Available online at www.sciencedirect.com
SCIENCE DIRECT®
Research in International Business and Finance 18 (2004) 115–127
RESEARCH IN INTERNATIONAL BUSINESS AND FINANCE
www.elsevier.com/locate/ribaf

Money laundering—a global obstacle

Bonnie Buchanan [a,b,*]

[a] *Terry College of Business, Department of Banking and Finance, University of Georgia, Athens GA, 30606, USA*
[b] *University of Melbourne, Faculty of Economics and Commerce, Department of Finance, Parkville, Victoria 3000, Australia*

Received 7 October 2003; received in revised form 1 December 2003; accepted 28 December 2003

Abstract

One of the biggest obstacles to maintaining an effective operating international financial system is money laundering. A global phenomenon and international challenge, money laundering is a financial crime that often involves a complex series of transactions and numerous financial institutions across many foreign jurisdictions. In addition, money laundering is also extremely difficult to investigate and prosecute. In this paper, I present a clinical examination of the money laundering process, the international extent of the problem and global efforts to introduce anti-money laundering measures and regulation in recent years.

Keywords: Money laundering; Financial crime; Corruption

1. Introduction

Globalization has certainly brought countries closer together through technological innovation and integration of financial markets. The ability to conduct trade has become substantially quicker and cheaper and the global financial system now operates on a 24 h basis. Globalization has also increased levels of cross border investment and brought about the transfer of technology, skills and knowledge across countries. Globalization has benefited participants not only in the legal economy, but also in the illegal economy as well.

Money laundering is a global phenomenon and an international challenge. As globalization has evolved, money launderers have been able to conduct their trade with greater

* Tel.: +1-706-542-3650; fax: +1-706-542-9434.
E-mail address: bbuchan@terry.uga.edu (B. Buchanan).

0275-5319/$ – see front matter
doi:10.1016/j.ribaf.2004.02.001

ease, sophistication and profitability. As new financial instruments and trading opportunities have been created and liquidity of financial markets has improved, it has also allowed money laundering systems to be set up and shut down with greater ease. Increased competition between borders has also compressed the associated transaction costs of money laundering.

Money laundering tends to allocate dirty money around the world on the basis of avoiding national controls, in that the tainted money tends to flow to countries with less stringent controls. Globalization has also improved the ability of money launderers to communicate, allowing them to spread transactions across a greater number of jurisdictions, thereby increasing the number of legal obstacles that may be put up to hinder investigations. Underground, or parallel, banking systems have also attracted the attention of law enforcement and regulatory agencies.

Recent concerns about money laundering have come from many quarters. For example, one concern before the introduction of the Euro was that during the changeover money launderers would attempt to change their tainted money into euros.[1] The Portuguese authorities initially refused to introduce the 500 € note because they argued it would facilitate the easy movement of dirty money. Between March and August 2001, Dutch authorities also cited a 10 percent rise in the number of reports of suspected money laundering. Similar increases in reported suspected money laundering cases were also reported in Finland and Sweden.[2]

Money derived from criminal activity, such as embezzled funds from foreign development assistance, has also given rise to several scandals in recent years, of which the most prominent involved the Bank of New York. The Bank of New York, one of America's oldest and largest banks and a leader in correspondent banking, became the focus of a money laundering investigation in 1999. From 1996 to 1999, between US$ 7 billion and 15 billion in Russian capital flight was allegedly laundered through the Bank of New York. Although the bank was not charged with any wrongdoing, the scandal seems to have occurred because of lax internal controls. Lax internal controls have also been attributed to the recent case at Merrill Lynch, where a former energy trader allegedly embezzled $ 43 million from the firm and laundered the money with the help of a Canadian offshore banking consultant.[3] It represents the largest employee theft from a financial institution in recent years.

Global money laundering imposes significant costs on the world economy by damaging the effective operations of national economies and by promoting poorer economic policies. As a result, financial markets slowly become corrupted and the public's confidence in the international financial system is eroded. Eventually, as financial markets become increasingly risky and less stable, the rate of growth of the world economy is reduced.

In this paper, I present a clinical examination of the globalization of money laundering. In the next section, I describe the money laundering cycle and the various techniques and tools utilized in the process. In Section 3, I detail the international extent of the problem. Global efforts to introduce anti-money laundering measures and regulation are addressed in Section 4 and Section 5 concludes.

---

[1] Tantam (2001).
[2] Helsinqin (2001).
[3] Evans (2003).