The Ambiguous Political Economy of Terrorism in Southeast Asia’s Borderlands

Justin V. Hastings

JUSTIN V. HASTINGS (Ph.D., Political Science, University of California, Berkeley) is Assistant Professor at the Georgia Institute of Technology’s Sam Nunn School of International Affairs. His research centers on the connections between globalization, technology, and the political and economic geography of clandestine transnational organizations. He studies non-state nuclear proliferation networks, terrorists, insurgents, maritime pirates, and smugglers, particularly in China and Southeast Asia. He has been affiliated with the Institute for Defence and Strategic Studies in Singapore, and has worked for the Combating Terrorism Center at West Point, Lawrence Livermore National Laboratory, the Institute for Defense Analyses, and the Department of Defense.
Introduction

By conventional standards, Southeast Asia is a fairly safe place. Governments have placed most territorial disputes on the backburner, there are no active interstate conflicts, armies do not face off against each other as in the endless cold (and occasional hot) wars of Northeast Asia, and countries generally talk to each other, in ASEAN and in other venues, when there are problems. Internal stability remains a concern for some countries, although even here there has been progress since the Asian Financial Crisis, with Indonesia consolidating its democracy and resolving internal conflicts in Aceh, Maluku, and Sulawesi (although Thailand seems to have degenerated as a stable polity). However, a major non-traditional security threat exists below the surface and along the peripheries of Southeast Asian states: the exploits of illicit non-state groups such as terrorists, maritime pirates, smugglers, and insurgents.

Southeast Asia suffers from the strange problem of being both too developed and not developed enough, able to take advantage of modern communication, transportation, and markets but often still lacking in comprehensive state oversight. Consequently, it is an ideal operational environment for illicit actors such as pirates, terrorists, and smugglers. While the amount of danger such groups pose ebbs and flows over time, the conditions in the region that enable them to operate remain relatively constant. Illicit networks predate and transcend modern boundaries, provide livelihoods to people living on the periphery, and have now been made more efficient by modern communications and transportation technology. Illicit actors – smugglers, pirates, terrorists and the like – are not simply suborning corrupt local officials. Sometimes they are actually part of the traditional social and political networks that undergird the economies of the border areas.

This chapter examines the institutions and relationships that characterize illicit and semi-illicit economies in two Southeast Asian border regions and looks, in turn, at how the cells of one terrorist group, Jemaah Islamiyah, have taken advantage of those economies to support their operations. The research presented here suggests that the degree to which terrorist cells are embedded in local political and economic networks in Southeast Asia varies inversely with the degree to which those illicit networks co-opt or
are integrated into formal institutions of government and trade. Or to put it another way, terrorist cells do not become deeply involved in illicit economic networks that interact regularly with institutions of the state – for example, customs officials – even if those interactions typically involve corruption.

A better understanding of how these inherently transnational groups are embedded in local social, political, and economic networks will allow the United States and cooperating countries to target aid and development efforts more effectively, as well as avoid counterproductive security operations. If we do not have a proper understanding of the political economy of Southeast Asia’s border regions, U.S.-encouraged efforts to fight terrorists by cracking down on illicit flows of people, drugs, and weapons can lead to the ire of the local people as well as economic hardship. Conversely, U.S.-supported and other economic development programs that do not take into account security concerns could backfire, and end up further empowering terrorists and criminals.

**Scope of the Challenge**

*Background*

Most Southeast Asian countries, while not wealthy, are developed enough to take full advantage of modern communications and transportation technology. Singapore and Malaysia are attempting to become exporters of high technology, mobile phones have made inroads in the farthest reaches of Indonesia, and text messaging has become the primary means of long-distance communication across the region for all but the poorest of the poor. The region’s cities and people are also connected in a dense web of transportation links. Low-cost air carriers have proliferated in the past ten years and the islands of Indonesia, Singapore, Malaysia, and the Philippines have been connected by a network of ferries, cargo ships, and fishing boats for hundreds of years. This technology supports fairly sophisticated transnational markets, not just in consumer goods like DVDs, but also in commodities such as tin and palm oil.

Southeast Asia’s geography, broadly understood, has many characteristics that encourage legitimate cross-border movement and communication. Transportation links are fairly good, particularly for a region with only one or two fully developed countries.
The archipelagic topography of the region, in pre-modern times, led to the development of sea-based trade routes and states rather than roads and land-based states and, in the past twenty years, has meant that the faster option of air travel has become increasingly popular and relatively cheap for well-funded organizations, including terrorist groups.

Mobile phones and, to a lesser extent, the Internet have a high degree of penetration, extending even to lightly populated islands in Indonesia.

Most relevant for non-traditional security threats, however, Southeast Asia’s human and physical geography also encourages illicit cross-border movement and communication. Ethnic, social, and trade networks overlap with formal boundaries due to the colonial history of the region. Southeast Asian countries are faced with a fiction: the territory over which they claim sovereignty is often in no way the territory over which central governments have effective control. Large areas of the Philippines are under the control of insurgent groups, Indonesia struggles to patrol its waters, and insurgents have made southern Thailand a dangerous place for Buddhists.

This is due to accidents of both history and geography. Before the European colonial powers arrived in the region in the 16th century, indigenous states clung to the coasts of Southeast Asia’s many islands, and derived most of their income and power from control of trade. To the extent that states controlled territory further inland at all, state power was largely concentrated on a core area with diminishing control toward the periphery. The Europeans introduced fixed territorial boundaries in the 19th century, but their efforts to enforce order along the borders led to adaptations by smugglers and others who continued their now-illicit movements. Terrain that is difficult for states to police without significant resources – forbidding jungles and mountain ranges in Borneo and New Guinea, plus thousands of islands in Indonesia, Thailand, Malaysia, and the Philippines – dominates many of the border areas. The states that became independent in the 20th century were thus left with swathes of territory on their peripheries that they were eager to keep out of the hands of other countries but could not control very well on their own. Indeed, non-interference was so important to Southeast Asian countries that it emerged as one of the pillars of the “ASEAN Way.”

Illicit Southeast Asian groups – terrorists, insurgents, pirates, and smugglers – have been able to achieve relatively high levels of sophistication because they take advantage
of the full scope of technological and market tools that Southeast Asia has to offer in order to operate across these imperfectly controlled international boundaries. They inhabit a region that is developed enough to provide the tools illicit networks need to operate over great distances and, should they so desire, make money – modern communications and transportation infrastructure, and commodities markets – but not so developed that governments have the financial resources, police and military personnel, and legal systems capable of consistently stopping sophisticated illicit groups from operating at all. Southeast Asian governments, even those of the Philippines and Indonesia, are too strong to be ignored entirely. Consequently, illicit groups establish support cells in the border areas where states’ sovereignty claims and actual control are most at odds and draw on these cells for assistance in moving across borders. These areas are already crisscrossed by low-level trade networks based on routes and social ties that transcend the borders laid down by the colonial states. For illicit groups, operating efficiently requires becoming embedded in these local political and economic networks. But the extent to which they are embedded in these networks varies. In this chapter, I will focus specifically on terrorist cells’ embeddedness in the region.

**Argument**

We can think about terrorist cells as being embedded in the local environments of border regions in three senses. First, terrorist cells can use the same geographical routes and methods as smugglers and pirates to move people and illicit goods without any particular assistance from smugglers or pirates. Second, terrorists can “contract” with pre-existing smuggling and pirate networks to move people and illicit goods by establishing personal ties with criminals or by simply hiring them. Third, terrorists can be integral parts of smuggling and piracy networks – that is, they can regularly engage in the illicit movement of people and goods unrelated to terrorist activities. Terrorists thus can have a complex relationship with crime and criminal networks, as has been established in other studies.  

The illicit and semi-illicit networks on which terrorist groups can depend can be institutionalized and even formalized locally in a number of ways. Illicit networks can draw members from local ethnic groups or otherwise establish cultural, family, and social
ties. They can maintain personal or business connections to local legitimate business networks and political officials by bribing or blackmailing them, or by carrying out business for them. The illicit networks can also use local trade routes, infrastructure, and methods to move people and goods, or to dispose of stolen or smuggled goods. These trade routes, infrastructure, and methods can be licit or illicit. However, it would be simplistic to consider networks either wholly licit or illicit. A network may have legitimate products it sells, for instance, along with its illegitimate products, or might import otherwise legal goods through illicit channels, bribing officials or simply finding ways to bypass import restrictions and tariffs. It might also use corrupt means to maintain its market for legitimate products. In short, illicit networks have an ambiguous relationship with state authorities, legitimate infrastructure, and markets. We can say that the more an illicit network (and by extension, the illicit economy of an area) coopts the local state, expects the regular and frequent cooperation of local officials (including consistent results from that cooperation), and uses legitimate transportation and market infrastructure rather than providing its own, the more institutionalized it is.

In this chapter, I look at two border areas: (1) the area bounded by Johor in Malaysia, Singapore, and the Riau Islands of Indonesia and (2) the border area consisting of Mindanao in the Philippines and Sulawesi Utara (North Sulawesi) in Indonesia. In the first region, illicit cross-border movement has been regularized and institutionalized to the point that both smuggling and labor migration operate in a gray market partially aided and abetted by the local government. In the second, illicit networks take advantage of transnational ethnic and social ties in order to carry out small-scale trade, and deal with the local authorities intermittently.

The manner in which terrorist cells are embedded in the local political economic networks of Southeast Asia’s border region can complicate both counterterrorism and economic development policies. Jemaah Islamiyah had operatives and activities in both of these border areas between the mid-1990s and the early 2000s. Because these terrorist cells were created by the same organization and operated at the same time, the underlying beliefs and goals of the group and the overarching structure and resources available to the cells from the organization were similar across different border areas. The task is thus to
isolate the characteristics of the local illicit and semi-illicit political and economic networks in the border areas and examine how JI took advantage of them.

In Singapore, Johor, and Kepulauan Riau (the Riau Islands), JI was surprisingly uninvolved in the illicit economy. A few operatives used the routes and methods of illicit networks, but none used any services that would have required deep local ties. In Mindanao and Sulawesi Utara, however, JI integrated itself into the local illicit economy, building up local ethnic and social ties, constructing its own transportation infrastructure, and engaging in commerce.

The Singapore-Johor Bahru-Kepulauan Riau Triangle

Illicit networks

Few smugglers on the Indonesian island of Batam are locals whose roots in the island stretch back generations; few inhabitants of Batam have lived there for more than a few decades. In the 1980s, before Batam was designated as a special economic zone in a bid to encourage foreign direct investment, the population of the island numbered in the low thousands. By 2009, it had passed 900,000.\(^9\) There are ‘natives’ of Batam, but they are few and far between. Batam’s economic status means that migrants come from all over Indonesia to make their fortunes.\(^10\)

The geography of Batam, which played a role in its rise as a special economic zone, also plays a role in how businessmen and others in the Riau Islands derive income. The potential profitability of both smuggling and piracy is boosted by the extreme proximity of Batam to Singapore and, to a lesser extent, the Malaysian state of Johor and the hundreds of islands in the Riau Archipelago. Additionally, the Riau Islands’ position lies astride the Singapore Strait and, thus, the primary shipping lanes between the Middle East and East Asia. Smuggling networks in Batam move goods quickly and cheaply across the Singapore Strait from Singapore and Johor Bahru. The Singaporean government is known to ignore goods smuggled in to the country as long as they are not explicitly illegal in Singapore (narcotics, guns, explosives) or among the few goods on which Singapore imposes tariffs (cigarettes, alcohol).\(^11\) The smugglers bring back goods to Indonesia that would otherwise have high tariffs (consumer electronics) or are illegal in Indonesia (stolen cars).
Yet smuggling in Batam, while technically illegal, does not draw on networks that are wholly illicit. Businessmen in Batam engage in both legitimate and illicit activities, sometimes at the same time. One informant told of a time he was on a boat sailing between Singapore and Batam that had legitimate goods on top, visible to the customs officials (who came in the middle of the night and took a bribe), and smuggled goods hidden below. Another informant produced and sold pirated video compact discs (VCDs) as well as engaging in dubious – but not illegal – activities such as running karaoke and video gambling parlors. His distribution network in the Riau Islands was sufficiently well-formed that he could coordinate with other large pirated VCD producers to maintain the ‘quality’ of their products.

These semi-illicit networks also use a combination of illicit and legitimate infrastructure. During field research, several smugglers pointed out some of the ‘rat ports’ (pelabuhan tikus), ports used to smuggle goods and hide pirate loot. Most were located in remote villages, but one was adjacent to a legitimate port, and another was down the road from a maritime police base. Others were in fact formal ports. Clearly the smugglers were not concerned with secrecy. The difference, according to informants, was between the relatively small volume of smuggled goods that could be brought in to legitimate ports (at least during the day) versus the expanded capacity of the totally illicit ports, which could handle entire ships’ worth of smuggled goods at a given time.

A local police official said that not only did he know who the biggest smugglers were, but he also knew the locations of their rat ports. There were, he said, sixty-four rat ports on Batam. When asked why he didn’t arrest the smugglers, the police chief replied that if he cracked down on smuggling, he would earn the ire of the local population, who would be deprived not only of affordable foodstuffs like rice and cooking oil, but also pirated DVDs and TVs stolen from Singapore. The local government was not in a position to provide for the welfare of the local population, given the high cost of living in Batam, and thus smuggled goods were necessary for sustaining the population.

The labor migrant system in the Riau Islands similarly skirts the boundary between licit and illicit. Michele Ford and Lenora Lyons’ research in Tanjung Pinang, the capital of Riau Islands province, has found that the process of obtaining a legal passport and local identity cards, exempting the holder from paying Indonesian exit taxes, has become
formalized and institutionalized outside of the official labor migrant approval channel. Prospective migrants, often recruited by employment agencies, flood into Tanjung Pinang hoping to cross into Singapore and Malaysia to take low-skilled jobs. Although in theory the local government is supposed to send repatriated labor migrants and Indonesians deported by Singapore and Malaysia back to their provinces of origin, in reality middlemen and illicit passport agencies have sprung up to provide the needed documents to migrants. The documents are legal, having been issued by local government officials who have contacts with the middlemen and passport agents, and can be issued quickly – in some cases within one day.17 This route to labor migration is known as asli tapi palsu (real but fake), or aspal; while technically illegal, it is sanctioned by a local government seeking an efficient way to deal with outside migrants and supported by a local population partially dependent on the jobs brought by the institutionalization of the process. Just as with smuggling networks, the networks that facilitate aspal operate on the line between licit and illicit because the local government and the population both view a pragmatic solution – to a problem in part created by central government regulations – as more important than the strict legal issues.18

Terrorism networks

Although Jemaah Islamiyah was originally an Indonesia-based organization, Abu Bakar Ba’asyir and Abdullah Sungkar’s exile from Indonesia in 1985 led them to build up cells of the group in Malaysia and Singapore, initially as a means of recruiting people to train in Afghanistan and then travel to Indonesia to fight for an Islamic state. Only later were these cells used as a means of establishing a pan-Southeast Asian organization.19 These cells were involved in Jemaah Islamiyah plots in Singapore and Indonesia in the late 1990s and early 2000s. Delving into how they drew on the illicit and semi-illicit networks discussed above to bring their goals to fruition will show how the nexus between terrorism and crime works in Southeast Asia’s borderlands.

Jemaah Islamiyah maintained wakalah, battalion-level units, in Singapore and Johor. There was also a school affiliated with the group in Johor, which employed JI-affiliated teachers, and recruited new JI members until it was forced to close by the Malaysian government.20 Although the group’s cell was embedded in the local area inasmuch as its members were actually from Singapore and Malaysia, with family ties to
each other and other Islamists in the Malayan peninsula, there was surprisingly little interaction between the Johor wakalah and illicit networks.

The JI wakalah in Singapore mostly consisted of Singaporean citizens and some permanent residents of Malay or Muslim Indian origin. Singaporean members of JI seem to have been involved in a series of terrorist incidents: the successful Batam portion of the Christmas Eve bombings in 2000 (simultaneous attacks against Christian targets in eleven cities across western Indonesia), the failed Singapore bombing plots in 2001, the multiple escapes and plots of Mas Selamat Kastari and other Singapore fugitives, and the foiled Palembang bombing plot in 2008. Since nearly all the members of the Singapore wakalah were actually Singaporean, they were embedded in Singapore inasmuch as they were part of the local ethnic groups (and the requisite social networks) and familiar with local legitimate transportation infrastructure. The JI cell members were generally familiar with the most common routes and methods for smuggling goods into Singapore (one of their ideas for smuggling ammonium nitrate into Singapore was in trucks coming across the causeway between Johor Bahru and Singapore), but did not seem to have personal connections with local criminal networks. During the run-up to the Batam plot, one of the JI Singapore members was tasked with taking the ferry between Batam and Singapore to survey potential routes for smuggling explosives into Singapore, but this potential route did not pan out before the Singapore plot was uncovered.

Interestingly, JI did not maintain a wakalah in Batam. When JI carried out the Batam part of the Christmas Eve bombings in 2000, it had only one locally based contact who helped bomb plot members find housing and supplies on the island. The rest of the people involved in the Batam attack were seconded from Singapore, other parts of Indonesia, and Malaysia. The Singaporean members of the Batam plot took ferries from and to Singapore, stayed in Batam for less than a month, and were largely tasked with support activities – leaving their apartment every morning as if going to work, reconnoitering potential targets, and acquiring legally available bomb components. The Indonesian member of the bomb plot, Imam Samudra (later to become notorious for his part in the 2002 Bali bombings), seems to have had more connections, or at least familiarity with traveling and staying in Batam: he was able to obtain a passport on the island and stayed in cheap hostels on several visits. The explosives needed for the
bombs in Batam were brought by couriers from Jakarta without, it appears, using any illicit means of transportation or connections with the criminal underworld in Batam itself. Jemaah Islamiyah was confident enough in its access to Batam and Johor that it planned to bring explosives through either or both areas on their way to Singapore, but since those projects never came to fruition, we will never know if they would have been able to smuggle explosives into Singapore.

Given the robust gray market in both smuggling and migration in the Riau Islands, it is surprising how light JI’s footprint in the region was. While it had cells in Singapore and Johor, it never even tried to set up a cell in Batam. Imam Samudra may have used the aspal system to obtain his passport, and Mukhlas took an illicit ferry from Johor back to Indonesia, but that seems to have been the extent of JI’s use of cross-border illicit networks. Jemaah Islamiyah’s operatives explored routes for smuggling explosives from Batam, but does not seem to have developed the contacts to have followed through on their plans. Within Indonesia, JI used its own couriers, but they had no need to cross from Batam to other countries. In short, JI sought to make use of illicit methods and routes, but otherwise was minimally embedded in the illicit economy of the region.

There are several possible explanations. Most JI members involved in JI activities in the Johor-Kepri-Singapore region were Malaysians and Singaporeans; they had no need for the networks designed to provide transport and documents to Indonesian migrants (and in fact, Mukhlas and Imam Samudra, both Indonesians, were the ones who did successfully contract out transport and documents to the gray economy). Given the costs of using illicit networks, it is possible that Batam’s proximity to more developed economies in the form of Malaysia and Singapore meant that JI found it easier to send people in the reverse direction for its plots, obviating the need for illicit networks. The gray market itself may also have been a factor; the semi-formal, institutionalized nature of the aspal system and, to a lesser extent, of smuggling, allowed people from all over Indonesia (or other countries) to take advantage of them without being directly connected to local officials or local ethnic and social networks. If JI wanted to engage in certain illicit activities in the Riau Islands, in other words, it did not necessarily need to be deeply embedded.
The Sulawesi Utara-Mindanao Region

Illicit networks

The smuggling networks of the Mindanao-Sulawesi Utara region are by and large designed to attend to the basic economic needs of the local inhabitants of Sulawesi Utara and the provinces of southern Mindanao, but more specifically of the inhabitants of the islands on either side of the border between Sulawesi and Mindanao. The northernmost island in Sangihe-Talaud, Marore, is only forty nautical miles from Mindanao, allowing for relatively quick trips back and forth. Smuggling in this area of Southeast Asia appears to be somewhat different from that of the Johor Bahru-Batam-Singapore Triangle.

Smuggling in the region is dominated by short-term operations: small businessmen move back and forth between Indonesia and the Philippines, staying in the other country for a few days at a time, and rely on connections with friends and relatives in both countries as a means of obtaining and then selling everyday goods. The type of smuggling seen in the area is a reflection of the pre-existing trans-border social and economic networks. Filipinos live in the Sangihe-Talaud islands, and a community of Indonesians lives in Mindanao (12,000 were legally working and living in Mindanao in 2002), resulting in a transnational social network ready to support small-scale informal trade.

Both sides of the border are relatively undeveloped, as are the Sangihe-Talaud islands themselves. Neither side has much in the way of heavy industry, and economic production on the Indonesian side is geared toward primary commodities (unlike Kepulauan Riau, Singapore, and Johor), as is production in General Santos City on the Philippine side (known for its excellent tuna). Much of what is smuggled, as a result, appears to be everyday goods such as agricultural, fishery, and small-scale manufactured products. One researcher reports that illegal trade is dominated by Indonesian traders – often ethnically Chinese – bringing small quantities of cigarettes to Mindanao, and returning to Indonesia with hard liquor. The traders either use their own boats, or hire one of the hundreds of fishing boats in the area to carry their wares. In many cases, “bosses” in Indonesia have employees pilot small, two-person boats in the waters directly between Sangihe and Mindanao, delivering their goods to pre-arranged buyers, and
buying from pre-arranged sellers. The vast majority of the people involved in transportation in these networks are young men who remain in the Philippines for less than five days. In most cases, they avoid any dealings with police and customs officers by maneuvering through the waters at night, along routes unlikely to be patrolled. While officials can be bribed, the cost is apparently too high for many small-time smugglers to bear, and in any case, the trip to the nearest customs outpost in Marore makes the trip two to three times longer.\textsuperscript{35}

The networks relied upon by smugglers are thus largely informal, with less involvement of the local governments than in Kepulauan Riau. Unlike Malaysia and Singapore, the Philippines are not a popular destination for Indonesian migrant workers or for high-value Indonesian commodities such as timber. Traditional trade appears to move informally and without contact with state authorities unless standard customs inspections reveal inconsistencies, at which point officials can bribe. The relatively low level of reported crimes in Kepulauan Sangihe regency suggest that much smuggling occurs entirely off the books. From 2003 to 2007, there were only six reported weapons smuggling cases, three reported terrorism cases, and one case of criminal customs violations.\textsuperscript{36} The issue for informal commerce, once operators have set up their networks, would appear to be less what smugglers have to do to penetrate Indonesia’s border than who they have to cross to be caught.

*Terrorism networks*

The networks that both Jemaah Islamiyah and other Islamist groups developed in eastern Indonesia and the southern Philippines were primarily designed to transport people to the southern Philippines, and to return both their transportees and locally acquired weapons back to Indonesia (and from there to other countries, if needed). Jemaah Islamiyah devoted an entire mantiqi (Mantiqi III, the JI equivalent of a military division) in the late 1990s and early 2000s to eastern Indonesia and the Philippines to support the logistics of the organization and to provide training to the recruits once they actually arrived in Mindanao.\textsuperscript{37} Although the mantiqi head was not based in Sulawesi Utara but in Sabah, Malaysia, one of the primary corridors by which JI moved weapons and people between Indonesia and the Philippines was the Sangihe-Talaud islands, off the northern tip of Sulawesi. Within these islands, JI members had personal connections
that allowed them to access both the networks and routes used to bypass state authority and move people and goods to and from the Philippines.

In 1997, for instance, Jemaah Islamiyah’s operative Mubarok made contact with a Filipino fisherman by the name of Sardjono. Sardjono was married to an Indonesian, and lived in Peta in the Sangihe-Talaud islands. Together, they bought a boat capable of transporting weapons and recruits, which is in fact just what it did for the next several years. Sardjono also functioned as a link on the route between Mindanao and Sulawesi Utara, even if he did not transport recruits himself. In December 1997, an operative by the name of Suryadi, loosely affiliated with Jemaah Islamiyah, brought several other men and detonators from General Santos City on Mindanao to Nanusa in Talaud using a “traditional boat,” apparently one of the many boats to ply international waters without formal consent from either the Philippine or Indonesian government. This time the Indonesian officials in Nanusa did search the boat, but were bribed into compliance. Sardjono received them in Peta and may have taken the operatives and the detonators on to the Sulawesi mainland.38 On another occasion in 2000, Suryadi and other recruits he was accompanying took a regular ship (presumably a scheduled ferry) between General Santos City and Bitung, and bribed Philippine customs officials not to investigate a crate of “tuna fish” they were transporting.39

In Mindanao, Jemaah Islamiyah seems to have had several operatives who, while Indonesian, lived in the Philippines for extended periods of time, and established contacts with indigenous insurgencies such as the Moro Islamic Liberation Front (MILF). Hambali, later a high-ranking JI officer, had been sent by Darul Islam to live with the MILF in the early 1990s and build up relationships that had begun when both Darul Islam and the MILF were training in Afghanistan in the 1980s.40 Mustopa, the first head of Jemaah Islamiyah’s Mantiqi III, also had sufficient contacts in General Santos City to obtain weapons from local sellers and pass them on to operatives such as Suryadi.41 As part of their cover and for income, JI and affiliated operatives would set up legitimate businesses – in Suryadi’s case a jewelry import-export business.42 This allowed them to make contacts with local economic networks and move weapons and explosives under the cover of legitimate trade, or at least informal trade that was not viewed as inherently dangerous by the authorities.
Consequently, Jemaah Islamiyah’s operatives were deeply embedded in the illicit networks of the Mindanao-Sulawesi Utara border area. They had longstanding contacts with the Moro Islamic Liberation Front and built up connections with arms dealers in General Santos City through relatively long stays in Mindanao. The recruitment of the local fisherman and forays into business show that JI operatives operated and gained cover by establishing ties and eventually integrating themselves into local ethnic, social, and business networks that stretched across national boundaries. Police could be bribed, just as in other parts of Indonesia and the Philippines, but there does not seem to have been a systematic effort to co-opt the local authorities.

Jemaah Islamiyah chose to embed itself so meticulously in this region – compared to lesser embeddedness in other parts of Indonesia – possibly because it had no other choice. Local illicit networks, based on local ethnic and social ties and engaged in small-scale commerce, were not set up to be easily accessed by outsiders without considerable investment in building local connections. A deeper question is what caused illicit networks to take this particular form. Sparse state resources in the Mindanao-Sulut region of both Indonesia and the southern Philippines meant that enforcement on either side of the border was more haphazard than in the Riau islands. Co-opting the state might simply not have been the worth the cost in money and time, compared with simply evading it. The result was a non-institutionalized environment for illicit networks. Moving between two developing countries – and relatively poor regions of those developing countries – would have marginal profits relative to trade to or from a more developed country and would not attract large-scale enterprises that would need to insinuate themselves into local power structures and demand regularized illicit services.

**Implications for Regional Governments**

The differing experiences of Jemaah Islamiyah cells in the illicit economies of Southeast Asian borderlands have a number of implications for how we think, not only about counterterrorism and economic development but also about non-traditional security threats in general. As other analysts have suggested, non-traditional security threats in Asia are now emanating from malevolent non-state actors such as terrorist groups and
agency-less phenomena such as epidemics. Those threats are exacerbated by new technologies. However, those threats are also interconnected in ways that we do not necessarily expect. To take an example from this chapter, state weakness in Southeast Asia, particularly along international borders, does not create terrorism or transnational crime *per se*. Rather, imperfect state control in border areas creates different incentives for central governments versus local governments, providing a space in which illicit political and economic network arise that may, given certain conditions, enable terrorist group to operate more efficiently. Addressing a non-traditional security problem such as terrorism requires not only figuring out whether other problems are connected, but how they are connected, and whether a given policy designed to resolve one problem will have unintended side effects in others.

Getting the relationship between terrorism and illicit political and economic networks wrong can have deleterious effects on policies designed to deal with both. Blanket statements about terrorist infiltration of criminal organizations (or vice versa) are both unhelpful and untrue. Local governments have dealt with territorial control problems in different ways – in some cases, by not dealing with it at all, in others, as in the Riau islands, by semi-formalizing gray markets in order to lower the time and financial resources needed for socially beneficial illicit movement and trade that was going to happen anyway. These gray markets may or may not actually help terrorist groups operate. This is an important but underappreciated insight: the temptation for states to deny terrorists sanctuary and ease of movement by cracking down on smuggling and tightening border controls may be ineffective or may backfire. Tightening border controls into and out of Batam and Bintan in a bid to stop the movement of terrorists, for instance, may complicate the local government’s efforts to facilitate the movement of Indonesian migrant workers, and prevent those workers from earning income to support their families.

This insight is important as we turn to the question of Southeast Asian governments and what they can do about fighting transnational terrorism and the tools terrorists use to operate. At first glance, regional governments’ fight against terrorism seems to have been more successful than not in the past decade: while the Philippines sees continuing problems with the Communist and Moro insurgencies, the MILF is willing to talk and
make concessions of its own. For their part, Singapore and Malaysia rid their territory of Jemaah Islamiyah operatives fairly quickly upon discovery in 2001 and 2002. In Indonesia, the relatively infrequent bombings since 2002 and the successful takedown of additional terrorists after each attack – bomb maker Dr. Azhari in 2005 following the second Bali bombing and ringleader Noordin Top in 2009 after the second Marriott bombing – suggest that thorough, efficient investigation and the work of Detachment 88, Indonesia’s counterterrorism task force, have been successful in taking down active terrorist networks engaged in violent plots.

For all Indonesia’s success in hunting down terrorists inside the country, there have been embarrassing lapses in stopping terrorists before they get in to the country. A plot broken up in 2008 involved a Singaporean, and one the perpetrators of the first Bali bombing was killed in a shootout in Jakarta in 2010 after apparently slipping back into Indonesia from the Philippines. Border areas thus continue to be a problem. Even if the current generation of active JI-linked terrorists are successfully hunted down, the quietist faction of the organization, which currently favors a period of rebuilding and proselytizing rather than bombings, can continue to take advantages of the opportunities provided by the ambiguous political economy of the region’s border areas, alongside other Islamist and separatist groups.

The challenge of the borderlands is more complicated than simply “fixing” a potential terrorist haven. The mismatch between the claims that regional governments make over border areas and the actual control is not just a problem in Indonesia; Malaysia, Thailand, and the Philippines have similar gaps in reality and perception. The most obvious solution is simply to increase state capacity, or more specifically regional governments’ ability to ‘broadcast power’ in border areas with the same regularity and formality that they often do in core areas. This is easier said than done, in part because the lack of state capacity and resources is one reason why there is a mismatch in the first place.

But it is not simply a matter of state weakness. One of the primary problems for regional governments is that it is their own laws and regulations that are creating arbitrage opportunities, and thus openings for gray and black markets. A common understanding of institutions in political economy is that their purpose is in large part to
decrease transaction costs by decreasing the time and effort market actors need to find buyers and move goods, and by ensuring that contracts are enforced with regularity and consistency. Ideally the institutions in Southeast Asia that regulate commerce and movement across countries’ borders – both the government organizations and the regulations – should decrease transaction costs or at least minimize them relative to the other purposes of those institutions, such as taxation and establishing sovereignty claims. In reality, many of these institutions actually seem to increase costs for the people involved. In the Sangihe-Talaud Islands in eastern Indonesia, for instance, processing through the sole official customs and immigration checkpoint near Mindanao involves a significant detour for local traders, leaving aside the costs to bribe corrupt officials. In Kepulauan Riau, the onerous and unrealistic regulations necessary for Indonesian workers to go overseas for contract labor legally mean that the vast majority of workers will never be able to go through official channels. Since the demand for emigration services far outweighs the legal supply, gray market agents step in. Just as importantly, local governments in Kepulauan Riau – and other border areas, such as Kalimantan Timur – cooperate with gray and even black market agents to move people through as efficiently as possible, and to avoid the workers becoming a drain on their own resources.45

These ‘incentives’ for illicit and semi-illicit commerce are not necessarily an accident. Regional governments both rich and poor have incentives for gray and black markets to exist in border areas. Aside from the rents extracted by customs and immigration officials and local governments from illicit trade on both sides of a border, gray and black markets allow poorer countries such as the Philippines and Indonesia to provide migrant workers and traders with a quick and relatively efficient pathway to wealthier countries and more job opportunities. These illicit markets also supply richer countries such as Singapore and Malaysia with access to cheap labor that can be periodically deported to their home countries.46

The labor, trade, and emigration regulations that help to create the illicit markets themselves serve an important purpose for central governments in Southeast Asia in that the regulations accentuate and formalize the governments’ sovereignty claims, even if they are enforced imperfectly or not at all. Formal regulations are especially important in
sovereignty claims over territory that is disputed between two countries (that is, in border areas) and areas where actual internal government control is limited. Regardless of the actual labor situation on the ground in Sabah, Malaysia, for instance, where thousands of Indonesians work semi-illegally in construction and on plantations, the Malaysian government will likely not relax formal regulations for Indonesians to enter the country as long as Indonesia and Malaysia have a territorial dispute over the waters off the coast of Sabah.

For governments that do want to decrease the allure of illicit economies, it may be feasible to reduce the transaction and opportunity costs associated with using fully legitimate routes. This could be accomplished through lower (or zero) tariffs and streamlined customs clearance procedures, perhaps targeted geographically at vulnerable land and sea border areas; looser import-export restrictions; and fewer regulations for expatriating migrant workers. It is not even clear why Indonesia, for instance, has any regulations governing when its citizens leave the country. The last area is one where regional government cooperation is needed – even if Indonesia were to loosen its expatriate worker regulations, without a clear and efficient process by which the workers could enter Singapore or Malaysia, illicit networks will still arise to provide services to would-be migrants leave Indonesia.

In areas of weak or sparse state control but only small-scale smuggling, such as the Mindanao-Sulawesi Utara borderlands, one possibility involves establishing a targeted state presence along informal trade routes and regularizing the costs traders must bear. Another possibility is setting up customs checkpoints along informal trade routes so that traders do not have to waste time diverting from their routes. More generally, Indonesia and other developing countries in Southeast Asia should seek to move away from a model where customs officers’ primary purpose is to raise revenue to one where their primary purpose is to secure the country’s borders. The temptation for customs officers to accommodate bribe-paying importers is no doubt stronger when the importer is asking the officer to sign off on the non-declaration or under-invoicing of what are otherwise legal goods rather than when the importer is asking that the officer ignore guns, ammunition, or explosives. While developing countries often rely on tariffs for revenue (with income tax being much more difficult to collect) and to protect fledgling domestic
industries, the time may have come to dismantle that system in the interests of security. While rethinking customs enforcement is a tall order for the region’s countries, it is not unthinkable: the ASEAN Free Trade Area has already eliminated (or drastically decreased) tariffs for its member countries on goods originating from within ASEAN. Since all ASEAN countries already theoretically are supportive of freer trade, rhetorically connecting freer trade with security imperatives may help convince the relevant players in the region.

Regional governments also have a potential ally in their efforts to alter environments that are supportive of terrorists: the illicit networks themselves. While current formal institutions in Southeast Asia’s borderlands may not reduce transaction costs, the ethnic and social ties that straddle the borders do lubricate informal trade, and where informal institutions are particularly robust, the best approach may be to co-opt them. Importantly, while these networks are ‘illicit’ from the central government’s perspective, they are not necessarily illegitimate from the perspective of local residents, or even necessarily local governments (as the aspal system in Batam suggests), particularly since these informal trade networks are often older and more legitimate (and certainly more embedded in the local community) than the states themselves. In line with the changes in cross-border trade policy discussed above, Southeast Asian governments should seek ways to formalize informal trade networks. Central governments could derive greater local legitimacy from recognizing, in turn, the legitimacy of traditional local political and economic elites, and gaining their cooperation. This could lead to intelligence gains, since transnational networks grounded in ethnic and social ties will inevitably have better knowledge than outsiders of movements and transactions across the border. Co-opting cross-border trade networks would also allow for greater state presence in areas where state control was previously weak on the ground.

Finally, the divide between central and local governments is also critical, particularly in countries like Indonesia where local governments have been allocated more resources and assigned more responsibility over the past decade. Since, at least from the cases studied in this chapter, terrorist groups appear to be less embedded in highly institutionalized gray markets that have significant local state buy-in, it is possible that the central government may force its preferences for a crackdown on illicit
economies with little effect on terrorist groups and a backlash from local governments. This could come about in several ways. If the terrorist group is really only using the same routes and methods as the illicit economic networks in a given area, but does not have ties with the illicit economic networks themselves, cracking down on the economic networks (in effect punishing them for the activities of the terrorist group) may not have much effect on the ability of the terrorist group to operate, and will also turn the population themselves against the authorities, since crackdowns deny them the increased efficiencies and products that come from institutionalized gray markets. In Batam, for example, some local officials might view smuggling as a necessary evil, even if corruption were eliminated and the state given more law enforcement resources. Batam officials have a strong interest in encouraging cross-border commerce and movement into and out of Batam a way of promoting economic development.

Less institutionalized illicit economies such as that in the Mindanao-Sulut region present different complications. In such areas, terrorist groups face higher time and financial costs associated with taking advantage of local conditions, but if they are genuinely embedded in local networks, cracking down on illicit networks might have some genuine effect on the ability of terrorists to operate. Aside from the economic impact, however, there is the more fundamental problem that if the state had been able to broadcast power over the territory in the first place, the informal commercial networks in which terrorist groups are embedded would look different, and possibly less inviting.

**Implications for the United States**

The United States has an interest in the political economy of terrorism in Southeast Asia. The ability of terrorists to stage attacks in the region not only risks destabilizing U.S. allies such as Thailand and the Philippines and U.S. friends such as Singapore and Indonesia but also threatens U.S. facilities. The U.S. embassies in Singapore and Indonesia and U.S. military personnel working at Sembawang naval base in Singapore have all been targeted by terrorists. Additionally, U.S. tourists in Bali and U.S. missionaries in the southern Philippines have been killed in terrorist actions. The U.S. also has an interest in the indirect effects of terrorism: an ongoing Islamist terrorist
campaign, even if not ultimately successful in attaining its stated goals, can embolden radical Islamist communities in the region. Furthermore, if counterterrorism policies are not formulated and implemented carefully, the general population in countries such as Malaysia and Indonesia may turn against the United States and its interests.

In the short term, the primary U.S. interest comes in seeing active terrorists hunted down and their networks dismantled. In the long term, the U.S. has an interest in keeping new terrorist groups from springing up, and their partially dismantled networks from revitalizing. It is also imperative to reshape the political, economic, and social environment in Southeast Asia to make it difficult for terrorists to operate. This is not merely an academic issue. Jemaah Islamiyah is an offshoot of Darul Islam, an Islamic nationalist movement that sprang up during the Indonesian War of Independence to fight first the Dutch, and later the secular Indonesian government. Darul Islam has existed since then in various forms – it sent recruits to Afghanistan and the Philippines in the 1980s and 1990s for training, and members of different Darul Islam groups helped JI carry out bombings in the 2000s.47 Darul Islam continues to inspire new generations who want to see Indonesia become an Islamic state. While the temptation is for both the U.S. and allied governments to declare victory when a particular terrorist group such as Jemaah Islamiyah is taken down, many of the movements from which terrorists and insurgents spring—notably Islamic fundamentalism and ethnic separatism—adopt the long view. They have waited decades. They can wait decades more.

In any case, the United States’ levers for influencing what goes on in Southeast Asia are limited, and whatever policies it adopts must take this into account. Unlike in Northeast Asia, where the U.S. stations tens of thousands of military personnel on the soil of treaty allies, the U.S. footprint is very small in Southeast Asia – the only U.S. military deployments with more than 100 personnel are in Singapore and the Philippines.48 The region’s strong attachment to both the legal particulars and symbolic aspects of national sovereignty and non-interference also makes direct U.S. military and even political interventions difficult. This was evidenced by the U.S. Navy’s suggestion that it might patrol the Malacca Strait in 2004 to protect against pirates and generally keep the sea lanes of communication secure. The offer was rebuffed quickly and forcefully by Malaysia and Indonesia in particular.49 The question thus becomes how the U.S. can
protect its interests in fighting terrorists across the region in a way that will not offend regional government sensitivities but still be effective in achieving U.S. goals.

In the past decade, U.S. aid programs to Southeast Asian countries have been focused on political, economic, and military capacity building. In Indonesia, for example, USAID provides funding for rural sector economic growth, election transparency and monitoring, health care, education, and environmental conservation. The State Department has allocated millions of dollars to train and equip the Indonesian police counterterrorism unit, Detachment 88. In 2005, after years of non-cooperation due to the Indonesian military’s behavior in East Timor, the Pentagon reinitiated training of Indonesian military personnel through the International Military Education Training program, with arms sales returning in 2006 and relations with Kopassus, the Indonesian special forces, restarting in 2010. With U.S. support, the Indonesian police’s Detachment 88 has had measurable success in hunting down active terrorists, while USAID’s programs have been focused on ameliorating health, economic, agricultural, and educational problems concerns that affect developing countries. No current U.S. programs should necessarily be eliminated, but in the long term, the U.S. can create new programs to maximize their effectiveness both in developing certain areas of Southeast Asia and in diminishing the ability of terrorist groups to operate in the region.

Simply dumping more money into state capacity-building programs is not the answer. While many national and local governments in the region lacks resources, as the case studies demonstrate, local governments in particular respond to realities on the ground in the ways that they do because their priorities are different than the national government – they are seeking to creatively solve problems that were in some cases created by national government policies. For programs that are designed to deal with both economic development and counterterrorism, the U.S. should target its aid at border areas with a history of terrorist operations, or areas with illicit commerce that could aid terrorists in the future. In Southeast Asia, this might include the two regions covered in this paper as well as the Malaysia-Thailand border, and the Sabah-Philippines-Kalimantan Timur triangle.

Because of the inherently transnational nature of the networks that cross the border, the U.S. would do well to restructure program staff to avoid single-country stove-piping,
and encourage engagement with multiple countries simultaneously, such as the Philippines and Indonesia in the Mindanao-Sulawesi Utara border area. Aid would be focused not only on border security, or even primarily on border security (more border guards, for instance, just means more opportunities for rent-seeking), but on decreasing transaction costs associated with the use of formal political and economic institutions in border areas. This could include such measures as targeted anti-corruption campaigns, and streamlining and increasing transparency in bureaucratic procedures (which is especially important for the customs and immigration bureaucracies), and sponsoring programs that would encourage formal and informal ties among officials on both sides of the borders.

The U.S. could also promote lower tariffs through free trade agreements with regional governments and perhaps even attempt to negotiate multilateral agreements targeted at specific commodities for which a tariff would otherwise create a gray or black market, such as rice and oil. The U.S. government might also provide incentives for U.S. companies to invest in the border areas of Southeast Asia. The downside of such a policy is clear: foreign companies have occasionally become targets for terrorists and insurgents, such as GAM’s attacks on Exxon facilities during its insurgency, and the security threats against Freeport Gold in Papua. At the same time, contact with Western business practices and their expectations of transparency and formal contracts may habituate local Southeast Asian transnational commercial networks to Western norms, just as the overseas Chinese (huaqiao) business conglomerates that arose in Hong Kong and Southeast Asia after World War II have gradually become more formalized as they compete in the global marketplace.

Finally, the U.S. can refocus and expand its funding and counterterrorism training to local police in border areas. The purpose would not be to recreate a national-level Detachment 88 in local areas – in fact, local police departments in Indonesia already have counterterrorism units. Rather, where Detachment 88 functions essentially as a national-level SWAT team and investigative unit, local police in border areas could be trained to take advantage of their knowledge of local political and economic conditions to identify and fix (where appropriate) long-term weaknesses in border enforcement and trans-
border commercial networks that could be used by terrorists to move people and goods into and out of the country.

While the U.S. does have some leverage in the financial resources and military expertise associated with fighting active terrorists that it can provide to its friends and allies in the region, in all cases, its influence is limited. The United States must tread carefully, with targeted programs and offers of help, if it is to be effective in pursuing its security objectives in Southeast Asia. The good news is that terrorist groups are dependent on illicit networks in many regions, and a more nuanced understanding of how terrorist organizations and illicit economies are intertwined can increase the efficiency of counterterrorism operations and mitigate the negative economic and political consequences of crackdowns, all while encouraging economic development.

1 See, for instance, the astonishing growth of AirAsia and its various subsidiaries.


4 Angel Rabasa et al., “Ungoverned Territories: Understanding and Reducing Terrorism Risks,” (Santa Monica, CA: RAND, 2007). Discusses in a chapter on the Philippines the lack of control the central government exercises over large parts of the southern islands.


Matthew Spa
ter et al., “Triangulating the Borderless World: Geographies of Power in the Indonesia–
Malaysia–Singapore Growth Triangle “ Transactions, Institute of British Geographers 29, no. 4
(December 2004): 485-98.


Author Interview, Buddhist Pandita, Jakarta, Indonesia, June 2004.

Author Interview, Chinese-Indonesian Smuggler, Batam, Indonesia, August 2005.


Author Interview, Riau Islands Provincial Police Official, Batam, Indonesia, November 2005.

Ibid.

Michele Ford and Lenore Lyons, “Travelling the Aspal Route: Grey Labour Migration through an
Indonesian Border Town,” in The State and Illegality in Indonesia, ed. Edward Aspinall and Gerry van

Ibid. See also Michele Ford and Lenore Lyons, “Smuggling Cultures in the Indonesia-Singapore
Borderlands,” in Illeg al but Licit, ed. B. Kalir and M. Sur (Amsterdam: Amsterdam University Press, In
press).

International Crisis Group, “Jemaah Islamiyah in Southeast Asia: Damaged but Still Dangerous,”
(Jakarta: International Crisis Group, 26 August 2003); Justin V. Hastings, No Man’s Land:
Globalization, Territory, and Clandestine Groups in Southeast Asia (Ithaca and London: Cornell

Justin Magouirk, Scott Atran, and Marc Sageman, “Connecting Terrorist Networks,” Studies in Conflict

Hastings, “Geography, Globalization, and Terrorism: The Plots of Jemaah Islamiyah.”


“The Jemaah Islamiyah Arrests and the Threat of Terrorism.” (Singapore: Ministry of Home Affairs, 7
January 2003); “Singapore Government Press Statement on Further Arrests under the Internal Security

“Surat Pernyataan Hashim Bin Abbas,” (Singapore: Kepolisian Negara Republik Indonesia, 30 March
2002.), pp. 4-5.


“Surat Pernyataan Ja’afar Bin Mistooki,” (Singapore: Kepolisian Negara Republik Indonesia, 4
September 2002.), pp. 2-4.


25


31 Ibid., p. 111.


33 Romdiati, “Perdagangan Ilegal Dan Mobilitas Penduduk Di Wilayah Perbatasan.”, p. 112.

34 Ibid., 115.


37 Nasir Abas, Membongkar Jamaah Islamiyah: Pengakuan Mantan Anggota Ji (Jakarta: Grafindo, 2005).


39 Ibid., pp. 20-21.

40 Abas, Membongkar Jamaah Islamiyah: Pengakuan Mantan Anggota Ji., p. 143.


46 See, for example, Ibid.


53 Author Interview, Political-Military Analyst, Jakarta, December 2009.