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The money trail

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How was the attack on America financed? And is there a money trail that might help investigators trace the conspirators?

SOMEONE at least seems to have made a lot of money out of the attack on America. In the days before September 11th, it is said one or more investors sold short a suspiciously large bundle of shares in three big insurance firms: AXA, Swiss Re, and Munich Re. Selling short—that is, selling borrowed shares—yields profits if the share price falls, as the price of shares in insurance firms might be expected to do when terrorists crash planes into the Pentagon and a skyscraper in New York.

Someone made a mint out of airline shares, too. An unusually large volume of “put” options (contracts which allow an investor to cash in if shares fall below a certain price) were placed on shares in certain airlines, which have, for obvious reasons, tumbled since the multiple suicide-hijackings. Investigators in Switzerland, America, Japan and other financial centres are looking into these trades to see if someone had advance knowledge of the attacks on America. It could be mere coincidence. Or it could be the most daring and sophisticated way that terrorists have ever raised money.

It is an extraordinary theory. This would make run-of-the-mill insider trading seem harmless by comparison. Terrorists whose aims include the destruction of the capitalist West may have pocketed a fortune by trading on the kind of inside information that only terrorists could have. The worst terrorist outrage ever committed has naturally had a huge effect on global stockmarkets. But it was completely unpredictable to anyone who was not involved in planning it. If the terrorists or their associates were really behind those suspiciously lucrative trades, they are fearsome foes indeed. Not only can they turn the West’s swift and efficient aeroplanes into deadly missiles; they can also manipulate the West’s swift and efficient financial markets to raise funds for future atrocities.

It is a big “if”. The events of September 11th have shown that modern terrorists can achieve the unthinkable. But there are reasons for doubting that they are market-riggers as well as killers. First, derivatives-trading leaves a paper trail. They could have disguised their identities through a series of dummy front companies in offshore tax-havens, but even the strictest banking-secrecy laws can be waived in cases like this one. If the trades were carried out on behalf of the terrorists themselves, this would substantially increase the likelihood of their being caught. If it was merely a financier who received a tip-off, he is going to be in scalding hot water.



A second reason for doubting that the terrorists were netting millions through insider dealing is that their operations appear to have been run on a shoestring. Osama bin Laden, the man suspected of sponsoring the attack on America, inherited a large chunk of a family construction business, and is said to have owned dozens of businesses at different times, ranging from a peanut farm to a bank. He is also alleged to make money out of Afghanistan's opium trade. From all these sources, he is rumoured to have amassed a fortune of as much as \$300m. But even if this figure is accurate—and some experts think it grossly exaggerated—he does not seem to have lavished much of his wealth on his alleged minions. The men named by the FBI as the hijackers may have spent several thousand dollars on flying lessons, but otherwise seem to have lived frugally. They stayed in cheap motels, drove ten-year old cars, cooked their own food and did their own laundry. The weapons they used to seize control of four aeroplanes—box-cutters and knives—could have been bought for a handful of coins. An earlier plot linked to Mr bin Laden—the 1993 attempt to blow up the World Trade Centre—is estimated to have cost a mere \$10,000.

The idea that a vast terrorist plot can be executed on a small budget is, if anything, even more frightening than the idea that terrorists manipulate markets. It means that President George Bush's promise to "starve terrorists of funding", which he made in a speech to congress on September 20th, may be beside the point.

Investigators are already frantically searching for clues as to how the hijackers got their money, in the hope that this will lead them to whoever it was who gave the orders. On September 18th, America's central bank, the Federal Reserve, ordered all banks to search for accounts or transactions conducted by any of the 19 named terrorists. A bank account in Switzerland and another in London, both allegedly connected to the terrorists, have been frozen. More will doubtless follow, including perhaps in Saudi Arabia, and more terrorists could be snared this way. To help prevent future atrocities, governments of several democratic countries plan to beef up security in their banking systems. Gordon Brown, Britain's chancellor of the exchequer, said that banks needed to tighten rules on reporting suspicious transactions. A new "Foreign Terrorist Asset Tracking Centre" is to be assembled, whose staff are to map the finances of terrorist organisations.



Cheap but effective

It will be difficult. Law-enforcers have found it hard enough catching those who launder drug money. Terrorists' money will be even more slippery. The sums involved are much smaller, and therefore harder to detect amid the vast oceans of cash that wash through the global markets each day. Unlike drug money, money for terrorism often comes from legal sources. There are individual donors. There are Islamic charities, some supported with Saudi oil money, which secretly channel money to terrorists. There are legitimate businesses owned by terrorist sympathisers. It is only once the money has actually been used for terrorist purposes that investigators have anything to go on, by which time it may be too late.

The greatest hurdle facing those who would starve terrorists of their funds is that the terrorists often bypass the formal banking system altogether. The crudest method is to move wads of hundred-dollar bills around in suitcases. During the trial of the men who blew up the American embassies in Kenya and Tanzania in 1998, Mr bin Laden's former accountant said he once had to carry \$100,000 in cash on a flight to Jordan.

Another technique is to use the *hawala*, an informal money-transfer system popular in the Middle East and South Asia. The system is based on trust. To illustrate: if an expatriate worker in America or Kuwait wants to send money back to his family in Pakistan or Syria, he probably prefers not to use the formal banking system. There may not be a bank in the village where his mother lives. Or his country's banks may offer a worse exchange rate for hard currency than he could get on the black market. So he takes his money to a moneylender or trader with contacts in both countries. The trader calls a trusted partner in the home country, who delivers the same amount, minus a commission, to the man's family. At the end of each month or so, the two traders settle accounts. Huge sums of money can thus be moved without a paper trail.



A third technique for funding terrorism is almost foolproof. The individual terrorist cells fund themselves. Before the embassy bombings in Africa, Mr bin Laden reportedly gave his footsoldiers a single lump sum and then told them to support themselves. In various parts of the world, members of al-Qaeda, Mr bin Laden's network, have paid the rent by trading bicycles and tractor parts, through credit-card fraud and petty theft, and even, in generous countries such as Britain and Canada, by claiming welfare payments.

This, then, is how global terrorism is financed: small sums, transferred by word of mouth or at the bottom of a suitcase; dedicated operatives, willing to subsist for years on the proceeds of menial jobs or petty pilfering, and whose weapons can be bought at Wal-Mart. This is a trail that America will need cunning, persistence and a big slice of luck to find.

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