relatively less.

Ji was also involved in fundraising for the MILF, which was waging a secessionist war in the southern Philippines. The MILF provided training facilities and hosted Al Qaeda trainers at its base Camp Abu Bakar, where it instructed JI operatives.<sup>135</sup> In 1995, Abdullah Sungkar called on cells in Singapore and Malaysia to contribute 20,000 ringgit each (roughly \$8,000) to the MILF.<sup>136</sup> Faiz Abu Bakar Bafana asserted that he made JI members make direct contributions to purchase arms used for training purposes at MILF camps, and raised some 60,000 ringgit (\$24,000).<sup>137</sup> Bafana also claimed that he gave 3,000 ringgit (\$1,200) to Abu Huraira upon the instruction of Hambali; Huraira was the MILF liaison to JI.

The Singapore cell seems to have been the most active in fundraising for the MILF. Of the 36 people detained in Singapore between December 2001 to August 2002, four were found not to be JI members but were active supporters of and fund-raisers for the MILF. For example, Husin Abdul Aziz, a Singaporean who had trained at an MILF camp, not only donated S\$20,000 of his own money to the movement, but raised an additional S\$20,000 for the MILF in Singapore.<sup>138</sup> Another person detained in August 2002, Habibullah Hameed, also raised S\$40,000 over many years for the MILF.

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<sup>134</sup> In a letter dated August 16, 1999, Singapore cell leader Ibrihim Maidin wrote to Taliban leader Mullah Omar pledging support to the Taliban and offering a \$1,000 donation.

<sup>135</sup> Among the trainers were Omar al-Faruq, Omar al-Hadrani, al-Mughira al-Gaza'iri, and Fathur Rohman al-Ghozi.

<sup>136</sup> Interrogation report of Hashim bin Abas.

<sup>137</sup> ICG, "Jemaah Islamiyah in Southeast Asia: Damaged but Still Dangerous," p. 16.

<sup>138</sup> Singapore-based fundraisers and supporters of the MILF now under detention include: Husin Abdul Aziz, Sakahan Abdul Rahman, Habibullah Hameed, Faizal Khan Gulam Sarwar, and Mohammed Agus Ahmad Selani. The latter two were arrested in December 2001, but released and placed under restriction. "Jemaah Islamiyah Forged Links with Regional Groups," *Straits Times*, September 20, 2001; Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism."

Hambali has revealed since his capture that in the summer of 2003 he authorized the direct transfer of \$27,000 to the MILF.<sup>139</sup> The money was transferred by Bashir bin Lap, Hambali's aide, and used to purchase weapons. It was seen as a thank you gift to the MILF for giving a large number of JI fugitives sanctuary.

In his interrogation, Hambali has admitted that as many JI members around the region were registered as Islamic clergy, they were able to solicit *infaq* donations that could be skimmed for illegal activities. It is clear that groups such as Laskar Jundullah, Laskar Mujahidin, and the MMI were able to solicit donations from supporters and sympathizers, though not actually members. For example, Omar al-Faruq confessed that he worked closely with a Muslim-Chinese from Singapore named al-Bukhari who was an important financier for JI even though he is not known to be a member.

Individuals such as Fuad Bawazir are suspected of using the Komite Indonesia Untuk Solidaritas Dunia Islam (KISDI, the Indonesian Committee for Solidarity with the Muslim World) and the United Action Group of Indonesian Muslim Students (KAMMI), of which Bawazir is chairman,<sup>140</sup> as vehicles to transfer large amounts of elite Indonesian money to small radical groups such as Laskar Jundullah. There is no evidence to suggest that Fuad Bawazir is a member of Al Qaeda, but there is evidence that he has channeled funds to groups and organizations that have ties with Al Qaeda.

KISDI was established in 1994 by a firebrand Wahhabi preacher, Ahmad Sumargono, with alleged covert government support. KISDI was closely connected with a military think tank, the Center for Policy and Development Studies, which was the "headquarters" of the military's pro-Islamist "green faction."<sup>141</sup> Military leaders who were part of or supporters of KISDI included two of Suharto's relatives: his foster brother Probosutedjo, and his son-in-law, Prabowo Subianto—a one-star general and head of Kopasus.<sup>142</sup> Sumargono was the first outspoken Islamist leader at the tail-end of the New Order regime and has, in many ways, dominated the debate in the post-Suharto era. He was one of the first Islamic leaders to call

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<sup>139</sup> Elegant, "The Terrorist Talks." Most of the money was delivered to the MILF in cash on person. There were also instances where JI members would open bank accounts in Malaysia, deposit funds there, and then give ATM cards to MILF operatives based in Sabah.

<sup>140</sup> Wicksono and Endri Kurniawati, "Following Up on Fuad," *Tempo*, April 21, 2003, p. 34–35.

<sup>141</sup> A prominent member of this group was Lt. Gen. Prabowo Subianto, Suharto's son-in-law, who was implicated in the May 13–15, 1998 riots in Glodok (Chinatown) and the murder of several students at Trisakti University. It was thought that Prabowo wanted to instigate political unrest to justify martial law and prevent the ouster of Suharto.

<sup>142</sup> Kevin O'Rourke, *Reformasi: The Struggle for Power in Post-Soeharto Indonesia*, Sydney: Allen and Unwin, 2002, p. 349.

on Muslims to go to the Maluku and fight a jihad to prevent Christian paramilitaries from establishing a secessionist state in 1999. But he was permissible to Suharto as KISDI, from its beginnings, was set up to cause a rift between the two mainstream Muslim social organizations, the Nahdlatul Ulama (NU) and Muhammadiyah, which between them have a membership of around 70 million people, and which posed a significant civil-society threat to the New Order regime.<sup>143</sup> KISDI came to the fore at a mass gathering in front of the Al Azhar Mosque in a rally for solidarity with Bosnian Muslims in mid-February 1994. The group sent volunteers to wage jihad in Bosnia-Herzegovina and to raise funds to build a mosque in Sarajevo, which was to be named the Haji Mohamad Suharto Mosque, although it was never built.

Another important source of funds for JI were donations by Indonesians living overseas, in particular those in Australia. In the 1990s, Abdullah Sungkar and Abu Bakar Ba'asyir made a total of 11 trips to Australia where they preached before audiences of Indonesian exiles.<sup>144</sup> They both solicited donations for their sermons and sold audio-recordings. Although there is considerable evidence that JI cells hoped to expand to Australia, an area called Mantiqi 4, it is clear that their real priority for the organization in Australia was fund-raising.

One of the most important ways that JI was able to attract donations from outside supporters was to appeal for donations for the various *madrassas* (Islamic boarding schools) that it owned. It is very clear that the JI did not profit from tuitions to these schools. Tuitions and donations kept the schools running, but in many cases they ran at a loss, requiring subsidies from the organization. Indeed, there is evidence that money from the *Infaq Fisabilliah* fund (that came from annual donations of 10 percent of net revenue from JI-linked businesses) helped to provide financial assistance to JI-run *madrassas*.<sup>145</sup> For example, a mid-level JI operative in Malaysia, Wan Min Wan Mat, paid the utilities bills for the Al Tarbiyah Luqmanul Hakiem School.<sup>146</sup> There is also a report that Abu Bakar Ba'asyir in 2000 had to request

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<sup>143</sup> Adam Schwartz, *Indonesia: A Nation in Waiting*, Boulder, Colo.: Westview Press, 1998, p. 367.

<sup>144</sup> Martin Daly, "Bashir's Secret Trips to Victoria," *The Age*, November 2, 2002.

<sup>145</sup> Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism," p. 6.

<sup>146</sup> In the mid-1990s, while still living in exile, Abdullah Sungkar acquired a plot of land and established an Islamic boarding school outside of the southern Malaysian city of Johor. Although we do not know where the original money to buy the property came from, there is some evidence that five brothers donated the land to Sungkar. The Al Tarbiyah Luqmanul Hakiem school had some 500 students at its peak in the mid-1990s, many of whom were Singaporean Malays. The school became the center of JI's recruiting efforts and its master, Mukhlis, later became the head of the Mantiqi 1 and in 2002 a senior JI operations chief. Another graduate, Abdul Aziz (a.k.a. Imam Samudra), who went on to train in Afghanistan, was the mastermind behind the Bali bombings. There were close ties between the Al Mukmin and Al Tarbiyah schools as activists and teachers regularly shuttled between the two. Simon Elegant, "The Family Behind the Bombing," *Time Asia*, November 25, 2002.

additional funds from JI to run the Al Mukmin School in Solo.<sup>147</sup> According to the interrogation of Faiz bin Abu Bakar Bafana, Hambali discussed the request of Abu Bakar Ba'asyir for a \$4,000 monthly contribution to the Mahad Ali School in Solo. Although JI did not profit from tuitions, and indeed often had to subsidize them, these schools were the centers of JI's recruitment and operations, and thus their financial circumstances needs to be addressed. There are of course exceptions to this. As mentioned above, the Om Al Qura Foundation ran two schools in Cambodia while serving as a money laundering front for Al Qaeda. Two other JI-linked *madrassas*, Pesantren Hidayatullah in Balikpapan and Pondok Pesantren Darul Aman in Gombara (Ujung Pandang) were tied to the Laskar Jundullah and received funds from KOMPAK and Al Haramain.<sup>148</sup>

### *Loopholes in the Islamic and Formal Banking Sectors*

An important likely source of funding that JI may have access to is Al Qaeda investments and bank accounts long established in the region's Islamic banking sector. Islamic banks themselves are not conspiratorial funders of terrorism. Rather, many Islamic banks happen to be based in countries with weak financial oversight and lax supervision. Their religious nature also accords them a greater degree of autonomy—there is less willingness to question their integrity or to provide external oversight. As Islamic banks were established to circumvent the practice of paying and charging interest they often commingle funds to create investment vehicles, thereby “creating ready opportunities for anonymous money transfers and settlements.”<sup>149</sup>

Although he was disowned by his family, Osama bin Laden, himself a businessman and financier, would have been aware of the investment climate and banking sector in Malaysia, one of the world's pre-eminent Islamic banking centers.<sup>150</sup> Jamal al-Fadl, a former member of

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<sup>147</sup> Established in 1972, the land for the Al Mukmin School in Solo was donated by Kiai Haji Abu Amman, an *ulama* in Solo who was notable in the 1960s for his desire to create an Islamic state. Al Mukmin now sits on a four hectare compound and has some 1,900 students. The school charges \$100 per year including room and board for the poorest students. Other students pay approximately \$25 per month, still a paltry sum considering the size, facilities, and scope of the school, not to mention their grandiose expansion goals. Abu Bakar Ba'asyir told me that Al Mukmin received donations from both home and abroad, but would not provide further details. Interview with Abu Bakar Ba'asyir, Ngruki, Solo, June 11, 2002.

<sup>148</sup> BIN, “Interrogation Report of Omar al-Faruq.”

<sup>149</sup> *Terrorist Financing: Report of an Independent Task Force Sponsored by the Council on Foreign Relations*, p. 10.

<sup>150</sup> By June 2001, “total Islamic banking assets stood at RM51.97 billion, or 7.3 percent of overall banking assets.” Between 1994 and 2000, Islamic banking assets in Malaysia increased by 64 percent. In 2001, the share of Islamic banking assets as a percentage of total banking assets increased by 7.6



Al Qaeda and one of bin Laden's top financial officials, stated that bin Laden frequently used Islamic banks in Malaysia.<sup>151</sup> Abdul Manaf Kasmuri, the former Malaysian army colonel, worked for an Islamic financial institution Koperasi Belia Islam.<sup>152</sup>

There is also concern over Malaysia's offshore banking center on Labuan Island. Malaysia established the Labuan Offshore Financial Centre in October 1990 in order to make the country more attractive as an international offshore banking center. Labuan's financial sector is subject to less stringent oversight, disclosure, and accounting rules, and has been of major concern to law enforcement officials since its founding, despite the 1996 establishment of the Labuan Offshore Financial Services Authority to provide greater oversight. Similar concerns exist with Brunei, which established the Brunei International Finance Center in July 2000 in an attempt to tap the lucrative Islamic banking market.<sup>153</sup> Brunei has a weak legal and regulatory framework, and despite passing a money-laundering ordinance in 2000 and making efforts to improve its oversight capacity, it is still one of the less regulated financial markets in the region. Although no terrorist-linked funding to date has been frozen in Brunei, given its weak financial oversight capacity, Brunei has the potential to be an important financial center for Al Qaeda in much the same way as the organization has used the poorly regulated United Arab Emirates.

Thailand also made a push to boost Islamic banking starting in 2000. On the one hand, the plan was to prevent capital outflow from southern Thailand into Islamic banks in neighboring Malaysia. On the other, it was a move designed to attract Gulf/Saudi capital. Several banks, including the Thai Bank for Agriculture and the Thai Government Savings Bank, offer interest-free, *sharia* compliant financial services based on "Islamic principles." Krung Thai Bank, the country's second largest bank, offers Islamic banking at four branches, in Yala, Patani, Narathiwat, and Bangkok.

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percent, amounting to 52 billion ringgit (roughly \$5 billion). Deposits at Islamic banks went up by 8.3 percent to 40.6 billion ringgit and Islamic financing increased by 6.1 percent to 24.6 billion ringgit. For more see Baidura Ahmad, "Strong Growth Seen for Islamic Banking and Takaful," *New Straits Times*, October 2, 2001. The bin Laden's family business, the Bin Laden Group, moreover, had extensive holdings and investments in Malaysia. It received some of the tenders to build the North-South highway and construction work at the Kuala Lumpur International Airport. It also established Samak Aquaculture, a shrimp farming concern in Kerpan, Kedah, as a joint venture with the state government in 1993 (the company was closed in 1997 following a land scandal).

<sup>151</sup> About 8–10 percent of banking assets in Malaysia are in Islamic banks. See Dafna Linzer, "From New York to Kabul and Back: Star Witness at the Embassy Bombing Trial Revealed bin Laden's World," Associated Press, in *International Herald Tribune*, October 1, 2001; John Williams, "Trail of Terrorist Dollars that Spans the World," *Financial Times*, November 29, 2001.

<sup>152</sup> "ISA Arrest of Ex-Colonel Must Be in Good Faith—Sukham," *Malaysiakini*.

<sup>153</sup> The most important investors in the Brunei International Finance Center are the Bahrain-based Islamic Development Bank Infrastructure Fund and the Islamic Mutual Fund, which opened in August 2001.

Indeed, the formal banking and financial sectors are poorly regulated across the region (with the exception of Singapore), which makes fund transfers and money laundering easier. Three states in the region, the Philippines, Indonesia, and Burma, are on the FATF's blacklist as money laundering states. Given the patience that Al Qaeda and JI displayed during the decade-plus long period in which they established their networks in the region, and the numerous loopholes and opportunities to hide funds that present themselves in Southeast Asia's formal and Islamic banking sectors, it is most conceivable that there are Al Qaeda and JI investments or holdings in the region.

### *Petty Crime, Racketeering, Extortion, and Kidnapping*

Finally, one cannot overlook the nexus of terrorism and transnational crime. According to the testimony of Mohammed Nassir bin Abbas (the former head of Mantiqi 3), Abu Bakar Ba'asyir was frequently asked by his students whether computer hacking was Islamic. Justifying online fraud, Ba'asyir replied "You can take their blood, then why not take their property?"<sup>154</sup> There is a long tradition of *fa'i* in Southeast Asia—using money from crime to support religious causes. Ideological purists often use criminals or find criminals who have found a religious calling or are trying to atone for their sins. Sidney Jones of the International Crisis Group writes of the close ties between jihadists and *preman* (thugs and common criminals).<sup>155</sup> Mukhlas wrote in his treatise on the Bali bombings that joining a jihad was always seen as a good way for sinners to repent, and thus criminals were actively courted. In the treatise he recounts a story in which he was criticized by a Muslim preacher for enlisting a former *preman* to command the Laskar Mujahidin in the Maluku: "How can you call this a holy war when your commander is an ex-thug?" Mukhlas merely replied, "So where are your forces, and why don't you become a commander instead of just sitting there counting your prayer beads?"<sup>156</sup>

Criminal activities provided the first break for the authorities in uncovering JI's network in months before September 11, 2001. Already the Malaysian police were on heightened alert following a botched bank robbery in Petaling Jaya in May 2001.<sup>157</sup> The cell that was

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<sup>154</sup> Catharine Munro, "Muklas Confessed to Bali, Court Told," *The Age*, July 23, 2003.

<sup>155</sup> ICG, "Jemaah Islamiyah in Southeast Asia: Damaged but Still Dangerous," pp. 24–25.

<sup>156</sup> Ali Ghufron (Mukhlas), *Jihad Bom Bali*, April 2003.

<sup>157</sup> Although two suspects were killed, one survived and his interrogation led to the arrest of nine others. This was the opening that allowed the authorities to begin uncovering links between JI and the KMM.

responsible for the Bali bombings in part funded itself through the robbery of jewelry shops. Four of the 16 people arrested in connection with the Bali bombings had robbed the Elita Gold Store, stealing 2.5 kg of gold to help fund the operation (see below for more details on the Bali attack).<sup>158</sup> Imam Samudra, one of the leaders of the Bali plot, was also involved in credit card theft to fund his operations. Samudra purchased items online, especially jewelry, using stolen credit card numbers and then resold the items.<sup>159</sup> The Indonesian investigators on the Bali case later stated that in the course of their investigation they had foiled a plot to rob a bank and had arrested 13 suspects.<sup>160</sup> Surprisingly, one criminal activity that JI is not known to be involved in is drug running.<sup>161</sup> Although using drugs is considered un-Islamic, their production and sale to infidels is not; it is simply another form of *fa'i*.

It seems odd that terrorists would put their entire operation in jeopardy by engaging in risky and low-yield criminal ventures, although they continue to do so, often with disastrous results. For example, a Bank Lippo robbery in Medan in early May 2003 by the *wakalah* groups<sup>162</sup> of northern Sumatra led to the arrest of one of the key Bali bombers, Jhoni Hendrawan. The robbery, which led to the murder of three bank employees, netted some 13 million rupiah for the cell, which was planning more terrorist attacks. The suspects claimed in their statements to the police that they were not committing robbery but *fa'i*. At the time of their arrest, the group was planning another robbery in Pekanbaru in Sumatra.<sup>163</sup> What this seems to indicate is that individual cells, in such a compartmentalized organization, have little access to funds for their own livelihood and day-to-day operations.

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<sup>158</sup> On September 8, 2003, three of the four were sentenced to 15–16 years for their role in financing the Bali bombings. None were directly linked to the bombing itself. The three were Andi Hidayat, Jnaedi, and Abdul Rauf.

<sup>159</sup> Darmawan Sepriyossa and Wahu Mulyono, “Bag of Tricks,” *Tempo*, January 27, 2003.

<sup>160</sup> “Bali Investigators Foil Fresh Plot to Blow Up Bank,” *Straits Times*, November 27, 2002.

<sup>161</sup> Al Qaeda was very active in the drug trade when it was based in Afghanistan, controlling around 10 percent of the Taliban’s exports of heroin, and earning approximately \$1 billion. The General Accounting Office asserts that JI is involved in the heroin trade, though it offers no proof. See GAO, “Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Funding Mechanisms,” p. 11.

<sup>162</sup> These are criminal gangs affiliated with JI.

<sup>163</sup> Edy Budiwarso and Bambang Soedjiartono, “No Ordinary Robbers?” *Tempo*, July 7, 2003; Damar Harsanto, “Another Key Suspect in Bali Bombings,” *Jakarta Post*, July 1, 2002.

There is growing concern that there is considerable overlap between organized crime and terrorism. Dawood Ibrihim, leader of an Indian criminal gang with suspected ties to Pakistani intelligence and Al Qaeda, has significant business interests in the Philippines, Singapore, and Thailand, as well as in Sri Lanka and Hong Kong. Although Dawood is suspected of working with Al Qaeda on occasion, he is not a member of the organization. Any relationship between his gang and the terrorist organization is commercial in nature, but this does not discredit the importance of such a relationship, since terrorists rely on the same illegal operations as transnational criminal enterprises.

In December 2001, Thai police, with the assistance of the CIA, broke up two counterfeiting rings in Bangkok run by Dawood. In Thailand, Dawood recruited heavily from the small community of Thai Muslims from the southern province of Narathiwat. There are three small radical Muslim groups in southern Thailand. From 1999 there was an attempt to bring two of them, the Wae Ka Raeh (WKR) and the Guragan Mujahidin Islam Patani, into an enlarged JI organization, the Rabitatul Mujahidin. The head of the WKR fought with the Afghan *mujahidin*, but for the most part they are criminal gangs. The WKR is thought to earn 10 million baht (about \$225,000) a year in contract killings and “enforcement.”<sup>164</sup> Both of these groups were involved in gun-running from the arms markets along the Thai-Cambodian and Thai-Burmese borders to southern Thailand, where weapons were purchased by Acehese GAM rebels and MILF officials, as well as criminal gangs.

Another example of the links between terrorist and criminal organizations is the Abu Sayyaf Group (ASG), which was founded by Abdurajak Janjalani in 1991 with seed money from Al Qaeda, and sustained through the early 1990s by funds skimmed from Al Qaeda-linked charities. By 1995, ASG apparently had lost much of its money after bin Laden’s brother-in-law—Al Qaeda’s financial conduit into the region—was expelled from the Philippines. In December 1998 Janjalani was killed in a shootout with police forces, and the group lost much of its ideological fervor and mission. One only has to look at a chronology of ASG operations to chart the impact of the loss of international funding. From 1996 to 2000 the ASG engaged in some 266 terrorist activities, but by 2000 the ASG had degenerated into a kidnap gang, conducting three major incidents that brought renewed attention to the group:

- March 2000 – The ASG kidnapped 55 people: school children, teachers, and a priest in Basilan.
- April 2000 – The ASG kidnapped 20 foreigners and one Filipino from a diving resort on the Malaysian island of Sipidan.

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<sup>164</sup> “Muslim Group Linked to Attacks in Thailand,” *Straits Times*, March 25, 2002.

- May 2001 – The ASG kidnapped 30 tourists from the Don Palmas diving resort on Palawan.

According to a Basilan politician, “It was easier to deal with them when they had a single leader—and an ideology. Now, these guys are in it for the money, and there’s no stopping them.”<sup>165</sup> The demands for \$1 million ransoms per hostage led many to consider the ASG as nothing more than a criminal menace rather than a secessionist insurgency with legitimate grievances. As Philippine National Security Advisor Roilo Golez said, “We have no evidence that Abu Sayyaf has gotten financing from bin Laden recently. Otherwise they would not have to resort to kidnapping.”<sup>166</sup> According to the Philippine Presidential spokesman, Rigoberto Tiglao:

Since the death of Janjalani, believed to be the [Abu Sayyaf] ideologue, the band has degenerated into a criminal kidnap for ransom group using Islamic militancy as a ruse to gain the support of a few Muslim villages in Basilan island where they take refuge. The Abu Sayyaf Group has split into two groups because of their squabbles over ransom money.<sup>167</sup>

Indeed, one Abu Sayyaf defector said that he quit the movement “because the group lost its original reason for being. The activities were not for Islam but for personal gratification. We abducted people not any more for the cause of Islam but for money.”<sup>168</sup> In addition to kidnapping, the ASG engages in extortion, taxes from peasants, fishermen, coconut growers, and businessmen. The ASG also engages in marijuana cultivation, and in July 1999 Philippine security forces destroyed some 70,000 marijuana plants worth 20 million pesos (\$10 million).<sup>169</sup>

Although the links between JI and the ASG are unclear, there is cause for considerable concern—the \$20 million of ransom money that the group is thought to have earned cannot be fully accounted for. Although there are allegations that both the Libyan and the Philippine negotiators embezzled more than half of the funds,<sup>170</sup> this is still a significant amount of money

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<sup>165</sup> Tim McGirk, “Perpetually Perilous,” *Time Asia*, June 18, 2001.

<sup>166</sup> Carlos Conde, “Muslim Cleric Confirms bin Laden Visit to Mindanao.” *Philippine Daily Inquirer*, November 2001.

<sup>167</sup> “Full Text of Palace Letter to *The New York Times*,” *Philippine Daily Inquirer*.

<sup>168</sup> Cited in Jose Torres Jr., *Into the Mountain: Hostaged by the Abu Sayyaf*, Quezon: Claretian Publications, 2001, p. 41.

<sup>169</sup> Rohan Gunaratna, “The Evolution and Tactics of the Abu Sayyaf Group,” *Jane’s Intelligence Review*, July 2001.

<sup>170</sup> Libyan negotiators Abdul Rajjab Azzarouq and his assistant Ismail Gaddafi of the International Charitable Foundation said they received \$25 million from fund raisers abroad. The Philippine negotiator Robert Aventajado asserts that the Libyan negotiators embezzled the money; they in turn assert that he did. Ghalib Andang, the Abu Sayyaf commander, said he received only 10 million pesos (about \$180,000), 4 million of which was given to Abu Sayyaf leader Mujib Susukan, 1 million to each of his first and second wives, and 2 million to his third wife. Barbara Mae Dacanay, “Envoy Blamed for Missing Millions,” *Gulf News*, December 13, 2003.

that cannot be hidden in a region as impoverished as Basilan and the Sulu islands, where it would cause considerable inflationary pressure. Thus, we must consider the likelihood that much of the funds were transferred to other militant groups in the region.

### *How JI Moves and Operationalizes Money—The Bali Bombings as a Case Study*

Once money entered JI coffers, the jihad fund, it was moved around the region by a variety of means for different terrorist operations. For example, with the Atrium Mall bombing in 2001, Faiz bin Abu Bakar Bafana provided money to Imam Samudra and the other bombers on three occasions between January and October 2001, each by a different means. The first payment of 20,000 ringgit (about \$5,000) was a cash handover. The second transfer of 10,000 ringgit was through a *hawala* money changer. The third amount of 15,000 ringgit was via courier.<sup>171</sup> The payments, through different channels and over such a long period of time, were designed to shield against outside scrutiny. During his trial, Bafana testified that he did not know how the money would be used—evidence of the extreme compartmentalization of the organization. Perhaps the best example of how JI raises, moves, and operationalizes money is the example provided by the investigation into the Bali bombings.

Through close scrutiny of the indictments and interrogation reports, it is evident that funding for the Bali bombings came from a variety of sources and through different channels over time. The indictment of Mukhlas makes note that he had roughly \$30,500 as well as 200,000 baht for “jihad operations.”<sup>172</sup> The indictment is not clear on the source of all the money, and simply makes note of “donations.” We now know, through the interrogation of Hambali, that this funding came directly from Al Qaeda’s chief of operations, Khalid Sheikh Mohammed, and that Al Qaeda was so pleased with the Bali bombings that it sent an additional \$100,000 to Hambali to use at his own discretion.<sup>173</sup> It is interesting that some of the money was denominated in baht, and it raises some questions about whether there is a connection to the Om Al Qura Foundation.

The first source of money went from JI treasurer Wan Min Wan Mat to Mukhlas, the head of Mantiqi 1 and the older brother of two of the Bali bombers. In March 2002, Wan Min transferred about \$15,500 for “jihad activities.” Mukhlas used about 19 million rupiah (roughly \$2,000) for travel expenditures to return to Indonesia from Bangkok, but the rest went to the

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<sup>171</sup> Indictment of Abu Bakar Ba’asyir, Office of the Attorney General, Indonesia, April 2003, p. 5.

<sup>172</sup> Indictment of Ali Ghufron, alias Mukhlas, p. 3.

<sup>173</sup> Elegant, “The Terrorist Talks.”

Bali plot.<sup>174</sup> At a meeting in Solo in August 2002, when the Bali plot was coming together, Mukhlas “prepared the fund” from Wan Min with Thai baht and U.S. dollars worth approximately \$27,500.<sup>175</sup>

Mukhlas arranged to have \$10,000 and 200,000 baht transferred to him at his home in Lamongan, Indonesia, in July 2002, through an Indonesian laborer working in Malaysia. In September 2002 he again used a personal courier to transfer \$5,000 from Malaysia.<sup>176</sup> Mukhlas then transferred the money to Jhoni Hendrawan (Idris), the assistant to Imam Samudra and the logistical chief of the Bali attack, in a series of handovers. In August 2002 he gave Jhoni Hendrawan 50 million rupiah, and in the next six weeks he made four payments of 75 million rupiah each. Previously Hendrawan had accepted 125 million rupiah (\$12,500) from Mukhlas. In a September 2002 meeting, Mukhlas also gave Dulmatin 20 million rupiah, and handed over 5 million rupiah to his brother Ali Imron. At a meeting in Solo in September 2002, Jhoni Hendrawan gave Amrozi some 23 million rupiah; 13 million rupiah was to be used for the chemicals for the bomb, while the remaining 10 million was to be used for the down-payment on the mini-van used to carry the bomb. At a meeting four days later, Jhoni Hendrawan gave Amrozi an additional 21.5 million rupiah to complete the purchase of the van.<sup>177</sup> On October 4, 2002, Amrozi received another 10 million rupiah from Jhoni Hendrawan, and 25 million rupiah directly from Mukhlas to rent a car, purchase the get-away motorcycle, and rent a house in Bali. At another meeting on October 9–10, Mukhlas directly handed 30 million rupiah to Jhoni Hendrawan for last-minute expenditures and “to motivate” the bombers.<sup>178</sup>

There was also a second pipeline of money that came from the criminal activities of Imam Samudra. In July 2002 Samudra recruited two individuals to rob a gold shop in Serang, “the result of which would be used to fund the jihad and it was agreed that the defendant would keep all the money and manage its expenditure.”<sup>179</sup> Samudra gave the robbers 6.5 million rupiah to purchase a motorcycle and three guns. The net from the robbery was 2.5 kg of jewels and 5 million rupiah in cash. The robbers turned over the money to Samudra, who himself turned it over to Syahid Fuad. Fuad gave Imam Samudra 30 million rupiah and a 0.5 kg bar of gold. Samudra gave the cash to Abdul Rauf. On September 18, 2002, Amrozi

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<sup>174</sup> Ibid.

<sup>175</sup> Ibid.

<sup>176</sup> Ibid.

<sup>177</sup> Indictment of Amrozi bin H. Nurhasyim, Denpasar office of the Counsel of the Prosecution of Justice, Indonesia, April 30, 2003, p. 7.

<sup>178</sup> Ibid., p. 37.

<sup>179</sup> Indictment of Abdul Aziz, alias Imam Samudra, Denpasar office of the Counsel of the Prosecution of Justice, Indonesia, May 20, 2003, p. 17.

received an additional 20 million rupiah from Imam Samudra.<sup>180</sup> This money came from Abdul Rauf through a bank account for Utomo Pamungkas.<sup>181</sup> The Indonesian police believe that Utomo also had close ties to KOMPAK.

The money trail for the Bali bombings provides two important lessons about combating terrorist financing, other than the obvious conclusion that not much money is needed to perpetrate these attacks. First, most funding for operations appears to come directly from Al Qaeda coffers, with only a small amount coming from JI's own funds. Indeed, following the successful Bali attack, Khalid Sheikh Mohammed forwarded an additional \$100,000 to Hambali for use in future operations of his own choosing. Second, the money tends to move in cash by trusted couriers and lieutenants. Intercepting money destined for terrorist attacks is therefore unlikely even with increased financial scrutiny.

### **Combating Terrorist Funding**

This section will focus on efforts that are being made to counter terrorist financing in Southeast Asia, and some of the many uni-, bi- and multi-lateral impediments to stemming the flow. In fact, little has been done to disrupt the extensive financial networks that Al Qaeda and JI have established in Southeast Asia. While some important Al Qaeda and JI funding mechanisms are impossible to shut down (direct cash transfers, donations from members and supporters, and proceeds from crime), weak domestic legislation, resource-strapped financial investigative agencies, poor enforcement capacity, and a lack of political will have hampered this important front in the war on terrorism. To that end, Southeast Asia likely remains an important financial hub for the Al Qaeda organization, while JI will be able to recruit, train and fund a new round of attacks. While governments continue to target JI leaders, they have done little to target the "institutions of terror." Governments in the region must be more proactive in their investigations of other funding mechanisms which are more susceptible to disruption, and have the political will to close them down, including popular charities.

#### ***The Problem with Designations***

The United Nations has a process, known as the Resolution 1390 List, by which terrorist funders (individuals, NGOs, charities, and corporations) can be designated as such. The des-

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<sup>180</sup> Ibid.

<sup>181</sup> Ibid., p. 4.



ignations have four ostensible purposes. First, to freeze assets so that they cannot be used to perpetrate terrorist acts. Second, to make it illegal for citizens of any UN member-state to have financial transactions with these entities or individuals (i.e., it criminalizes the act of doing business with the designees). Third, to give law enforcement officials a tool to use to disrupt terrorist cells (e.g., in Indonesia, where JI has not been outlawed as an organization, the designation of Imam Samudra is critically important. If investigators can prove that someone had a financial transaction with Samudra, then that individual has committed a crime and a case can be opened). Fourth, to serve as a deterrent and to force terrorist organizations to constantly shift their financial mechanisms.

The Resolution 1390 list has grown considerably since the September 11 attacks, but the number of Southeast Asians on the list is small. As mentioned above, pursuant to UN Security Council Resolution 1390 (2002), and paragraphs (B) of Resolution 1267 (1999), and 8(C) of Resolution 1333 (2000), only the assets of two JI leaders, Hambali and Abu Jibril, have been ordered frozen, although none were ever found. Resolution 1390 also has problems of timeliness. Despite being wanted fugitives since mid-2000, and named as JI leaders in mid-2001, their assets were only frozen in January 2003, 18 months after Abu Jibril was originally arrested. Jemaah Islamiyah itself was only designated as a terrorist organization in mid-October 2002, eleven days after the Bali bombings. Among the reasons for the delay in designating JI a terrorist organization were diplomatic pressure from Indonesia and pressure from U.S. State Department officials who feared that Indonesia would limit its tepid cooperation in the war on terrorism. JI was finally designated a terrorist organization at the urging of Australia, whose citizens comprised almost half of the Bali victims.

These examples illustrate a multitude of problems when it comes to designating terrorist funders, problems both within states and at the international level. At the domestic level, much of the problem is not in identifying terrorist financiers, but in the bureaucratic politics over what to do once they have been identified. There can be intense bureaucratic competition, as each government agency sees the problem of terrorist funding from its narrow and parochial perspective. In early 2003, as mentioned above, the U.S. Treasury Department's Office of Foreign Asset Control drew up a list of 300 individuals, charities, and corporations in Southeast Asia believed to be Al Qaeda and JI funders. The Treasury Department wanted to include as many of the 300 as possible, but State Department officials complained that the Treasury's actions were so "incompetent" at first that they lost all credibility in the inter-agency process. Officials at the State Department feared the diplomatic backlash—especially from the Malaysians, who comprised much of the original list. The State Department also questioned the overall efficacy of such a mass designation and doubted that it would have any effect in

stopping terrorism. For the intelligence community, terrorist financiers were an important intelligence gathering tool. While the CIA did not obstruct the designation process, they did articulate a position that favored intelligence gathering. CIA officials wanted the known fronts to remain operating so that they could better monitor them and the individuals associated with them. The CIA also seemed more concerned that terrorists would be driven further underground and simply establish new funding mechanisms, charities, and companies that would have to be uncovered. The FBI, which seemed to be taking advantage of the Treasury Department's missteps, tried to become the lead agency in tracking terrorist assets by establishing the Terrorism Financial Review Group, an inter-agency grouping.<sup>182</sup> Due to inter-agency politics and diplomatic opposition, the list was winnowed down to 18 individuals and 10 companies.

Moreover, this short list was the result of bureaucratic competition within the United States alone. Once the principal agencies in the U.S. government were in agreement, the list had to be sold to allies in Southeast Asia, since the United States cannot make unilateral designations. All the states of Southeast Asia have resisted these U.S. efforts for a number of reasons. The primary resistance has come from Malaysia. Although an agreement was reported to be close before Secretary of State Colin Powell's trip to the region in June 2003 for the ASEAN summit, Malaysia balked. Although Kuala Lumpur had been cooperative in the past, Prime Minister Mahathir Mohammad's rancorous anti-Westernism, and anti-Americanism during and after the Iraq War, led to a cessation of cooperation.

All the regional states also feared the economic backlash if they cracked down too hard. Casting a "terrorist funding net" too wide would have economic ramifications in a region that still has not recovered fully from the 1997–98 financial crisis. A number of U.S. officials complained that although Malaysia was putting up stiff resistance, simply because of the sheer number of firms in its jurisdiction that the United States hopes to designate, much of the resistance was coming from Singapore. Although the city-state has been a steadfast U.S. partner in the war on terrorism and provided significant intelligence support for counter-terrorism operations around the region, a vigorous crackdown on money laundering would hurt an economy that has always benefited from questionable money transfers to and from Indonesia.

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<sup>182</sup> The bureaucratic rivalry and competition hampering terrorist financing was highlighted in the General Accounting Office's report "Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Funding Mechanisms." In particular this report criticized the intelligence and law enforcement community's inability to study alternative sources of funding and movement of money.

There was intense political pressure on the Treasury Department through the fall of 2003, culminating in report from the General Accounting Office (GAO)—the investigative arm of Congress—that was highly critical of U.S. efforts to stem terrorist funding.<sup>183</sup> Although the report cited bureaucratic infighting, there was still political pressure on the Office of Foreign Asset Control to step up the number of designations. To that end, on September 5, 2003, U.S. Treasury Secretary John Snow announced that the United States was designating ten individuals as terrorist funders under Executive Order 13224. “This designation is yet another important step in the ongoing effort by the international community to shut down JI terrorist operations in Southeast Asia,” Secretary Snow stated.<sup>184</sup> The Malaysian government concurrently announced that it had submitted the names of ten individuals directly to the United Nations for inclusion under Resolution 1390. Yet the actual designations were a disappointment.

The U.S. list included seven Indonesians, two Filipinos, and one Pakistani. Five of the ten had already been arrested. In fact, the only significant figure on the U.S. list in terms of terrorist financing who is still at large is Aris Munandar, the Central Java director of KOMPAK. The list did not include two Singaporeans who had originally been slotted: Mas Selamat Kestari, a Singapore JI cell leader who was arrested in Indonesia, and Ishak Noohu. The Malaysian government issued its list directly to the United Nations, as it did not want to be seen as caving in to U.S. pressure; it also made no public announcement regarding the designations, indicating its fear of drawing attention to the issue.<sup>185</sup> Just days before the government took action, Foreign Minister Datuk Seri Sayed Hamid Albar stated: “There is no evidence within the Malaysian banking system to suggest that any Malaysian has financed a terrorist operation.”<sup>186</sup>

Terrorist financing issues remain a sensitive issue for Malaysia, which has taken umbrage at any suggestion that its financial institutions have been used to support terrorism, angered at the insinuation that the most developed “Muslim economy” could be used for terrorism. This was most evident during the designation of companies as terrorist funders. The original U.S.

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<sup>183</sup> GAO, “Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Funding Mechanisms.”

<sup>184</sup> Department of the Treasury, Office of Public Affairs, “Snow Announces Designation of 10 Jemaah Islamiyah Terrorists,” Press Release, September 5, 2003. The full U.S. list included: Yassin Sywal, Mukhlis Yunos (arrested), Imam Samudra (arrested), Huda bin Abdul Haq (a.k.a. Ali Ghufron a.k.a. Mukhlas) (arrested), Parlindungan Sirega, Julkipli Salim Y Salamuddin, Aris Munandar, Fathur Rohman al-Ghozi, Agus Dwikarna (arrested), and Abdul Hakim Murad (arrested).

<sup>185</sup> The Malaysian list included: Sulaiman Bin Abas (arrested), Wan Min Wan Mat (arrested), Zaini Zakaria, Zulkifli Bin Abdul Hir, Zulkifli Marzuki, Yazid Sufaat (arrested), Abdul Manaf Kasmuri (arrested), Azahari bin Husin, Amran bin Mansour, and Noordin Mohamed Mop Top.

<sup>186</sup> Bruce Cheeseman, “Malaysia Pressed on Jemaah Islamiya Funding,” *Australian Financial Review*, August 29, 2003.

Treasury Department listing contained ten firms, all based in Malaysia, which were controlled by JI members and which donated 10 percent of their proceeds into the jihad fund.<sup>187</sup> (Even here, these ten were only a handful of JI and Al Qaeda-linked firms in the region; several of them had been defunct for several years). The Malaysian government refused to cooperate with the United States, arguing that such designations were pointless given that some the firms were defunct, had changed hands, or did not generate income for JI members alone. The main reason for the Malaysian government's reluctance was its fear that the designations would have an adverse impact on Malaysia's economy, potentially scaring away investors who might view the country as a terrorist haven. U.S. officials remain pessimistic that the ten firms would ever be designated by the Malaysians.

As a result of the fallout of the GAO report, the Treasury Department is preparing a spate of new designations around the world, including Southeast Asia, expected in the first quarter of 2004. Yet there is still a lot of debate as to what the most effective targets should be. For example, administration officials are unsure of whether to designate KOMPAK, a charity linked to JI and militant activities but which has also been involved in legitimate charitable activities. Likewise, there is a question of whether to designate arms of the MILF, a Muslim insurgent army that has been fighting for a homeland since the late 1970s. Though the MILF has not been designated as a foreign terrorist organization, owing to its popular legitimacy, it has engaged in terrorist acts, and has been linked to both Al Qaeda and JI, including providing JI members with sanctuary and places to train. Yet the real issue is not over who or what to designate, but the degree to which the governments in the region commit themselves to enforcing the designations, freezing assets and investigating individuals and entities that have financial dealings with the designees. To date, the governments of the region have not seen that enforcement of the designations is an important component in their war on terrorism.

### *Multilateral Efforts*

There has been some attempt to forge multilateral solutions to stem terrorist funding in Southeast Asia, but multilateral approaches have been weak and inconsistent. For example, only six of the ten ASEAN states have signed the International Convention for the Suppression of the Financing of Terrorism (1999), and only three have ratified it. All ASEAN states

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<sup>187</sup> Among the ten firms are: Excelsetia Sdn. Bhd. (defunct), Marabina Sdn. Bhd. (defunct), Twin Two Trading Co. Sdn. Bhd., Gulf Shores Sdn. Bhd., Shafatex Niaga Sdn. Bhd., Aliran Salam Sdn. Bhd., Min Hwa Envelope Sdn. Bhd. (in receivership), and Mawashi Corporation Sdn. Bhd.

**Table 1: ASEAN Signatories to the International Convention for the Suppression of the Financing of Terrorism<sup>188</sup>**

State	Signed	Ratified
Brunei	—	December 4, 2002
Burma	November 12, 2001	—
Cambodia	November 11, 2001	—
Indonesia	September 24, 2001	—
Laos	—	—
Malaysia	—	—
Philippines	November 16, 2001	—
Singapore	December 18, 2001	December 30, 2002
Thailand	December 18, 2001	—
Vietnam	—	September 25, 2002

endorsed UN Security Resolution 1373 on the Suppression of the Financing of Terrorism, but their implementation of the resolution has been varied.

Implementation of these two UN instruments has been uneven. Some states have not put in place financial oversight mechanisms to monitor and enforce the convention and resolution. For others, there were a host of far more pressing issues in the wake of the Asian financial crisis of 1997–98, which led to massive restructuring of their respective economic systems. As international terrorism did not appear to threaten Southeast Asia until the Bali bombings in October 2002, there was little incentive for the governments to put a high priority on this issue. Where the governments were pressured by the international community to implement reforms was in the area of anti-money laundering.

<sup>188</sup> See United Nations, <[www.un.org/law/cod/finterr.htm](http://www.un.org/law/cod/finterr.htm)>.

### *Anti-Money Laundering*

One of the only tools that law enforcement officials have to combat terrorist financing is anti-money laundering statutes. This is inherently a problem in combating terrorist financing as money laundering statutes are only effective in combating large transfers of illegal funds that enter and move through the legal financial system. Since September 11, 2001, the international community has based counter-terrorist financing policies on existing anti-money laundering frameworks. In October 2001 the FATF came up with eight recommendations for states in order to establish a baseline international standard for combating terrorist financing.<sup>189</sup> These recommendations include:

- Ratifying and implementing UN instruments;
- Criminalizing the financing of terrorism and associated money laundering;
- Freezing and confiscating terrorist assets;
- Reporting suspicious transactions related to terrorism;
- Formalizing greater international cooperation through treaties or other agreements;
- Licensing and registering businesses engaged in alternative forms of remittances (e.g., *hawala*);
- Requiring accurate and meaningful originator data for wire transfers; and
- Reviewing the adequacy of laws regulating non-profit organizations.

In the ensuing two years, the FATF has come up with additional guidelines and “best practices” for financial institutions to follow in combating terrorist financing. Although the FATF cannot enforce these recommendations and guidelines, it has held workshops and encouraged all states to uphold them.

Southeast Asia has made some attempts at multilateral solutions to combat terrorist funding. The United States and Malaysia co-hosted the ASEAN Regional Forum “Workshop on Financial Measures against Terrorism” in March 2002, and ASEAN itself hosted a “Regional Conference on Combating Money-Laundering and Terrorist Financing” in Bali in December

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<sup>189</sup> See Organization for Economic Cooperation and Development (OECD), <[http://www1.oecd.org/fatf/SRrecsTF\\_en.htm](http://www1.oecd.org/fatf/SRrecsTF_en.htm)>. The FATF’s terrorist financing web page can be found at OECD, <[http://www1.oecd.org/fatf/TerFinance\\_en.htm](http://www1.oecd.org/fatf/TerFinance_en.htm)>.

2002. In addition, the United States and Singapore in January 2003 co-hosted a conference aimed at stemming terrorist funding.

Malaysia's Regional Centre for Counter Terrorism, established in July 2003, held its inaugural training course in August 2003—a course on financial accounting and anti-money laundering entitled, “Basic Analysis and Suspicious Transaction Reporting,” which was taught and financed by the United States. Students included some 60 law enforcement officers from 14 countries.<sup>190</sup> Yet, during the entire conference, Malaysia was under pressure from the United States to crack down on terrorist financing and money laundering within its borders, charges that it completely denied.<sup>191</sup>

Successful multilateral efforts must be built upon a foundation of strong and effective domestic legislation and enforcement capacity. Both are lacking. Regulatory agencies around the region, with the exception of Singapore, are hampered by a lack of resources, trained staff, and weak regulatory frameworks. Only two states in the region, Thailand and Singapore, are members of the Egmont Group, states with financial intelligence units (FIU).<sup>192</sup> In Indonesia, a financial intelligence unit was set up within the Bank of Indonesia in December 2002. It is mainly staffed by bank employees and there are currently no police working in the unit, although the police would like to be involved and have shown a lot of interest. One other organization that should also be represented in the FIU but is not, is the Attorney General's Office. This is troubling, since any FIU enforcement actions would require authorization from the Attorney General's Office, which also has power to subpoena. The office has expressed no desire to take this on.<sup>193</sup>

Malaysia only passed an anti-money laundering act in 2001. This made it obligatory for financial institutions to report suspicious transactions. Malaysia is currently developing a supervisory framework for its banks. The Philippine government passed an anti-money laundering law

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<sup>190</sup> The United States would not pay for Cambodian and Burmese officials, whose attendance were covered by Malaysia.

<sup>191</sup> Bruce Chessman, “Malaysia Pressed on Jemaah Islamiya Funding.”

<sup>192</sup> The Egmont Group is an informal grouping within the OECD's FATF. It defines FIUs as “A central, national agency for receiving (and, as permitted, requesting), analyzing and disseminating to competent authorities, disclosure of financial information i) concerning suspect proceeds of crime, or ii) required by national legislation or regulation, in order to counter money laundering.” The Egmont Group has tried to establish formal working relationships and information exchanges between the various national FIUs. See, “Statement of Purpose of the Egmont Group of Financial Intelligence Units,” The Hague, June 13, 2001, <[http://www1.oecd.org/fatf/pdf/EGstat-200106\\_en.pdf](http://www1.oecd.org/fatf/pdf/EGstat-200106_en.pdf)>. See also “Background Paper of the Egmont Group of Financial Intelligence Units,” <[http://www1.oecd.org/fatf/pdf/EGinfo-web\\_en.pdf](http://www1.oecd.org/fatf/pdf/EGinfo-web_en.pdf)>.

<sup>193</sup> Interview with a U.S. State Department Official, Jakarta, June 25, 2003.

in late 2001 and announced “an intensified campaign to prevent the use of our financial institutions as conduits for the finances of international terrorists.”<sup>194</sup> This law is unlikely to have much efficacy in stemming terrorist use of Philippine financial institutions, though. The original bill was watered down by legislators; the committee that drafted the law proposed setting the threshold for transactions at 1 million pesos (about \$20,000), two times the U.S. limit, yet the Philippine Congress quadrupled the amount, making it a crime to transfer amounts greater than four million pesos (\$80,000), even though most terrorist wire transfers are small amounts that pass through unregulated remittance systems.<sup>195</sup> When the FATF kept the Philippines on its list of “non-cooperating countries that have made slow progress in fighting money laundering,”<sup>196</sup> the Philippine government amended the law to bring it more into line with international standards. Many Philippine legislators are angered that the FATF still has not taken the Philippines off the blacklist. Even equipped with the new law, the Philippine government admits that it has no idea where the Abu Sayyaf Group and the MILF, let alone JI or Al Qaeda, hide their assets.

Indonesia’s initial lack of political resolve to fight the war on terrorism has also been seen on the financial front. Although the government pledged to freeze the accounts of any from the list of individuals or organizations with suspected terrorist links that was issued by the United States, Indonesia failed to ratify UN Security Council Resolution 1373 on terrorist financing, instead issuing a presidential decree enabling the government to access and freeze the bank accounts of suspected terrorists.<sup>197</sup> Until parliament passed a law on money laundering in April 2002, the government was unable to freeze accounts unless the “owner is officially a suspect

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<sup>194</sup> The Philippines had an additional reason for passing an anti-money laundering law: this legislation had been in the works for many years, but the Philippines was under threat of OECD sanctions if it did not pass a law by September 30, 2001. See Juliet Javellana, Armand Nocum, and Volt Conteras, “Bush Thanks RP for Passing Anti-Money Laundering Law,” *Philippine Daily Inquirer*, September 30, 2001; Mark Landler, “The Philippines Moves Against Bank Secrecy,” *New York Times*, October 13, 2001; and Presidential Spokesman Rigoberto Tiglao, cited in Martin P. Marfil, “Macapagal Orders: Track Down Abu Sayyaf Assets,” *Philippine Daily Inquirer*, October 1, 2001.

<sup>195</sup> The law also does not regulate the *hawala* system of money transfers, which are the preferred mechanism for terrorist cells that do not require vast sums of money for their operations. Mark Landler, “The Philippines Moves Against Bank Secrecy.”

<sup>196</sup> The FATF asserts that the passage of money laundering laws does not automatically remove states from the watch-list, and that a government’s implementation will be monitored. See Lira Dalangin, “FATF Slow to Remove RP from ‘Laundering’ Watchlist: Senator,” *Philippine Daily Inquirer*, December 13, 2001.

<sup>197</sup> Tertiani Z. B. Simanjuntak and Tiarna Siboro, “Decree Readied to Freeze Terrorist Assets,” *Jakarta Post*, October 31, 2001. Many believe that there was a quid pro quo for Indonesian cooperation in issuing the presidential decree: in return for cooperation in investigating assets of suspected terrorists, the FBI pledged to assist Indonesian investigators in tracing tainted money, and most likely Suharto family wealth, in U.S. financial institutions.



or proven guilty in a criminal case.”<sup>198</sup> Yet to date no assets have been frozen. Many blame not just weak commitment, but the unregulated and corrupt banking sector itself.<sup>199</sup> That no terrorist assets are in Indonesia is unlikely. Indonesia, with its weak and unregulated banking sector and corrupt regulators, has long been a haven for money laundering. There are huge loopholes in the new money laundering laws, and even if accounts linked to terrorist organizations were discovered “it would take weeks to close them,” one U.S. official noted.<sup>200</sup>

Indonesia, like the Philippines, has lobbied the FATF to be taken off the blacklist. Yet the FATF has found that too many loopholes remain in Indonesia’s regulatory framework, as well as shortcomings in its enforcement capabilities, and threatened to compel financial institutions to charge a financial premium on all transactions with Indonesian counterparts by the end of September 2003 if improvements are not made.<sup>201</sup> As of December 2003, both Indonesia and the Philippines remains on the FATF’s “List of Non-Cooperative Countries and Territories.”<sup>202</sup>

Thailand implemented a robust anti-money laundering law in 1999 and established an anti-money laundering office that year. Although created to combat domestic corruption, these tools can be used against terrorist organizations. Yet Thailand’s financial sector remains weak and highly unregulated, and enforcement is uneven. Thai government officials acknowledged that more than \$2 billion in illicit drug money is laundered in Thailand each year. It is estimated that as much as 40 percent of Thailand’s GDP is underground, unregulated, and un-taxed.<sup>203</sup> Although there is now a law in the works that will make it illegal for individuals to bring in and take out more than \$10,000 in cash from the country, there is little else that the Thai government seems to be doing about this.<sup>204</sup>

More significant than the problem of weak regulatory frameworks and enforcement capabilities is a lack of political will. Several U.S. officials have commented in interviews that the problem is that Southeast Asian governments have not taken the initiative to designate firms suspected of supporting terrorists. Any action that does take place comes only at the urging of the U.S. government. What these U.S. officials hope is that Southeast Asian governments

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<sup>198</sup> Bank Law no. 10/1998.

<sup>199</sup> “No Proof Yet of Terrorist Money: Jakarta,” Associated Press in *Straits Times*, November 9, 2001.

<sup>200</sup> Interview with a senior U.S. official, Jakarta, June 25, 2003.

<sup>201</sup> “RI Securities Firms Comply with Rules on Money Laundering,” Dow Jones, June 24, 2003.

<sup>202</sup> See OECD, <[http://www1.oecd.org/fatf/NCCT\\_en.htm](http://www1.oecd.org/fatf/NCCT_en.htm)>.

<sup>203</sup> Pasuk Phongpaichit, et al., *Guns, Girls, Gambling, Ganja: Thailand’s Illegal Economy and Public Policy*, Bangkok: Silkworm Books, 1998.

<sup>204</sup> “\$4b in Drug Money Laundered Annually,” *Straits Times*, November 10, 2001.

begin to take the lead in identifying and freezing the assets themselves. To that end, the United States is currently providing assistance for the training of financial investigators. This will have an effect in the long term, but in the short term the United States will need to maintain the pressure as there is so little capacity in Southeast Asia. The problem with this, of course, is that the base of U.S. knowledge about terrorism in Southeast Asia is low, even though it has improved dramatically since September 11.

### Conclusion

The war on terrorism has continued apace in Southeast Asia since the September 11 attacks on the United States. To date, more than 200 terrorists have been arrested. These arrests are important, although considerable cause for concern remains—while some members of JI's *shura* have been arrested, many senior “operatives,” people who have the technical capability, knowledge of the financial, logistics, and communications networks, and the authority to give orders, have not (such as Dr. Azahari, Dulmatin, and Zulkifli Marzuki). These leaders are patient, determined, and are regrouping and rebuilding their network. Considerable emphasis is put on maintaining the integrity of the organization: new members are constantly being recruited and individuals are tapped to fill vacancies in the leadership.

JI, like Al Qaeda, seeks targets of opportunity—attacking only what it has the capabilities to do at a given time. Although JI has suffered setbacks it is far from defeated. It maintains the capability to execute attacks. The organization's immediate goal is to cause economic disruption and hence political instability throughout the region. JI attacks soft targets such as the nightclubs in Bali in order to damage tourist-dependent economies and fuel anger and resentment toward the West. The subsequent rise in unemployment and loss of government revenue diminishes the power of the state to provide goods, services, education, and effective administration. To that end, JI will likely continue to focus on soft targets, including tourist venues, malls, corporate headquarters, and critical infrastructure that are impossible to defend. There will inevitably be more attacks in the region in the months and years ahead.

Moreover, JI has a large reservoir of potential recruits, since the underlying conditions that drive people toward terrorism have not diminished. Mass unemployment, especially in Indonesia, is destabilizing—it leads to diminished expectations, frustration, and aggression, especially among educated youth. Both Al Qaeda and JI were able to recruit across the educational spectrum, not just from the *madrassas* but also from the technical schools. This jihad is as much about anti-Westernism (especially anti-Americanism) as it is about Islam. Such sentiments have only increased following the Iraq War. Many Muslims around the world

are drawing one lesson from Iraq: no state can confront the United States, and that the only way that Americans can be made to “taste” the humiliation that Muslims experience every day is through terrorism. Governments in the Islamic world have failed to stand up to the United States and defend fellow Muslims; only Al Qaeda and its affiliates have the will and capacity.

As this paper shows, little has been done to disrupt the extensive financial networks that Al Qaeda and JI have established in Southeast Asia. Weak domestic legislation, resource-strapped financial investigative agencies, poor enforcement capacity, and a lack of political will have hampered this important front in the war on terrorism. To that end, Southeast Asia likely remains an important financial hub for the Al Qaeda organization. Some important Al Qaeda and JI funding mechanisms are impossible to shut down: direct cash transfers, donations from members and supporters, and proceeds from crime. Therefore, governments in the region must be more proactive in their investigations of other funding mechanisms which are more susceptible to disruption, and have the political will to close them down.

First, charities linked to Al Qaeda should be shut down immediately. It is troubling that when considerable evidence links charities to terrorist funding they have still been allowed to remain open. This was evident with IIRO in the Philippines in 1995 and with Al Haramain in Indonesia in 2002. In both cases, the charities remained open. In part this is due to diplomatic pressure from Saudi Arabia, but in part it is regional governments’ own dependence on such charities to provide health and education services to their populations. There are also often domestic political considerations. Saudi charities often find local partners with political clout. For example, in Indonesia most used KOMPAK (an arm of the politically powerful Dewan Dakwah) as their executing agency.

Second, governments in the region should create a clearing-house for all charities—both foreign and domestic—and introduce basic reporting requirements for them. This would allow investigators to better monitor the flows of money into the country. It would also allow them to monitor the end-users. Better auditing is essential. Following the May 2003 bomb attacks in Riyadh, the Saudi government announced it was stepping up its efforts in the war on terrorism. In a meeting with Australian Foreign Minister Alexander Downer, Saudi Foreign Minister Prince Saud al Faisal stated that his country would ban the unregulated supply of all funds to Islamic charities overseas and establish a financial clearing-house in Switzerland that is “transparent and auditable.” This has not yet happened.

Third, investigators should do a better job of tracking companies linked to Al Qaeda or JI members and supporters. Most JI companies have been shut down only after arrests have been made and suspects have divulged information. Small private firms are one of the most important means of moving terrorist funds around. There need to be better relations between

investigators and the private sector, and “know your clients” provisions should be implemented. Governments in the region seem resigned to allow the *hawala* networks to remain operating, fearful that they will simply continue their operations underground if actions are taken. *Hawala* is used as frequently as ever, with no attempt to regulate it or to register the names of clients.

Fourth, governments should improve the sharing of intelligence on individuals and funding mechanisms, as Al Qaeda has effectively learned to conceal its business and financial operations by working across multiple jurisdictions.

Disrupting the terrorist infrastructure and eliminating the space terrorists need to plan, train, and execute attacks must be given as much attention as the arrests of individual terrorists. To that end, targeting the terrorists’ sources of funding is essential. This will not be easy, as they have diversified these sources and taken advantage of legal loopholes and lax government oversight and enforcement.

There is a lot of resistance to cracking down on terrorist financing. Governments fear that their economies will suffer. Many investigators question the efficacy of diverting government resources to combating terrorist financing, noting that JI and Al Qaeda operations are inexpensive to support, that their financing network is complex, and that much of this network is all but impossible for investigators to disrupt. Too often it is simply a component of a criminal investigation into terrorist suspects. But targeting terrorist financing is important in its own right and must be part of the overall strategy for combating terrorism for a number of reasons. First, although terrorist operations are relatively cheap, maintaining terrorist organizations does cost a significant amount of money: recruits need training, safe houses need to be bought, operatives are constantly on the move and need funds for living expenses as well as false identity papers and travel documents, and of course funds are needed for equipment and bomb-making matériel. Without adequate funding, terrorists are forced to cut corners, engage in petty crime, and not engage in as much planning as they would otherwise do. Second, terrorist financing is an important law enforcement tool. There is often a clear trail between participants and actors. Third, it gives law enforcement officials a mechanism to deal with institutions, such as charities or remittance firms, rather than individuals. Officials cannot be blind to the fact that Al Qaeda first turned to Southeast Asia in the early 1990s, and was ensconced in the region for over a decade before any terrorist acts were executed. If governments were more vigilant at the time in investigating these back office operatives, Jemaah Islamiyah would never have been able to develop into the vast network that it has. Shutting down terrorist funding is difficult, but is far from futile. It is an important investigative tool. It is a vulnerability that can be exploited. But the political will must be there.

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