

# Impact of Demonetization on Terrorism

Pinky Rajwani\*

Research Scholar, Institute for Excellence in Higher Education, Bhopal

**Abstract – The conceptual paper is based on demonetization and its impact on terrorism. As demonetisation is hottest topic currently in Indian economy. It has huge scope for research from all the dimensions and aspects. The paper is based on its influence on terror financing and fake currency in India. There are various benefits as well as drawbacks in this revolution in currency system in India but looking at the present scenario the most challenging task in front of government is the gaping chasm between our legal and illegal economy had reached an alarming state where the anti-national elements ranging from corrupt officials and tax evaders to state sponsored terrorists had a free run through India's security system. Among others, demonetization has badly affected terror financing in the country. Underground operatives always store money in the form of big currency notes, and the most effect of demonetization is on those who had huge reserves of notes for unknown reasons or ventures.**

**It is also a great step to curb the circulation of fake currency notes in India and those terror funding modules. This will prove as a severe blow and for a few years India will get relief from such anti social activities. The paper is focused on the insight of present and future of terrorism and its financing taking into consideration demonetization. There is a difference in long term and short term impacts because situation will be different with the increase in online transactions and awareness in people regarding digitization. Not only has the move to demonetize the higher currency note dealt a massive blow to the Kashmiri terror industry, it has also stunned the suspicious 'human rights activists and civil society groups' acting as apologists for terror activities who will now face a tough time in explaining the sources of their income and assets.**

**Keywords – Demonetization, Digitization, Terrorism, Fake Currency, Financing, Dimensions.**

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## INTRODUCTION

Demonetisation is the act of stripping a currency unit of its status as legal tender. It is necessary whenever there is change of national currency. The old unit of currency must be retired and replaced with a new currency unit. There are multiple reasons for a nation to demonetize their local units of currency. Some reasons include combating inflation, to combat corruption, to discourage cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

In 2016, the Indian government decided to demonetise the 500 and 1000 rupees notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's role was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy.

One of the major reasons why Prime Minister Narendra Modi decided to go with demonetization was

the rising number of fake **currency notes in India** that were circulated. During his speech on 8<sup>th</sup> November, he said that fake **Indian notes** were majorly used for funding terrorist activities and are also produced elsewhere. Someone had to take a bold step. Many experts still think that demonetization will only eliminate the problem of fake **currency notes in India** for a small period of time. Even after the new 2000 rupees **Indian notes** were officially released for circulation, several cases have been reported that people have already started printing fake currencies. Unfortunately the people who fall prey to this problem are those who are living in villages and do not know anything about the various security features that the notes come with. The first step would be to educate the masses about how to identify fake **currency notes in India**.

## Finance of terrorism in India:

There are four essential elements needed by terrorists and organised crime groups to achieve its objectives – mobility, logistic bases, communications and financing. The finance of terrorism in India follows a hybrid model, which includes terror funding

from within and beyond the country's borders. An assessment of past cases that have come to light suggests that terrorists have employed a variety of channels to fund their activities. There are various forms such as **tactical terror financing, operational terror financing and counterfeit currency**.

## OBJECTIVES

1. To study the impact of demonetization on terrorism.
2. To give suggestions for further improvement against terror funding.

## RESEARCH METHODOLOGY

The paper is descriptive in nature. The data required for the study is mostly collected from secondary sources such as newspaper, research papers and articles, related websites, journals and magazines.

## LITERATURE REVIEW

**Tax research team, (2016)** in their working paper no.182 "DEMONETIZATION : IMPACT ON THE ECONOMY", have focussed on the short term, medium term and long term impact of demonetization on our economy. It also highlights the influence of such a great step on the availability of credit, spending, level of activity and government finances.

**Rahul Prakash Deodhar, (2016)** in his paper, "BLACK MONEY AND DEMONETISATION", presents the effect of demonetization on black money , corruption, terrorism in India. Other related aspects are also highlighted in this paper.

**Vedashree Mali, (2016)** in his paper "DEMONETIZATION: A STEP TOWARD MODIFIED INDIA", has discussed about the move of demonetization taken by Central Government of India with respect to its reasons and effects on different sectors in India like micro businesses, E-Wallets, online retail stores, etc.

**Rahul Deodhar,(2016)** in his paper "BLACK MONEY AND DEMONETIZATION", has well-explored the issue of black money. The paper gives a broad spectrum of mechanism to deal with black money and illegal activities.

**Anil I Ramdurg, Dr. Basavaraj C S, (2016)** in his paper, "Demonetization: Redefining Indian Economy", has made an attempt to access how the tool of demonetization can be used to eradicate parallel economy.

## DEMONETISATION AND TERRORISM

Prime Minister Narendra Modi's decision to demonetise Rs. 1000 and Rs. 500 may have caused inconveniences to the people, but the move has

eventually halted all terror operations, especially in parts of Kashmir Valley where nearly Rs.3000 crore of hawala money in circulation is of 'no use'.

The revolutionary decision by the government will also lead to a major shift in the terror infrastructure management and change the character as well as nature of terror funding in the country. The terrorism industry is now reeling under the impact of Modi's attack on black money. The government also needs to be aware that ISI backed by the Pakistan government has started printing Rs 100/ 50 notes as they did in the past.

## IMPACT OF DEMONETIZATION ON TERRORISM

There are some major facts regarding the effects on demonetization on terror funding and extremist of funds:-

### 1. A SURGICAL STRIKE ON TERROR FUNDING

It is proved to be Modi's surgical strike on black money, terror funding, fake currency, drug money and other anti-legal activities of people.

### 2. 'HAWALA' CASH TRANSFERS HIT

The most commonly used method of transferring value remains hawala in the Indian context, especially by Pakistan and Pakistan based terror groups which have been fuelling, funding and coordinating terrorism in Jammu and Kashmir (J&K) as well as through the IM. This does not involve the physical movement of cash across borders, but through the employment of hawaladars or hawala agents to collect and disburse money across different countries and continents. However, they will have the maximum impact by demonetization.

### 3. NEW NOTES RECOVERED FROM TERRORISTS

Freshly minted Rs.2000 notes were recovered from bodies of terrorists who'd been gunned down in an encounter with security forces in Jammu and Kashmir.

### 4. SPREAD OF COUNTERFEITS

According to survey of national investigation agency (NIA), Rs.70 crore fake notes were pumped into economy every year. Demonetization will affect circulation of this currency and will further result into severe decreasing of terror funding. It will be a blow to the main sponsors of fake currency, Pakistan and Wahabi groups. Many of their operators and sleeper cells here have fake currency. It will be a great blow now and for a few years.

## **5. CURBING TERROR FUNDING FROM 'HOSTILE INTELLIGENCE AGENCY'**

Demonetisation - in addition to stamping out black money in India - would make void fake Indian money printed by "hostile intelligence agencies" - an obvious reference to Pakistan's Inter Services Intelligence - and used to finance terrorist activity in India.

## **6. LEFT -WING EXTREMISM**

According to intelligence inputs, Left-wing extremism has been hit hardest by the currency ban. Upto 584 Maoists have surrendered in the last 28 days, and 469 of them, the day on which the Rs 500 and Rs 1000 notes were demonetised.

## **7. INCREASED SURVEILLANCE IN NAXAL-INFECTED AREAS**

Government agencies have now increased surveillance of financial transactions in Naxal-infested regions, and security forces are on alert after receiving intelligence inputs that Maoists may target banks and cash vans.

The Indian economy is one of the fastest growing economies in the world, but still it suffers from issues like black money, corruption, terrorism, illicit wealth, etc. To break the grip of these anti -social activities the idea of cashless economy is very appealing, as most economic transaction would be part of the formal system and easy to track. It is a very big challenge to strengthen the digital infrastructure of banks. Most importantly the crime rate in India will be decreased and there will be a well organised monitoring system in the economy.

## **SUGGESTIONS**

### **1. TRANSPARENCY**

Two of the most vulnerable sectors that have traditionally been exploited for parking crime proceeds and black money is the property, and gems and jewellery market. These sectors have also been used for the temporary investment of terror funds. Unless transactions are made transparent and reflect real market value, black money and terror funds will continue to find their way into these businesses.

### **2. INSPECTION**

Fake currency can potentially be reintroduced into India after a break by Pakistan. In order to sustain action, enhanced detection measures at public sector banks should be put in place. A forensic cell should be established to monitor each case of counterfeit currency to better understand the technology being applied to counterfeit notes. This must contribute to

future measures to enhance security against counterfeiting.

## **3. DIGITIZATION**

Demonetisation provides an opportunity to encourage a shift to a digital economy. This is an essential requirement to not only reduce corruption but also create an electronic trail for transactions. This will help bring transparency into the financial transactions of individuals and organisations thereby constraining corruption, criminal proceeds, money laundering and the finance of terrorism, which are all linked given the common channels employed for transferring funds. Suitable measures should be put in place to shield our digital economy.

## **4. AUDITING**

A large percentage of funds have been routed through NGOs in West Asia, especially in case of Kashmir. The government should make it clear that each institution receiving funds must register itself and seek clearance for receiving funds from foreign sources. The controlling group of the NGO or establishment receiving money should be clearly established. A government panel of chartered accountants should audit the accounts of these NGOs.

## **5. INTELLIGENCE AGENCIES**

The finance of terrorism should become a priority area for intelligence and enforcement agencies. There should be Anti-Terror operations and neutralising terror elements posing a threat to India.

## **CONCLUSION**

Demonetisation is not a complete and all-encompassing end in itself. It is part of a process which must be taken forward through additional allied and subsidiary policies. There is a need to take interlinked steps and it is only the sum of these individual initiatives that can impact the larger fight against the financing of terrorism.

Demonetisation is an important step in the fight against the finance of terrorism. However, it should neither be the first nor the last, if the interlinked threats of corruption, crime and the finance of terrorism have to be controlled. These must also not be addressed simply within departmental and ministerial silos. Instead, an all-of government approach is imperative if each of these challenges is to be met.

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### Corresponding Author

**Pinky Rajwani\***

Research Scholar, Institute for Excellence in Higher Education, Bhopal

E-Mail – [rajwani40@gmail.com](mailto:rajwani40@gmail.com)