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## Mapping global money laundering trends: Lessons from the pace setters

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### ABSTRACT

This paper uses an exploratory data analysis tool to map countries according to key factors—internet penetration rates, brain drain, efficiency of legal system, and effective tax and financial systems on the incidence of money laundering. Pace setters and laggards in the pervasiveness of money laundering for 88 countries will be identified. The results indicate that pace setters have high development of internet adoption, low incidence of brain drain, sound legal, tax and financial systems, and low incidence of money laundering. From the study, key policy initiatives adopted by pace-setter countries to reduce money laundering activities were examined.

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### 1. Introduction

Globalization has given rise to new global economic interdependence with profound benefits and opportunities. The key drivers which enhance globalization are technology and innovation. These factors have resulted in a trend of growing openness and integration among economies in terms of trade and financial flow across the globe. However, these opportunities presented by technology and innovation have also created new sets of challenges. These include increased vulnerability to organized crimes and corruption. The Group of Eight (1999) identified organized crimes as the “dark side of globalization”.

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Organized crimes with particular focus on money laundering have become a global concern due to increasing integration of financial sectors. It has been recognized globally that to fight these crimes, effective measures should be implemented to deal with the technologically adept criminals who undermine the financial sector. If money laundering is left unchecked, it not only erodes the integrity of the financial sector but also the national security and thus the economic well being of the global community (Bartlett, 2002). Policy makers cannot ignore the extent of money laundering in relation to the overall economic activity, which has been estimated by the International Monetary Fund (IMF) to be approximately 2 percent of global gross domestic product. This gives rise to serious concerns on money laundering activities. In this context, the on-going efforts to deter money laundering have been given high priority by law enforcement agencies and financial regulators globally.

Over the past decade, various measures were undertaken by countries across the globe to deter money laundering activities. A comprehensive framework was put forth to identify the initiatives and strategies with which countries across the globe should comply, irrespective of the stage of development. Despite these efforts, the incidence of money laundering activities has gained momentum recently, more so in developing countries, resulting in mounting pressures to combat money laundering in these countries. Past studies failed to identify specific features eminent in countries that have low incidence of money laundering, hereafter referred to as the pace-setter countries.

This study uses an exploratory data analysis tool called Exploratory Bivariate Ordinal Benchmarking (EBOB) method (Nair, 2007) to identify these pace-setter countries that have low incidence of money laundering. Subsequently this study will examine the underpinning factors that could have attributed to the low incidence of money laundering. The findings of this study will provide lessons for the less successful countries, the laggards, to reduce the incidence of money laundering.

The rest of this paper is structured as follows. Section 2 provides the magnitude of incidence of money laundered globally. In Section 3 a brief review of the literature is provided. In Section 4 the methodology is discussed. The discussions of the results are presented in Section 5. Finally Section 6 provides the conclusion.

## 2. The magnitude of global money laundered

The impetus for combating money laundering has gained urgency due to the magnitude of money laundered globally. In fact, the International Narcotics Control Strategy Report (INCSR) (United States Department of States, 2007) classifies countries to determine the level of money laundering incidence into three categories, namely: jurisdiction of primary concern, jurisdiction of concern and other jurisdiction monitored. These categories are primarily based on the magnitude of money laundered and not on anti-money laundering measures. However, measuring the magnitude of money laundered has proven to be a difficult task due to the secretive nature of these illegal activities, which has been further exacerbated by the use of the internet as a medium of transmitting these monies. Nevertheless, there is an attempt by key international agencies and organizations to quantify the amount of money laundered.

Tanzi (1996) and the United Nations (1997) reported an estimate for money laundered to be around US\$ 300 billion to US\$ 500 billion per annum. In the 1998 IMF report, Camdessus estimated the global money laundered to be between 2 and 5 percent of global GDP amounting to between US\$ 600 billion and US\$ 1.8 trillion per annum (Camdessus, 1998). The US Drug Enforcement Administration (DEA, 2003) estimates that funds laundered for illegal purposes are more than \$600 billion per annum. The World Bank and IMF (2003) had placed an estimate of at least US\$ 1 trillion as the amount of money laundered annually. According to Lilley (2003) the amount of money laundered in the Asian region is estimated to be \$200 billion or one-fifth of the global total.

Amongst all these estimates, it is the IMF's estimate which has been quoted most in past studies. The IMF estimates that money laundering is around 2 percent of the global gross domestic product. All these estimates, though varied, highlight the seriousness of money laundered.

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