



How you're unwittingly financing terror

You probably knew the dodgy money-changer on the corner of a red light district wasn't 100% legit, but did you know you could be sponsoring terrorist activities when you slurped some soup?

BY Bertil Lintner

Next time you are savouring a peppery hot tom yum soup in a small restaurant or chomping down a satay purchased from a street vendor in any major town in peninsular Malaysia, consider this: odds are some of the money you spent on that dinner will end up in the pockets of militants in southern Thailand.

Many — but far from all — Thai restaurants in Malaysia are run by private entrepreneurs from Thailand's Muslim-dominated southern provinces Pattani, Yala and Narathiwat. Regardless of these owners' views, they are often required to share their profits with separatist rebels operating in Thailand's restive south. Meanwhile the satay stalls in the north-eastern states of Kelantan and Terengganu are likely to be

associated in a similar way with a particular, hard-line faction of southern Thai militants. Millions of Malaysian ringgit are believed to be collected in this way and sent to fuel the insurgency north of the border. That is mostly cash, which is hand-carried across the frontier, or deposited in Malaysian banks — which are unwittingly and no doubt unhappily a part of this story — despite efforts to ensure transparency.

It's ironic that bankers and corporate executives in the region spend a huge amount of time on bureaucracy so as to comply with international banking regulations on money laundering and extremist activities, and then the simple act of eating dinner may be how they end up contributing to crime.

While your spicy dinner might cost a mere \$1 or \$2, it is said this system raises hundreds

of thousands of dollars in the region each year. Of course, it's hard to quantify given we're talking about hand-carried cash here.

Larger sums of money mainly from the Middle East and destined for militants all over Southeast Asia can be wired through the official banking system under the guise of donations to so-called charities — or, if the transaction needs to be even more hidden from the prying eyes of international financial authorities, there is always the ubiquitous *hawala* system of informal transfers through private operators.

Once again, you may think this has nothing to do with you. But those *hawalahdars*, as they are called, often double as travel agents, moneychangers or gold dealers — in Hong Kong, you might find them in Tsim Sha Tsui or Causeway Bay, where there are myriad stalls providing

“*Hawalahdars* can transfer money worldwide faster than ordinary banks, which are burdened by bureaucracy and legal restrictions”

DUBAI'S HISTORIC GOLD CONNECTION

Anyone who has visited Dubai knows that its gold market is one of the liveliest — and least regulated — in the world. The air-conditioned Gold & Diamond Park off Sheikh Sayed Road stands out as one of the most expansive new shopping areas in the emirate, but the traditional gold market, or Gold Souq as it is called, in the old town of Deira, remains the centre for the region's gold trade. Dubai does not have its own deposits of gold, but it became an entrepot for the “re-export” — the usual euphemism for smuggling — of gold after the independence of India and Pakistan in 1947. The governments of those two new countries barred gold imports as a currency-stabilising measure. British merchants then started bringing in gold from South Africa to Dubai, from where local traders “re-exported” it to India and Pakistan. The gold trade took off in the 1960s as more gold was brought in from Italy and

Russia. Dubai began to develop into what it is today, a boomtown with huge high-rise buildings — against the backdrop of a desolate, windy desert.

In recent years, India has liberalised its restrictions on the importation of gold, so the trade is no longer what it used to be — prompting Dubai to diversify into financial services, real estate and tourism. But it is still substantial, and its significance amounts to more than the mere trade in a valuable commodity. While obvious, it pays not to forget the advantages of gold: it has a high intrinsic value, it is convertible and, as the Paris-based Financial Action Task Force describes it, has the “potential for anonymity in transfers”.

Precisely for that reason, the gold trade in Dubai is closely connected with *hawala*. Literally, it means “transfer” in Arabic, while Interpol describes it as “money transfers without money movement”.



Dubai's Gold Souq remains the centre of the region's gold trade

such services. Not all are *hawaldhars*, but you won't be able to tell the difference between those that are and those that are not. In Singapore, consider the shops on Arab Street, Collyer Quay and Orchard Road, in Kuala Lumpur one would only need to visit Jalan Bukit Bintang and anywhere downtown.

Hawaladhars can transfer money worldwide faster and more efficiently than ordinary banks, which are burdened by bureaucracy and legal restrictions. And there is no paper trail that can be scrutinised by local tax authorities or intelligence agencies which are trying, often hopelessly, to track the global flow of black and grey money. Chances are

you know someone using this system: your domestic helper, your support staff or the employees of the company with whom your bank is helping to IPO. Customers include guest workers in the Middle East transmitting money to their families back home, businessmen who prefer this system because it is based on traditional trust and honour, or parents who want to send money to their children who are studying overseas.

Another innocent contributor to the world of terror is, of course, ordinary people living in the conflict zones. In southern Thailand, the most powerful local rebel group is the Barisan Revolusi Nasional Patani-Melayu-Koordinasi, or the Patani Malay National Revolutionary Front-Coordinate (usually referred to as the BRN-C in English). This group collects dues of Bt30 (\$0.90) per month from villagers in the Muslim, Malay-speaking provinces of Pattani, Yala and Narathiwat, which are collectively known as Patani in Malay; “Patani” with one ‘t’ to emphasise the Malay character of the area. The BRN-C is also believed to be the main collector of unspecified dues from the 200,000-300,000-strong migrant work force of southern Thai Muslims in Malaysia — as well as the country's many tom yum restaurants. According to Thai intelligence sources, this network of Thai food outlets provides both sanctuary for separatists on the run as well as a source of financial support, which amounts to hundreds of thousands of dollars annually.

THE SUSPECTS

The more militant Gerakan Mujahideen Islam Patani, or GMIP, the Islamic Mujahideen Movement of Patani, was formed in 1995 by Doromae Kuteh, also known as Cheku Mae Kuteh, and counts among its other leaders Afghanistan war veteran Nasoree Saesaeng, who is now believed to be in hiding in Malaysia. And, according to Anthony Davis, a Bangkok-based analyst for the political and military analyst organisation, IHS-Jane's Information Group, Doromae Kuteh “has significant business interests in Terengganu and Kelantan, which include restaurants and hundreds of small satay outlets”. Also

MOBILE PAYMENTS MAKE IT EVEN EASIER TO MOVE MONEY



The majority of mobile-banking subscribers in the world are in Asia-Pacific

Each month, police officers in Afghanistan receive a text message in the language they prefer informing them that they have received their salary. In addition, the provider, mobile-operator Roshan, leaves a voicemail on the phone – so that literacy isn't a requirement for the system to work. The officer then simply goes to an authorised Roshan agent and picks up his money.

Mobile phones can offer a wide range of banking solutions, from sending transfers to a relative to buying potatoes from a shop or getting paid – all by dialling a few numbers. In the case of the Afghanistan police department, one of the aims of the service is to limit corruption – as skimming had reportedly been a problem prior to the introduction of mobile banking.

But one of the latest banking developments, mobile payments, designed

in part to help reduce corruption, is also a potential boon for criminal networks. You can easily see how transferring small amounts of money via telephone calls from one person to another wouldn't set off any bells or whistles from regulators.

MOBILE BANKING

Mobile banking started about six years ago in the Philippines and South Africa, where 8.5 million and 4.5 million people, respectively, use such services. The majority of mobile-banking subscribers in the world are located in Asia-Pacific, with India leading the way according to a recent survey by market intelligence firm ABI Research. The firm found that last year there were 52.2 million mobile banking subscribers globally with the "lion's share" in Asia, said Mark Beccue, ABI Research senior analyst. He

predicted that by 2015, Asia-Pacific will account for 195 million of the 407 million mobile banking subscribers.

It is taking off among the tech-savvy Generation-Y workforce in developing nations – in India, for example, this is the group of people most likely to be using the service. It is also embraced in rural and remote areas of the world where people have limited access to bank accounts. Given that 1.7 billion of the world's unbanked population are expected to have a mobile phone by 2012, analysts forecast a huge potential target market.

GCash, which is a product of Globetel in the Philippines, and one of the largest mobile-payment providers in the region with 1.2 million subscribers, says it has a robust monitoring system that is capable of flagging and tracking suspicious and fraudulent activities.

"For starters, we have transaction analytics that flags suspicious transactions based on transaction patterns, amounts and frequencies," explained Rizza D Maniego-Eala, mobile commerce head for Globetel. "We also have multi-channel touch points where subscribers or our public can report fraudulent transactions that are validated and archived for tracking purposes. Key information is disseminated to outlet frontliners [people working in the front office] via a watchlist where verified fraudsters may be identified by frontliners. Fraudsters on this watchlist are either turned away by our outlets or if possible are subject to entrapment operations in coordination with law enforcement agencies." This is in addition to know-your-customer policies and transactional limits that mitigate abuse, added Maniego-Eala. LW

according to Davis, Doromae Kutuh visited both Indonesia and Saudi Arabia in late 2004, and it is possible that he went there to solicit funding from the southern Thai diaspora in those countries.

For sure, that's no evidence of crime – one can own restaurants and transfer money –

but it's the basis upon which regulators try to track money exchanges to track crime.

Indonesia has 43 million citizens working primarily in the Middle East and East Asia. In 2005, they transmitted \$5.3 billion to relatives in Indonesia, making remittances the country's second-biggest foreign

exchange earner after oil and around 1.5% of gross domestic product. But, according to a World Bank study, only 20% of remittances arrive in Indonesia through formal channels; even less, 10%, through formal channels in Malaysia. While again there is no proof of crime, this nevertheless reflects the

BANKS' BEST EFFORTS



Each bank has its own set of rules, but there are some general guidelines

Banks basically do two things to avoid money laundering and terrorist financing. They vet their customers, and they monitor their customer's transactions. Standard Chartered lists the highlights:

Customers:

- Banks conduct due diligence on their customers – to ensure that individuals or companies are who they claim to be (verification of identity) and that they are reputable (checks against terrorist lists, sanctions lists, other sources of information)
- Where they identify an increased chance of money laundering, they conduct increased due diligence (eg visiting the office of a potential business customer; doing more work to understand how someone acquired the wealth).
- It's not easy – terrorists and criminals tend not to advertise that fact – so no one can get it right all of the time
- But getting this step right significantly reduces the risk of handling tainted funds

Transactions:

It's here where what banks do can vary much more.

- Banks will train staff to report suspicious activity that they identify in the normal course of business, eg someone acting suspiciously in a branch; unusual request over phone banking
- Beyond that, some may limit themselves to simply checking transactions against a customer profile periodically to ask: Does this look right?
- Leading banks, like Standard Chartered, deploy software to go further than this. The software reviews transaction records and looks for patterns of activity that match known money laundering methods. This can – and does – lead to reports to the authorities, arrests and prosecutions.
- For high risk transactions, banks use software to look for transactions with particular individuals (eg sanctioned terrorists) to halt transactions in real time and, where required to do so, freeze funds.

magnitude of remittances from abroad, and the dominant role of the informal banking sector in the business.

Naturally, militants of all shades can make use of the same informal system of money transfers. While Indonesia introduced new legislation to tackle money laundering and related activities after the Bali bombing in 2002, according to Jane's Information Group, "Indonesia authorities face a major challenge in curbing terrorist financing activities by groups such as Jemaah Islamiyya (JI), a militant outfit with close connections with like-minded organisations in the Middle East."

Industry specialists assume JI, Doromae Kuteh and other Islamic militants in Southeast Asia, which depend on so-called donations from wealthy individuals and Islamic charities in the Middle East, are using the *hawala* system to transfer money. In the Middle East, Dubai especially has been identified by international investigators as a hub for *hawala* transactions to various parts of the world and, after the September 11, 2001 terrorist attacks, the American government suspected that some *hawaladhars* may have helped terrorist organisations to transfer money to fund their activities. The conduit for those transfers is in many cases Dubai-based gold dealers – who also serve regular customers whose only interest is buying the precious metal.

Here's how it works – and how you may be a part of it. If a gang smuggles a quantity of gold to India and sells it there, the seller in Dubai wants to get paid, but not in Indian rupees, which have limited convertibility. At the same time, Indian workers in the emirate want to send money home so they pay the *hawaladhar* in Dubai in United Arab Emirates dirhams, which are freely convertible. The *hawaladhar* keeps that cash, and instructs his partner in India to pay the workers' relatives with Indian rupees in recompense for the smuggled gold. In this way, everyone gets paid but it is only the gold that moves – and is then sold on in shops and to customers who may not know how it got there.

The *hawaladhars* are either traders themselves or work closely with traders – and even if gold is the most valuable

commodity, it is not the only one. According to John Cassara, an American money-laundering specialist and author of *Hide and Seek: Intelligence, Law Enforcement, and the Stalled War of Terrorist Finance*: “A *hawaladhar* can move money out of a country by importing goods at overvalued prices and exporting goods at undervalued prices. Conversely, money can be moved by importing goods at undervalued prices and exporting the goods at overvalued prices. Any type of commodity or trade goods can be used: ie, electronics, foodstuffs, textiles, building material and so on. Yet in many parts of the world gold trading remains the preferred means of counter-valuation for *hawaladhars*”.

Regardless of the commodity, however, the *hawaladhars* in the end have to settle their accounts and balance their books. Someone is running a deficit and somebody a surplus. “There is a variety of ways this can be accomplished,” said Cassara. “At the end of the month or quarter or whatever is agreed upon, accounts are settled. Often



Tom yum soup's hidden treasures

again, a visit to the travel agency can solve that problem. He hands over his renminbi to an agent in China and then gets Thai baht, or US dollars, upon reaching Bangkok or Chiang Mai. All that is needed to complete the deal is a coded phone call or email message. The same would apply for a Thai wanting to visit China, and the underground banking system also creates an extra cash flow that the gold dealer, travel agent or money changer can use for other, more lucrative business deals, such as trading in cheap consumer goods — or illicit commodities such as narcotics. Anywhere between quarterly to once a year the various members of the network communicate with each other and settle the balances. While many of these shops closed immediately after 9/11, nearly a decade later they are once again operating with impunity — and spreading their tentacles over the region.

In recent years, law enforcement officials say, the most disturbing development is

“Terror networks can outsmart the world’s law enforcement agencies simply by leaving no potentially compromising documentation behind”

the *hawaladhars* will transfer the funds through traditional banking channels, sometimes they use cash couriers.”

US investigations into the 9/11 attacks exposed trails leading back to Dubai. Much of the \$250,000 used to fund the attacks was channelled through bank accounts in the emirate to suicide pilot Mohammad Atta and other suspected hijackers — and further cash was, most probably, moved through the *hawala* system.

THE CHINA SYNDROME

A similar underground banking system exists in China, although it is used more by criminal fraternities than international terrorists. According to a document from the US Drug Enforcement Administration: “Through the underground banking system, heroin traffickers can transfer \$500,000 from Hong Kong to Bangkok within hours simply by visiting gold shops in Hong Kong’s Western Market.” In

Chinese, this traditional system is called: *hai wai* (overseas), *hui kuan* (remittances), or *chao hui*, which means currency investment or speculation. Some refer to it as *fei qian*, “flying money”, which is something of a misnomer given that here, as in *hawala*, the money actually never leaves the place where it was paid.

If a Chinese businessman wants to pay for goods he has imported from Thailand, he is unlikely to use a local bank. Like the Indian rupee, the Chinese renminbi is not fully convertible and foreign currency transactions are restricted. But he can go to a travel agency in his local hometown and pay for the goods in renminbi. Then his Thai business partner can pick up the equivalent in Thai baht in a gold shop in Bangkok’s Yaowarat area, or from a designated money changer in Chiang Mai. If the same businessman wants to visit his Thai partners, there are restrictions on how much money he can take out of China. But

that the network has reached the lawless Russian Far East, a haven from criminals where also some shady ethnic Chinese businessmen are becoming increasingly prosperous and therefore powerful — and where currency regulations also are in force. Naturally, this unfortunate combination of factors provides fertile soil for the underground banking system.

It would be as impossible to stop this unregulated flow of money as it is to prevent southern Thailand’s rebels from using the income from tom yum and satay eateries to fund their militant activities. Terror networks — and criminal gangs — can easily outsmart the world’s law enforcement agencies simply by leaving no potentially compromising documentation behind. And innocent people, who like Thai food or go shopping for gold, either don’t know or don’t want to know that their money could be used for purposes they would never even consider. ■