

Exploring Secured Nation: Economic Consequences of Global Terrorism

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Abstract— *Terrorism has evolved into a global phenomenon. Global terrorism is on the rise and no country in the world seems to be immune. Despite efforts by governments and law-enforcement authorities, terrorists always find ways and means of carrying out their attacks. Terrorists are able to find recruitment and even the foreign fighters are joining them in large numbers. The internet and social media are being used extensively by these organizations to propagate their ideology, raise finances and to recruit new members. Economic consequences of terrorism are substantial. Firstly, terrorist financing and money laundering have now become a parallel financial system and a threat to the established monetary system. Terrorist exploit globalization, free market economies and borderless travel to their advantage. The economic cost of terrorism is a heavy burden on many countries. Especially, developing countries find that they have to divert funds earmarked for development and provide services to fight terrorism. Terrorism restricts FDIs and disturbs internal stability which is required for economic growth. They also destroy infrastructure facilities, which need to be rebuilt at a huge cost. Governments are also compelled to strengthen and equip armed forces and law enforcement agencies at a huge cost. The LTTE provides a good case study to understand the nature of terrorist financing, money laundering and the manner in which large quantities of weapons were purchased from international markets. The world needs to re-evaluate its financial system and take necessary steps to strengthen where necessary. There should be a better coordination and collaboration among various international agencies and states to curb the menace of terrorist financing and money laundering. This paper is based on an exploratory research method to understand the economic consequences of terrorism. The data collection and analysis is based on qualitative interviews with former LTTE operatives, literature review and grounded theory.*

Keywords— **Transnational Terrorism, Terrorist Financing, Money laundering, LTTE**

I. TRENDS IN GLOBAL TERRORISM

Global terrorism has become the most dominant threat to world peace in the 21st century. No country in the world seems to be immune from the scourge of terrorism. The advanced, developed countries or pioneers of democracy are no longer safe from acts of terrorism. Despite the great efforts of law enforcement authorities and armed forces, enhanced surveillance, profiling and monitoring, the terrorists always find ways and means of exploiting the systems and carry out their dastardly acts. Terrorists are now getting more and more brutal and they want more people to witness these brutalities to instil fear among the target group.

Major trends in global terrorism in 2014 included the Islamic State in Iraq and Syria (ISIS) and their unprecedented seizure of territory and declaration of a 'Caliphate'. It saw that failed or weak governance continues to provide an enabling environment for the emergence of extremist ideology and unprecedented violence. The US state department publication released in June 2015 notes that terrorist groups such as ISIS employed more violent tactics, including beheadings, rape, mass killings, sex slavery, stoning and kidnapping children for enslavement. These terrorist acts result in large-scale migration of people in different parts of the world and this is a major concern for global security. The terrorists are willing to violate human rights without any consideration.

There was a significant number of foreign fighters joining ISIS and the US report indicates, "totalling more than 16,000 foreign fighters from more than 90 countries had joined the ISIS by December 2014. This number exceeds that rate of foreign fighters travelled to other places like Afghanistan, Pakistan, Iraq, Yemen, or Somalia at any point in the last 20 years" (2015, p.7).

Whilst the ISIS is dominating certain parts of Iraq and Syria, other terrorist groups such as Al Qaeda's affiliates Boko Haram and Al Shabaab have been terrorising west and east

African regions which has resulted in these activities spilling over to the ocean, giving rise to piracy. There was a need to commit large naval forces and a host of other measures to curb the menace of piracy especially in the Indian Ocean.

The recent attacks in Paris on 13th November 2015, which indiscriminately killed 130 people and the 26th March 2016 bomb blasts in Brussels at the airport and a subway station killed at least 31 innocent people, provides a clear indication of the reach of the terrorists and their ability to carry out attacks in any part of the world. The perception that democracies, good governance and prosperity do not breed terrorism is challenged, with many affluent young men and women from advanced and developed countries joining these terrorist groups.

The technological advances in the world have made it possible for people to be connected without any cost, in real time. Terrorist groups exploit social media for propaganda, recruitment and funding purposes.

The Global Terrorism Index 2015 published by the Institute for Economics and Peace, based on data gathered from all terrorist related incidents across the world has made the following observations;

- The total number of deaths from terrorism in 2014 reached 32,685 constituting an 80% increase from 18,111 the previous year.
- Whilst terrorism is highly concentrated in a small number of countries; Iraq, Nigeria, Afghanistan, Pakistan and Syria, the number of countries that experienced terrorist attacks have increased.
- In 2014, terrorism affected more countries than ever before. Attacks were recorded in 93 countries, up from 83 in 2013.
- Lone wolf attacks are the main perpetrators of terrorist activity in the west.
- Since the beginning of the 21st century, there has been a nine-fold increase in the number of deaths from terrorism from 3,329 in 2000 to 32,685 in 2014 (p.2).

II. METHODOLOGY

The research method used for this study is 'Exploratory Research'. The research objective was to understand the economic consequences of global terrorism. The research questions were formulated based on the research problem to find answers to the trends in global terrorism, drivers of terrorism/extremism, methods and impact on terrorist financing and money laundering, and economic cost of responding to terrorism. The LTTE was used as a case study to understand the true nature of these issues and to find a

way to tackle this menace. The collection of data was carried by using qualitative interviews of a purposive sample of former LTTE operatives and literature available on the subject. The data analysis and selective coding were carried out by using grounded theory taking the 'increase of transnational terrorism' as the core category and terrorist financing, money laundering and economic cost of response to terrorism as sub-categories. Conclusions and recommendation for a way ahead were based on the findings of data analysis.

III. DRIVERS OF TERRORISM/ EXTREMISM

Sandler et al (1983, p.37) describes terrorism as the "pre-meditated, threatened or actual use of force or violence to attain political goals through fear, coercion and intimidation". This definition encompasses the way in which terrorist activities are conducted. Terrorists aim to instil disproportionate fear and a feeling of insecurity among the civilian population. Global terrorists now have acquired an unlimited operational range by having their cadres in different countries, and with an international support base with local cells. Schneider and Caruso describe this new phenomenon as an "approach to worldwide terror attacks perpetrated in an unprecedented pattern is pursued with the intention of spreading a permanent feeling of a state-of-emergency, which leads to increased distrust between different countries, regions and power blocks and restrains the freedom, democracy and pluralism of the western life style" (2011, p.3). In order for the terror groups to operate in such sophisticated circumstances they need lasting political, logistic and financial support.

Researches on violent extremism/terrorism indicate that a direct, explicit concern with issues of poverty, unemployment, service delivery and lack of economic opportunities do not appear to be the primary preoccupations of many violent extremists (USAID, 2009). Many of the extremist organisations do not refer to underlying social and economic conditions. They appear to be more concerned with identity, perceived humiliation, cultural domination, oppression and existential threats. They have a fundamental hostility to globalization and modernity (USAID, 2009).

However, poverty, suppression and lack of opportunities can make communities vulnerable to exploitation by violent extremist groups. On the side of the pull factors, the appeal of a particular leader like in the case of the LTTE could be a great motivation to join a violent group. Material, emotional or spiritual benefits that affiliate with a violent group may

also be pull factors. Personal relationships, social bonds and group dynamics are also some factors to join an extremist group. Some individuals or groups may have strongly held ideas and deeply felt convictions. The USAID report indicates; “Historical legacies of foreign domination, oppression, subjugation and interference to evoke powerful feelings. The legacies make it easier for ‘victimization narrative’ to take hold. These narratives evoke powerful feelings and emotions for a variety of reasons” (2009, p.iii). Another driver is the perception that the international system is fundamentally unjust; that some communities are oppressed and their cultures devalued.

IV. TERRORIST FINANCING AND MONEY LAUNDERING

Terrorists target military forces, civilians, critical infrastructure, energy networks and other symbolic objects. The indiscriminate nature of violent attacks, quite often aimed to create an impact on the intended society has increased in the recent past. Like any other multi-national organization, terrorists also need money to purchase weapons, for propaganda work, for travel and accommodation and safe houses, to pay for their cadres and to raise their reserves. Kendry (2007) indicates that “funding for terrorism can come from a wide array of potential sources, including state sponsorship, income generation of legal business, illegal income generated from such sources as kidnapping and ransom, trafficking of migrants, women, drugs, weapons, misuse of charitable donations, contribution from radicalized diaspora, theft, corruption, smuggling and informal money transfer systems such as Hawala”.

The globalization and liberalization of the economies and relaxation of borders have paved the way for an efficient and convenient international financial system linking banks, other financial institutes, organizations and customers. This same financial system is exploited by the terrorist organizations to transfer money from the source to the intended destination. These finances, fund the terror organizations to equip themselves to battle with established armies or militias and to carry out terror attacks in selected locations. Schneider and Cruso indicate, “The very fabric of transnational terror is underpinned by complex financial sources and linkages” (2011, p.3)

Terrorism can be ‘state sponsored’ or ‘privatized terrorism’ in which the terrorist groups form their own states and fund the terror campaign such as ISIS. The third category is the ‘global terror network’, which exploits the opportunities

offered by globalization and weakening or dissolution of trade borders (Kendry, 2007).

A. Terrorist Financing.

Often it is very difficult to identify trends and modes of terrorist financing and money laundering, mainly because a majority of these transactions take place outside the normal banking system and the fact that no records are maintained. Income generated by terrorists is mostly by illegal means and hence no records are kept. Terrorist groups could receive money from legal charities as donations to charities are legal in most countries. However, some charities could be based on ethnic communities and religious financing and they can be a front organization of a terrorist group. Another fundamental source of finances could be from the trafficking of drugs. The most prominent examples are cocaine trade by Columbian revolutionary groups and Heroin trafficking in Afghanistan. Oil smuggling is another form of illegal fund raising for terrorist groups. This takes place in the Strait of Malacca and Gulf of Guinea. Trafficking of small arms, ammunition and explosives is another method of financing terrorist groups. The LTTE was most famous for large-scale arms smuggling using their fleet of ocean going vessels. Another most prominent method of money generation for terrorist groups is the transfer of large amounts of money by non-banking systems such as ‘Hawala’ system, and it is very difficult to track these large numbers of transactions, which is used by millions of migrant workers to send the money home with less commission. The terrorist groups are able to exploit the system in various countries by raising and transferring them to further their cause. Law enforcement investigations and criminal prosecutions are hard to come by, until the terrorist carry out a major attack and their cell is exposed. Schenider and Caruso reconfirm the efficacy of terrorist financing, “The terrorist groups have been able to transmit money and receive money with relative anonymity and to find the financial resources to carry out their plans” (2011, p.12).

The government and financial intelligence services have a hard time tracking terrorist finance and money laundering activities. They have to combine expertise from different fields such as accountants and banking and financial experts, and look for current indicators and trends. They also need to share the intelligence on suspicious activities among other financial intelligence units of other countries. This process needs cooperation of governments and multinational corporations dealing with financial transactions.

B. Money Laundering.

Terrorist groups earn dirty money through various illegal and criminal activities. They also receive money through various financiers, state as well as wealthy individuals. Individuals

may contribute money earned by evading paying taxes, for ideological reasons, due to pressure from the states or to obtain protection to engage in their legitimate or illegitimate businesses. Terrorist groups will have to make at least some of this money legal. Schneider and Caruso describes various methods used by these groups for laundering the illegal money:

- Wire transfers or electronic banking: to move funds around the banking system to conceal the illicit origin of the funds
- Cash deposits: break down advance payments into small amounts to avoid anti-money laundering regulations. This is also called 'smurfing'
- Informal Value Transfer System (IVTS): transfer methods using non-banking sector like 'Hawala' are available readily to undertake the transfers. These systems consist of shops mainly selling groceries, phone cards, etc. IVTS provides international transfer of money as the agents are based in many countries
- Cash Smuggling: Money can be mailed, couriered or simply carried by agents from one country to another
- Gambling: Casinos, horse racing and lotteries are some ways of legalize funds. The money launderers can buy winning tickets or casino chips from dirty cash and redeem as clean bank cheques
- Insurance Policies: They purchase single premium insurance with dirty cash and redeem early with some penalty
- Securities: Usually used to facilitate fund transfers where underlying security deal provides cover
- Business ownership: money might be laundered through legitimate businesses, where laundered funds can be added to legitimate revenues. Cash-intensive operations such as restaurants are well suited for money laundering
- Shell corporations: money launderers may create companies exclusively to provide cover for fund moves without legitimate business activities
- Purchases: real estate or any durable good purchases can be used to launder monies. Typically, the items are bought with dirty money and resold for clean money
- Credit card advance payments: pay in advance with dirty money and receive clean cheques on the balance from the bank
- ATM operations: banks might allow other firms to operate their ATMs. Money launderers fill ATMs

with dirty cash, and receive clean cheques from the bank (2011, p.16).

C. *United Nations Resolution 1373; Countering Terrorist Financing and Money Laundering.*

Adopted unanimously on 28 September 2001, the resolution calls upon Member States to implement a number of measures intended to enhance their legal and institutional ability to counter terrorist activities, including taking steps to criminalize the financing of terrorism and how international cooperation should work to combat this phenomenon and a host of other related measures. However, the implementation of this resolution in its true spirit has not taken place internationally (UN Resolution, 2011).

V. ECONOMIC COST OF RESPONSE TERRORISM

There is no doubt that transnational terrorism and violent extremism are increasing with only the targets, locations and countries changing. The ideal world envisaged by globalization, free markets and borderless travel now need to be compromised in view of imperative concern for security. Response to terrorism incur heavy financial commitments from states as well as non-state entities. The September 11th attacks against the World Trade Centre in USA propelled the 'Global War on Terror' at a huge cost. But the concern of this effort is that the world has not become safer than before. Now the European Union is re-appreciating its security strategy and free borders. These new measures will come at a huge cost. Terrorism mostly affects Foreign Direct Investment (FDI) and the tourism sector. These two are the lifeline of most of the countries. The communications revolution makes the world connected and for the states and people to come closer. However, the same social media networks are being exploited by terrorists and extremist elements to propagate an unprecedented level of violence. Although the motives of the terrorists may differ, their actions follow a standard pattern: hijacking, kidnapping, assassinations, threats, bombs and suicide attacks. Terrorists would want to obtain a political or social objective through the intimidation of a larger audience, beyond the immediate victims. Some governments are likely to give concessions in fear of increased terrorist attacks and possible economic consequences associated with it.

Terrorist incidents have economic consequences of diverting FDI, destroying infrastructure, redirecting public investment funds for security, or limiting trade. (Sandler and Enders, 2008, p.1). Especially when a developing country loses FDI, the country could experience reduced economic growth. A continuous, concentrated terrorist campaign may greatly impact the cash flow to the target country. Terrorism can also have spill over costs among other countries in the region and would have an impact on the targeted country to resonate with other countries. In some instances, terrorism can affect certain specific large-scale industries such as shipping and airlines. Terrorism can imply heavy insurance premiums, like war risk premium, expensive physical security measures and payment of risk allowances to high-risk employees. Some of the examples are the high war risk premium paid by merchant ships calling on ports in Sri Lanka during the period of the conflict and loss of shipping industry in Yemen after terrorist attacks on USS Cole and MT Limburg in Aden. (Sandler and Enders, 2008, p. 2). All these economic drawbacks can have significant economic consequences on a particular country and result in reduced growth.

A. Cost Distinction

There can be different forms of losses due to terrorism such as direct costs due to a terrorist attack, which could include loss of lives, physical injuries, destroyed buildings, damaged infrastructure and reduced short-term commerce. The secondary or indirect costs can result in raising insurance premiums, increased security costs, paying compensation and risk allowances and the impact on commerce. These can result in reduced economic growth and rising unemployment, which can even lead to inflation in the economy. A decade after 9/11, the New York Times (2011) published a survey of estimates of the true economic costs of the attacks. The total cost of 9/11 was estimated at a staggering \$3.3 trillion, comprising of the following:

Toll and physical damage	\$55 billion
Economic impact	\$123 billion
Homeland Security and other costs	\$589 billion
War funding and related costs	\$1,649 billion
Future War and Veterans' care costs	\$867 billion

This figure indicates that the cost of a large-scale terrorist attack and associated subsequent cost.

B. Macroeconomic impact on Domestic and Transnational Terrorism

It is necessary to differentiate between domestic and transnational terrorism when studying the economic impact of terrorism. Sandler and Enders describe the difference, as “domestic terrorism is home grown with consequences for just the host country, its institutions, citizens, property and policies. In contrast, transnational terrorism involves more than one country” (2008, p.6). The Sri Lankan conflict, which was an ‘ethno-nationalist’ and was considered as an example of domestic terrorism, but with some spill over effects to neighbouring India. In transnational terrorism, there is an international aspect and could have an impact n victims, targets, institutions and cause implications to more than one country, hence the economic impact will be felt in more than one country.

C. Macroeconomic effects of Terrorism

A rich and diverse economy, such as the US economy can withstand terrorist events with little macroeconomic consequences. There will be a slight immediate impact, but that economy is robust enough to withstand the shock and overcome it rapidly. The diverse nature of a rich economy could absorb the impact on a particular segment as other segments will be able to absorb the losses and help the affected sector to rise again. Immediately after a large-scale terrorist attack, the financial markets will take a dip but could bounce back quickly. Picardo (2010) indicates that “Financial markets have proved time and again that they are remarkably resilient to acts of terrorism, the latest instances being the muted reaction after the Paris and Brussels attacks”. However, in a developing economy the impact would be different. For these small economic acts of terrorism can reduce the GDP growth, affect development work, especially if the conflict is a prolonged one like in the case of Sri Lanka. Protracted campaigns using violence instil a fear of uncertainty and can have drastic consequences on the progress of the country. It can have a significant negative impact on investment. Some investment may be diverted and some may not simply come.

Another major area is the cost of ‘countering terrorism’, especially in a prolonged conflict. The targeted country may be compelled to develop and modernise armed forces, para-military forces, police and other law enforcement agencies to fight terror networks and this incurs heavy costs. A major economy would be able to bear this additional cost whilst a smaller economy would find it extremely difficult without diverting funds earmarked for development or services. Developed countries possess more capable governmental institutions that can work on monetary, fiscal, and other policies as a response to terrorism and to recover from terrorist attacks. The same may not be available in a developing country. The developed countries can also take

decisive and effective security measures to restore public confidence much faster than a developing country.

It can be concluded that large, diversified economies are in a better position to absorb the impact of terrorism than that of a developing economy. The developed countries are capable of recovering quickly after a terrorist attack and able to change their fiscal policies if necessary. However, the smaller, less diversified economies may find it hard to overcome terrorist incidents and could end up re-directing investment and development to government spending to counter terrorism and regain the economic stability.

VI. SRI LANKAN EXPERIENCE AND THE LTTE

The Sri Lankan conflict went on for more than 25 years until it concluded in May 2009. The LTTE became the most dominant and the only Tamil militant organization to continue the battle for a separate homeland in Sri Lanka. The Federal Bureau of Investigation (FBI) of USA categorized the LTTE as “the most dangerous and deadly extremist in the world” (FBI, 2008). The LTTE perfected the use of suicide bombers, invented the suicide belt, pioneered the use of women suicide attacks, murdered a large number of people and assassinated two world leaders.

Towards the years 2008 - 2009, the LTTE was fighting like a conventional army with heavy artillery and long range mortars with a de-facto navy and a mini air force. They even operated 12-15 merchant ships plying in international waters and docking in international ports. The LTTE raised large amounts of money to purchase huge quantities of war-fighting materials. An LTTE overseas operative and a former sea tiger leader confirmed that towards the latter part of the war, practically everything came to the LTTE by sea. With these supplies reaching the LTTE held territory, they were able to sustain the fight for long.

The war forced large numbers of Tamil population to flee the country and they settled mostly in western countries such as Canada, USA, UK, Australia and some countries in the European Union. The Human Right Watch (HRW) report titled ‘Funding the Final War’ indicates that “Tamil diaspora numbered between 600,000 to 800,000 in 2006” (2006, p.1). This community then became then the most significant source of financial and political support for the LTTE. The HRW report further states “while many members of the Tamil diaspora willingly and actively support the LTTE, others had been subjected to intimidation, extortion and physical violence as the LTTE seeks to suppress criticism of its human rights abuses and to ensure a steady flow of income. Tamils who did not contribute to the LTTE or criticised were

subjected to severe beating, death threats, smear campaigns and fabricated criminal charges” (p.1).

In late 2005 and May 2006, the LTTE had launched a massive fundraising drive in Canada and parts of Europe, forcing individuals and business entities to donate money for the ‘Final Battle’. Those who did not contribute were threatened that they will not be able to return to visit their relatives in Sri Lanka or they would be ‘dealt with’ or ‘taught a lesson’. Some were even forced to borrow money or re-mortgage their houses. Tamils who returned to Sri Lanka were also forced to pay large amounts of money to the LTTE. Unfortunately, the governments in those host countries were not ready to take action to curb these activities and many cases were not reported to the authorities. Jayasekera, (2007) and HRW (2006) describes some of the methods used by the LTTE to raise funds:

A. *Return on Investment*; The Tamil diaspora established a range of Tamil institutes and organizations, including businesses, Hindu temples, churches, cultural, political and service centres. The LTTE either provided the base money or took control of most of these organizations. These legitimate businesses provided opportunity for money laundering, employment for activists and interaction with the community.

B. *Criminal Activities*; The LTTE used criminal activities such as gang based violence and trafficking of drugs from Thailand to gangs in western countries. These Tamil gangs had been responsible for credit card cloning and human trafficking as well.

C. *Front organizations*; The LTTE established charitable organizations such as the World Tamil Forum, British Tamil Association, Tamil Rehabilitation Organization to raise funds for charity. However, most of the money thus raised were channelled to the LTTE for its military operations.

D. *Mother Tongue Schools*; The LTTE made significant investment in these schools and benefitted financially as well as propagating their ideology even to the children.

E. *Prepaid Phone Cards*; The LTTE provided seed capital to set up front companies registered as telecom retailers in Europe. These telecom retailers purchased bulk-call time to Asian destinations from gateway operators in Europe and retail call-time using phone cards with multiple brand names. This was a legitimate business which was profitable. The LTTE compelled all Tamil shops to sell these cards and dominated the market.

F. *Subscription to Satellite Television*; The LTTE had an active strategic communication strategy. They combined internet, radio and satellite television to propagate their

ideology for fund raising. These ventures generated a large amount of money by subscription and advertising.

G. Registration of Tamils; The LTTE always had long-term strategies. They wanted to maintain a continuous flow of money to the organization. All Tamils in Europe were systematically registered with a unique PIN number and their personal information, blood relatives in Sri Lanka, income status, subscription to LTTE satellite TV and contribution to homeland funds were recorded. These records were used to determine how much contribution the Tamil Diaspora should make to the LTTE.

H. International Financial Network of the LTTE; The LTTE leadership operating from Kilinochchi had appointed 'collectors' to individual countries. The leadership would stipulate, based on records, how much money they should collect from each country. The funds thus collected were transferred to various locations to procure weapons. The transfer would take place through banks, human cash couriers and by over-invoicing import-export transactions. The LTTE had developed a sophisticated system of fundraising, transfer and money laundering. The ability of the LTTE to raise and transfer money indicates how sophisticated the network was and the inability of the law enforcement authorities to tackle the global terrorist financing system.

VII. CONCLUSION: A COLLABORATIVE APPROACH TO COMBAT TRANSNATIONAL TERRORISM

It is evident that terrorist financing and the cost of countering terrorist activities are crucial factors, which need sincere considerations of governments and other institutions who have a stake in combatting terrorism. No transnational terrorist organization can survive without finances for a long time. Transnational terrorist organizations normally operate outside the established international banking system and depend on informal ways and means of raising and transferring money. They always exploit the systems and find ways to ensure that finances reach their intended cells and individuals and launder the money raised illegally.

There should be a better understanding about the possible means by which these groups carry out financial transactions. Hence, first, the effectiveness of the existing anti-terrorist financing regulations must be scrutinised. The implementation of these anti-terrorist financing methods by various governments and their sincerity should be examined closely. Risk and vulnerability assessments based on intelligence and current trends should be carried out on a regular basis to identify possible targets of terrorists and

their cells. The susceptible targets should then be hardened to detect and deter terrorist attacks and minimize the impact should there be an attack.

Coordinated evaluation of the economic and financial impact of counter-terrorist measures at the national and international level to be studied in order to evaluate the efficacy of these measures and to enhance the capabilities and funds where necessary. Best practices and lessons learned from other situations can be used to evaluate and implement effective control systems.

There is also a need to strengthen the international legal system and a powerful and effective body should be created to share intelligence, enhance international cooperation, better border security and management and to take legal action against perpetrators of terrorism.

Finally, it is necessary to examine ways and means of cooperation among various agencies, states and non-government organizations to develop effective and efficient counter measures, joint utilization of resources and other instruments.

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