

An Analysis of Regulatory Pathways for Counter-Terrorism in the Financial Sector

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Abstract: In recent years, terrorism has gradually come into view, and the violence, fear, and insecurity it brings has had a profound impact on global society. At the same time, the background of economic globalization has created favorable conditions for the effective allocation of global resources while also facilitating the financing of terrorism. In order to fully implement the national security concept and adhere to the overall national security concept, this paper, based on data statistics and literature, analyzes the limitations of China's current financial counter-terrorism process and attempts to explore feasible regulatory paths in five aspects: international cooperation, legal system, strengthened supervision, sanctions, and livelihood protection. This aims to deepen public awareness of financial counter-terrorism, guide society in jointly maintaining financial order and national security, and promote peaceful development.

Keywords: Anti-Money Laundering, Counter-Terrorism Financing, Financial-Related, Targeted Financial Sanctions

1. Background

In today's world, peace and development have become the defining themes of the era and common aspirations of the international community. Against the backdrop of growing public awareness of national security, both terrorism and counter-terrorism have increasingly gained prominence in governmental and public discourse worldwide. Terrorist activities not only generate instability and destruction in localized contexts but also pose global threats. The advancement of economic globalization has boosted international financial exchanges, while

financial innovation and trade liberalization have together enhanced the openness and efficiency of global economic cooperation. However, these developments have also facilitated financing of terrorism, providing operational funds for terrorist activities.

Operating within increasingly sophisticated financial ecosystems, terrorist organizations have exploited telecommunications fraud, money laundering, corruption, and other illicit financial activities camouflaged as legitimate fronts, thereby masking their true terrorist objectives while securing substantial funding streams. On the one hand, these actions undermine the healthy functioning of the financial system; on the other hand, they pose severe threats to the financial and national security of various countries. The Financial Action Task Force (FATF) has strengthened multilateral cooperation between governments and relevant financial institutions through counter-terrorism financing measures, including the supervision of cross-border payments, combating financial crimes, and countering financing of terrorism.

2. Current Situation and Limitations in China

To uncover potential terrorist objectives concealed behind financial crimes, sever the channels of terrorism financing, thereby depriving terrorist organizations and individuals of operational resources, and ultimately curbing the occurrence of terrorist activities. China actively engages in global counter-terrorism financing efforts through intergovernmental collaboration and information exchange with relevant financial institutions and designated non-financial institutions. Under the current circumstances, China attaches great importance to counter-terrorism financing, regarding the decisive battle against financing of terrorism as a strategic measure to forestall and defuse major

risks. At the legislative level, alongside the enactment of the Counter-Terrorism Law, China has also incorporated provisions concerning terrorism financing into the Criminal Law, the Securities Law, and the Company Law. At the societal level, strict law enforcement, vigorous crackdowns on financial crimes, and intensified public campaigns against fraud and terrorism have collectively yielded a series of positive outcomes.

Since the 9/11 attacks in the United States, global counter-terrorism efforts have entered an entirely new phase. Although counter-terrorism financing serves legitimate and necessary objectives, China's efforts in this field continue to face challenges both domestically and internationally due to its large population base, the massive volume of information flows, and diverse channels of capital circulation. Moreover, the legal framework governing financial cases related to counter-terrorism still exhibits certain limitations [1].

2.1 Deficiencies in the Legal and Regulatory Framework

On the surface, the definition of terrorism financing appears to be merely a semantic issue, but in essence, it reflects a clash of different ideologies. This indicates that whether a particular financial activity is regarded as terrorism is, to some extent, influenced by our value stance, making it difficult to determine the nature of terrorism financing. China's Counter-Terrorism Law clearly defines terrorism and terrorist activities; however, terrorism financing constitutes only an upstream link in the terrorism chain. The Criminal Law regulates "acts of providing information, funds, materials, services, technology, premises, or other forms of support, assistance, or facilitation for terrorist activities". In practice, however, it does not clearly specify the identity of those providing such facilitation or the circumstances under which it occurs. For those who provide facilitation, there remains the question of whether they should be regarded as accomplices. For those who unintentionally provide facilitation, due to not knowing or not being expected to know the consequences of their actions, it remains challenging to assess the legitimacy and lawfulness of their omissions.

Secondly, the transparency of beneficial ownership information for legal persons and legal arrangements remains insufficient.

According to the 2019 Mutual Evaluation Report on Anti-Money Laundering and Counter-Terrorism Financing Measures in the People's Republic of China issued by the Financial Action Task Force (FATF), China's current measures to ensure transparency of beneficial ownership still fall short of the FATF's international standards [2]. Furthermore, the lack of mandatory beneficial ownership registration for companies and partnerships in certain financial activities increases the difficulty of tracing terrorism financing chains.

2.2 Abuse of Financial Instruments and Insufficient Technological Countermeasures

In the context of financial globalization, a wide range of financial instruments continue to emerge, and the channels for capital transfer are becoming increasingly diversified. Organized transnational financial terrorism is increasingly facilitated by telecom fraud, making effective monitoring challenging. Even with surveillance, inherent latency allows perpetrators to transfer funds via bulk cash-outs within minutes and "disappear" from electronic accounts. At the same time, some terrorist operatives exploit legitimate financial instruments to conduct illicit fund allocations, thereby evading monitoring. The reduced restrictions on cross-border capital flows provide terrorists opportunities to transfer and conceal illicit funds. Through the use of virtual currencies, offshore accounts, shell companies, and other complex financial instruments, they can obscure the trails of financial crimes, making detection and enforcement increasingly challenging.

With the development of technology, criminal and terrorist organizations have gradually become adept at using emerging technologies for fund allocation and transactions. As the world's second-largest economy, China faces massive cross-border capital flows that are increasingly technology-driven. This has significantly complicated domestic counter-terrorism financing supervision and emphasizes the need for more effective cooperative mechanisms to address diversified channels and highly concealed fund movements. It also poses significant challenges to the monitoring efforts of relevant financial institutions [3].

2.3 Informal Channels and Concealment Techniques

While the government and financial institutions have implemented a series of measures to restrict terrorism financing through formal channels, fund flows still occur via informal channels, such as cash transactions and underground banking. These channels enable terrorists and organizations to allocate funds more covertly, often using false identities or concealing their true intentions [4].

Secondly, criminals and terrorists often disguise illicit fund flows as legitimate transactions. Despite China's sector-wide intensification of counter-terrorism financing measures, these operatives maintain stringent operational security—commingling proceeds from predicate crimes with legitimate funds through account transfers, or laundering illicit assets via lawful business transactions to recover client payments. Particularly in cases involving large-scale project contracts, multi-layered labor outsourcing, and multi-layered distribution of goods, such transactions make it extremely difficult to trace the true source of illicit funds, even if an intermediate electronic account is flagged or frozen.

Furthermore, terrorist organizations not only obtain funds from enterprises under their control (though not directly managed by them), but also secure “donations” from entrepreneurs sympathetic to their cause. Since the 1990s, such “donations” have become a primary source of terrorism financing. Historical cases indicate that a wide range of enterprises may serve as donors to terrorist organizations, including oil companies, construction firms, agricultural producers, agents, trading companies, restaurants, hotels, and others [5]. Notably, non-governmental organizations and businesses sharing ideological affinities with such groups are particularly prominent.

Certain terrorist organizations also exploit religious extremism to impose doctrinal moral constraints on their followers, systematically distorting their ethical standards into warped interpretations of religious teachings. This indoctrination leads them to internalize terrorist activities as sacred duties and obligations, thereby weakening social norms and psychological restraints that would otherwise inhibit their participation. Once a certain level of public support is established, terrorist organizations leverage the engagement and initiative of religious figures in charitable activities, using the pretext of conducting

various “religious” events to solicit donations for their operations. The Quran explicitly establishes zakat as a religious obligation for every Muslim, requiring the donation of 2.5% of annual income to mosques or Islamic charitable institutions. Terrorist organizations may exploit similar mechanisms to illicitly obtain funds or “contaminate” public donations from charitable institutions or other social groups.

The existence of these illicit channels, coupled with sophisticated concealment techniques in fund flows, poses significant challenges for China's government and financial institutions in monitoring, tracking, and intercepting terrorism financing activities.

2.4 Insufficient International Cooperation

Due to the transnational nature of financial crimes, individual nations often lack sufficient capacity to respond effectively. Although international financial institutions encourage enhanced information sharing and cooperation among member states, such efforts remain constrained by political, security, and other considerations.

2.4.1 Divergences in legal and institutional frameworks

Ideological divergences result in varying national standards for defining terrorism and designating terrorist organizations. Based on definitions of terrorist crimes across multiple countries, there is broad consensus on three core characteristics: the violent nature of the acts, the indiscriminate scope of targets, and the resulting public fear. However, regarding aspects such as the underlying motives and the identity of perpetrators, interpretations vary according to differing ideological perspectives. Moreover, countries face varying levels of threat from terrorist activities, which leads to significant differences in the formulation of counter-terrorism laws, the prioritization of measures to suppress terrorist actions, and strategies for preventing and combating terrorist organizations. Divergences in legal and institutional frameworks across nations create substantial challenges for coordination and enforcement in transnational counter-terrorism efforts. Terrorists and terrorist organizations may exploit these legal discrepancies to evade monitoring and enforcement. Additionally, China's distinctive socialized financial system differs from those of other countries, providing opportunities for terrorists and terrorist

organizations to exploit these systemic differences for raising and transferring funds. In this context, China's regulatory and enforcement mechanisms for countering illicit financial flows remain constrained and lagging behind international standards, potentially enabling terrorist organizations to expand their operational space.

2.4.2 Ideological confrontation

Differences in the definition of terrorism and in the intensity of counter-terrorism efforts are not confined to semantic issues, but rather manifest in practical conflicts between divergent ideological perspectives. The classification of a particular event or organization as terrorism is largely determined by political standpoints. Moreover, sanctions and countermeasures against specific terrorist organizations are, to some extent, affected by Western hegemonism and power politics. Influenced by political factors, China has made some progress in enhancing intelligence collection and monitoring cross-border capital flows, but challenges of inadequate communication and delayed information sharing persist. As the world's second-largest military power alongside the United States, China-US relations have consistently drawn extensive global attention. However, in recent years, the United States' ambiguous stance on counter-terrorism, its double standards, and its insistence on launching a trade war against China have all constituted substantial obstacles to financial counter-terrorism cooperation. Certain Western countries place a high priority on ideological confrontation and the pursuit of hegemonic positions in international politics, imposing unwarranted pressure and criticism on China across military, technological, political, economic, and human rights domains. On one hand, they covertly attempt to undermine the unity and amicable relations among China's ethnic groups; on the other hand, they systematically cast aspersions on China's human rights protections. Prolonged ideological confrontation has significantly impeded the timely exchange of financial counter-terrorism intelligence between China and these countries, resulting in delays in preventing and countering certain transnational terrorist activities.

3. An Analysis of Regulatory Pathways

The preceding analysis indicates that the issue of counter-terrorism financing in the context of

financial globalization remains complex and pressing. In light of the aforementioned difficulties and challenges, this section undertakes a preliminary exploration of feasible regulatory pathways for addressing the financial dimension of China's counter-terrorism efforts.

3.1 Enhancing International Cooperation and Information Sharing

Given the transnational nature of counter-terrorism financing, no single country can effectively address this challenge independently. Therefore, international cooperation and information sharing are essential for combating cross-border financial crimes and countering terrorism financing. When confronting terrorist crimes, countries should set aside unnecessary political hostilities. In this context, under the guidance of the United Nations, a unified legal framework and standards should be established to enhance cooperation; develop closer intelligence-sharing mechanisms; share information and intelligence; and create more joint investigative teams and information-sharing platforms to track global financial flows. In addition, certain major Western powers should abandon discriminatory practices and ideological prejudices against China, including the fallacious assertion that "China constitutes a primary source of terrorism", and should also cease unfounded smear campaigns and suppression in various domains. In today's world, where terrorism spreads globally, forsaking erroneous notions such as political unipolarity, trade protectionism, unilateralism, and cultural hegemonism, while promoting transparency in global illicit financial flows, constitutes an effective approach to addressing the complex and multifaceted challenges of financial terrorism.

3.2 Improving the Legal Framework and Institutional Mechanisms

China should, in accordance with the requirements of international conventions and the practical needs of countering terrorism financing, promote the gradual improvement of criminal legislation related to terrorism financing offenses. Relevant government authorities and financial institutions should also aim to effectively prevent and control the risks of terrorism financing, continuously advance the optimization of the anti-money laundering regulatory framework, and strengthen risk

management for both anti-money laundering and counter-terrorism financing [5,6].

3.2.1 Integrating anti-money laundering with counter-terrorism financing

Given the high correlation between terrorism financing and money laundering, legislation on counter-terrorism financing should be integrated with relevant anti-money laundering laws and regulations, with particular emphasis on revising the legal frameworks related to anti-money laundering. Drawing on FATF's survey reports, this paper identifies several regulatory pathways that require further improvement [7]:

(1) Expanding information sources for money laundering and terrorism financing risk assessments: Legislation should require that legal entities and legally designated beneficial owners register their ownership with designated financial institutions or relevant government authorities in situations where illegal fundraising may occur, such as securities trading or corporate mergers and acquisitions, thereby enhancing the transparency of beneficial ownership information [8].

(2) Enhancing the regulatory frameworks for the "Three-Anti": Efforts should be intensified to combat money laundering and terrorism financing offenses. In accordance with the international conventions China has acceded to and the international standards it has committed to implement, research should be conducted on expanding the scope of predicate offenses for money laundering. Relevant law enforcement agencies should enhance their focus on money laundering crimes in investigating cases, using financial intelligence, and cooperating internationally, and, through anti-money laundering measures, trace the complete chain of illicit funds from downstream to upstream, covering the entire flow from the back end to the front end.

(3) Enhancing the timeliness of international cooperation: Improve the enforcement mechanism for the United Nations Security Council's targeted financial sanctions, thereby minimizing delays in the dissemination of resolutions regarding obligated parties, the scope of obligations, and covered assets. At present, China faces a legislative gap in the implementation of the United Nations Security Council's targeted financial sanctions resolutions. In practice, enforcement often relies on seeking a legal basis within existing

domestic laws and is primarily undertaken through administrative measures. However, conveying sanction requirements in the form of administrative documents neither possesses legal force nor provides sufficient binding authority, and thus fails to constitute a sustainable mechanism. Accordingly, expediting legislative improvements to establish a robust enforcement framework for financial sanctions in the international context is of considerable significance.

3.2.2 Enhancing the protection of human rights

Due attention should be given to potential administrative law issues that may arise in handling financial cases within counter-terrorism efforts, so as to prevent the impairment of the justice objective and to effectively safeguard human rights. Consequently, given the particular nature of terrorist crimes, extraordinary financial countermeasures must be implemented, including but not limited to the tracking and reporting of suspicious transactions and the freezing of suspicious accounts. These measures not only conflict with the principle of customer primacy upheld by financial institutions, but may also, to some extent, threaten clients' right to privacy and undermine investment confidence. Therefore, in handling financial cases, the legislature should establish clear and operable provisions regarding the authority for determination. Meanwhile, administrative and judicial authorities, as well as regulatory bodies such as the central bank, should enhance their capacity for information monitoring and analysis, rigorously screen and verify intelligence, minimize errors, and identify "terrorist funds" as accurately as possible. In this way, the likelihood of infringing upon citizens' right to privacy can be reduced to the minimum, thereby safeguarding their legitimate rights and interests.

3.3 Strengthening Oversight and Technological Innovation

As an important approach to addressing transnational terrorism financing, regulatory authorities should strengthen oversight of the non-traditional financial sector, enhance the detection of suspicious transactions, intensify investigations in the financial sector, and improve financial institutions' capacity for risk prevention. Regulatory frameworks and relevant legislation should be improved by establishing

stricter oversight mechanisms in areas such as internet finance and charitable organizations, so as to prevent terrorist organizations from raising and transferring funds through illicit means [9]. Furthermore, oversight and cooperation concerning cross-border capital flows should be strengthened by signing more agreements with other countries on anti-money laundering and counter-terrorism financing, enhancing information sharing and risk assessment, and establishing a more effective cross-border capital supervision mechanism.

At the same time, technological innovation plays a crucial role in combating transnational terrorism financing. For example, technologies such as artificial intelligence, big data analytics, and blockchain can be applied to monitor financial crimes and trace suspicious fund flows, thereby improving the efficiency and accuracy of financial counter-terrorism efforts. Additional measures can also be implemented to prevent and combat the illicit funding sources of terrorist organizations, including requiring financial institutions to conduct customer due diligence, implement anti-money laundering measures, and report suspicious transactions. Moreover, by developing and applying technological solutions, an early-warning mechanism for financial flows can be established to detect suspicious transactions and enable rapid responses. This helps to identify and prevent the financing activities of terrorists at an early stage, thereby protecting public safety.

3.4 Implementing Targeted Financial Sanctions

Targeted financial sanctions refer to measures by which a state restricts the “flow” of funds to specific entities or individuals in order to achieve the objectives of economic sanctions. These sanctions are typically imposed by international organizations such as the United Nations, as well as by the United States and other Western countries, targeting other states, economic entities, or individuals.

3.4.1 Expanding the scope of targeted financial sanctions

Firstly, the targets of financial sanctions implemented by China’s administrative authorities for counter-terrorism financing and anti-money laundering mainly include financial institutions, non-bank payment institutions, and relevant individuals. These sanctions are often

one-off administrative fines with relatively small amounts and lack long-term effectiveness. The scope of targeted financial sanctions should be expanded to cover public figures, non-profit organizations, and certain non-financial sectors, accompanied by the establishment of legal norms specific to these types of entities. At the same time, penalties should be increased, and the system and mechanism of targeted sanctions should be improved to ensure their long-term effectiveness.

Secondly, the legislative gaps in the mechanism of targeted financial sanctions should be addressed to establish standardized and systematic regulations. The implementation rules for legal entities and ultimate beneficial owners should be accelerated to effectively fulfill international assessment and rectification requirements. General rules should be formulated for targeted financial sanctions to coordinate international alignment and domestic financial sector relationships. Substantive progress should be made in sanctions within the fields of counter-terrorism financing and counter-proliferation financing.

3.4.2 Improving the financial blacklist mechanism

In order to guard against and address financial risks arising from illicit fund flows and terrorism financing, while advancing the development of a credit system in the financial sector, China has established a financial blacklist mechanism [10,11]. The blacklist is issued by the National Development and Reform Commission and mainly includes lists of individuals with serious financial credit violations and entities involved in illegal fundraising. Entities included in the blacklist are restricted or prohibited from engaging in relevant financial activities. As one of the most effective regulatory mechanisms currently employed by China to combat terrorism financing, further improvement of the financial blacklist holds great significance.

(1) Establishing a fair and transparent designation mechanism: Clearly define the criteria and procedures for inclusion in the financial blacklist, specifying the detailed rules for listing, delisting, and querying entities. At the same time, clarify the rights, obligations, and legal responsibilities of relevant personnel. The designation results of blacklisted entities should be promptly disclosed for public supervision.

(2) Strengthening information sharing and joint disciplinary measures: Further efforts should be made to enhance information sharing and collaboration among government departments, regulatory agencies, and industry associations to form a unified regulatory force. A single administrative fine or transaction restriction is insufficient to achieve long-term punitive and deterrent effects on responsible parties. Joint disciplinary measures should be imposed across multiple aspects of their lives, including but not limited to restrictions on social insurance and other social benefits; political or eligibility reviews in their children's education and employment; suspension or revocation of professional qualifications; and restrictions on family members' entry and exit from the country.

(3) Improving remedy and appeal mechanisms: The inclusion of entities in the financial blacklist should, in accordance with the law, grant the parties concerned appropriate rights to remedies and appeals, and corresponding remedial mechanisms should be established to ensure that the legitimate rights and interests of affected parties are duly protected.

3.5 Improving People's Livelihoods

In addressing regional terrorism, in addition to implementing strict security measures, greater attention should be paid to tackling the root causes, such as enhancing economic development and improving people's livelihoods. From a legal perspective, ethnic consciousness should be de-emphasized, cultural diversity emphasized, and ethnic harmony promoted, in order to reduce the breeding ground for separatist forces and terrorism. Additionally, the government and certain non-financial institutions can also play a role in the fields of aid and development, helping underdeveloped regions improve socio-economic conditions and alleviate poverty and instability. Border regions should further intensify vocational and technical training for unemployed populations. By providing them with abundant employment opportunities, improving living conditions, and enhancing quality of life, the appeal of terrorism can be resisted.

4. Conclusion

In conclusion, in the context of globalization, it is imperative to recognize the profound threat

that terrorism poses to humanity as a whole, as well as the severe risks that terrorism financing presents to financial stability and national security. Illicit fund flows not only compromise the healthy development of the business environment and the financial system but also erode the economic foundations of states. Furthermore, transnational financial terrorism undermines international investor confidence, complicates cross-border cooperation, and contributes to volatility in the global economy. Therefore, the in-depth development of international financial counter-terrorism efforts requires broad participation and active cooperation from the international community. Effective financial regulation within China's counter-terrorism framework not only safeguards national security and domestic economic order but also facilitates the advancement of the new dual-circulation development pattern both domestically and internationally. By strengthening international cooperation and information sharing, improving the legal system and related institutional frameworks, enhancing supervision and technological innovation, promoting the establishment of China's targeted financial sanctions mechanism, and strengthening human rights—these five regulatory pathways collectively enhance China's efficiency in financial counter-terrorism efforts. By comprehensively employing political, economic, technological, legal, and social measures, it is possible to jointly combat the roots, networks, and operational groups of terrorism, thereby promoting the stability of the global financial order and peace worldwide.

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