Strategies of money laundering

Money laundering is a serious global crime that has been occurring, as historians have noted, for roughly four thousand years. In China, the first instances of money laundering occurred when merchants engaged in trade that was sanctioned as illegal by the state. Merchants were forced to contrive a system that allowed them to conceal their profits from suspicious bureaucrats who would otherwise confiscate their wealth. Illegal profits were laundered by purchasing assets that could be easily transported out of China, converted into money and then invested back into businesses. Today, the reasons why criminals launder money, and the process by which this transpires, remains almost unchanged. It is difficult to place a definite number on the amount of laundered money in the global economy, however, estimates made in 2009 by the United Nations Office on Drugs and Crime put the figure at roughly $1. 6 trillion or 2. 7% of global GDP. Although it may be difficult to identify outright money laundering, due to the great lengths undertaken to hide an audit trail, the extraordinary amount of money moving through the global financial system does not go unnoticed and carries many social, economic and political implications that can be observed by local communities and national governments.

When criminals profit from committing a crime, the discovery of the profit can be used by law enforcement to establish a link to the perpetrator. Criminals must, therefore, disguise their source of illegal funds through a money laundering process, allowing them to hide from prosecution and use the money in the legal economy. Money laundering usually involves three stages, known as placement, layering, and integration.

Placement involves depositing illegal funds into the financial system. This can be achieved by smuggling cash across borders, using ' smurfs' to deposit into a bank on your behalf so as to comply with maximum threshold laws, loan repayment, purchasing gambling chips or placing bets, currency exchanges and blending funds with a legitimate business. The placement stage is the riskiest stage of the laundering process, as this is where suspicion is likely to be raised with officials.

Once funds have been placed in the financial system, the money is then ready to be layered. The objective of layering is to make it difficult for law enforcement to establish an audit trail. The layering stage is the most complex in the laundering process and is typically initiated by exchanging funds electronically through numerous offshore bank accounts and shell companies, which disguise the original ownership of the funds.

The final step of the laundering process is the integration of funds back with the owner; it is at this final stage that the returning funds will appear as legitimate. Again, avoiding suspicion is of crucial importance at this final stage and is commonly undertaken by purchasing luxury, financial, or commercial/industrial assets.

Money laundering provides a means by which criminals can benefit from their ill-gotten gains. This makes money laundering a serious issue at the center of global crime, which leads to many adverse economic effects on the wider population.

Money laundering can have numerous economic implications, which can cause instability and affect the financial security of states. As noted by John

McDowell, one of the main reasons why money laundering is a severe threat to the economy is because of the co-existence of illegal businesses, known as front companies, with legal businesses in economies. Front companies undermine the private sector because they have the ability to be ‘ subsidized’ by their inflow of dirty money, allowing their illegitimate business practices to provide prices that are equivalent or below production costs. The inflow of dirty money ensures a front company’s competitiveness in the economy and its longevity by pushing out law-abiding businesses. Front companies pose a serious problem for legitimate businesses, as the economic playing field is skewed in favour of illegitimate operations, and base market foundations on practices that are illegal and unsustainable.

The crime of tax evasion and money laundering are also interlinked, as income that is not paid in tax is effectively stolen from the state. Untaxed income can lead to a reduction in tax revenue for governments, which in turn can strain budgets and lead to cuts in much-needed government services. To cover the difference in the loss of tax revenue, it is often the honest citizens who must undertake the financial burden through higher taxes.

Laundered income often finds its way back into the economy in the form of asset investment. Criminals actively search for purchasable assets that allow them to retain their anonymity; often lax government regulation can facilitate such circumstances. Assets prices can become inflated and have painful knock-on effects for the rest of the economy. The luxury real-estate market is a common place to find such investments and many cities around the world have witnessed the distortion of housing prices due to the influx of laundered money. Again, a definite number is almost impossible to ascertain, however, numerous instances have been reported worldwide. Reports of dirty money inflating real-estate prices have surfaced at the National Crime Agency in Brittan who have commented: *“. that such is the scale of the problem of criminal money from overseas, it has artificially boosted London house prices.”* . In Miami, local housing market analyst Jack McCabe has seen first-hand the inflow of laundered money and has stated that *“ many people believe it could be a sizeable portion of the new condominium market in Miami.”* The Australian Transaction Reports and Analysis Centre has openly admitted that *“ laundering illicit funds through real estate is an established money laundering method in Australia”.* The inflow of dirty money artificially drives prices higher at the top of the market, as criminals pay in cash and often above the market average. Higher prices at the top of the market then trickle down to the wider real estate market, which results in inflated real estate prices in the economy. Inflated housing prices erode housing affordability for local residents and can cause a devastating situation for the wider economy if the dirty money were to cease flowing through. Laundered money undermines the value of assets by fooling individuals into perceiving that an asset holds more value than it is actually worth. This fake price signal can make assets that are exposed to dirty money dangerous and volatile, and liable to confiscation if ever discovered.

The destabilizing economic effects money laundering can incur, leads to negative consequences for nations’ GDP growth. It is often developing nations who are undergoing liberalization of their economies that are target by criminals for laundering. As liberalization takes place and laxed banking regulation is imposed, the environment for money laundering to thrive is established. The link between money laundering and GDP growth was noted by McDowell, who found evidence of a significant reduction in annual GDP when money laundering in an economy increased. This trend was noted in eighteen countries across the industrial world. A reduction in GDP growth is detrimental to developing nations, who are further undermined by money laundering as is discourages long-term international investment from their economies, making the growth situation worse.

As mentioned earlier, money laundering methods have established a financial structure where criminals can commit crimes and harness their profits. Profits provide an incentive for criminals to keep perpetuating illegal activity, facilitating an expansion of existing operations and the continuation of crime within society. This can pose a threat to communities where violent and dangerous crimes such as drug trafficking, racketeering, smuggling and terrorism can continue or increase, unleashing serious consequences on communities and overtaxing law-enforcement resources. Allowing crime to pay raises further moral questions concerning the equity and justice of a system that permits such circumstances, undermining the very foundations of our society and integrity of our social conscience.

A recent highly publicized case involving the HongKong and Shanghai Banking Corporation (HSBC), exemplifies the social consequences of money laundering and raises confronting questions about equity and justice in our world. HSBC was caught failing to apply money laundering controls on $200 trillion in wire transfers, shockingly accomplished in a short three-year period. The bank was found to be aiding in the laundering of over $881 million worth of Mexican and Columbian drug cartel proceeds. So explicit was the money laundering by Mexican drug cartel Sinaloa, that the organization had designed boxes to fit the exact dimensions of teller windows, depositing hundreds of thousands of dollars a day at the bank, no questions asked. The Sinaloa cartel is responsible for murdering over one hundred thousand people, and another twenty thousand who are missing. Moreover, HSBC laundered billions for numerous states under U. S. economic sanctions, such as Iran, Libya, Sudan, Burma, North Korea and Cuba. The bank was even found to be laundering money for terrorist groups such as Hezbollah and Al Qaeda. ‘ Justice’ was served when HSBC’s deplorable behaviour was reprimanded with a $1. 9 billion fine (or five weeks of profit) and deferred prosecution. HSBC overtly provided and profited from services that allowed criminal behaviour to thrive. By laundering billions, HSBC financed violent drug traffickers, terrorists and rogue nations who killed thousands of civilians. Social outrage over the matter has raised concern over a two-tier justice system, where corporations, who even after committing atrocious crimes, seem to escape any meaningful prosecution. Justice is a fundamental building block of society and if its implementation cannot be properly enforced, society will erode from within, causing mass social and political upheaval.

The economic and social implications that are a result of money laundering are usually dealt with through the political system. However, money laundering can be poisonous for political establishments by undermining the democratic system and an elected politicians’ official duty to serve. It is not unheard of for corrupt officials to take bribes, kickbacks and illegal campaign contributions from criminals who have laundered money. Again, by allowing such practices to occur, politicians aid in the reproduction of crime in society, while also perpetuating a double standard of justice. This corruption can lead to governments losing legitimacy and to societal unrest.

The flow of illegal money worldwide cannot be measured or seen and operates with the objective of manipulation and secrecy. Thus, money laundering serves to hide and profit from criminal behaviour throughout society. When such tactics are used, the economic, social and political reality of our lives are distorted and are built on foundations that are dishonest and unstable. Aiding in the reproduction of itself and its many consequences, the compounding effects of money laundering can collapse economic, social and political systems. This makes money laundering a very serious crime, which carries violent and deathly threats for society. By establishing common standards through international cooperation of states, regulators and financial institutions, the secrecy shrouded around money laundering can be effectively lifted for the benefit of society.

Developing nations are more at risk to be targeted for money laundering as regulation to combat the issue is often laxed.

Banks are most at risk of having dirty money pass through them, which can negatively affects on their liquidity, financial reputation, can lead to a run on the bank or bank failure. When financial institutions do not properly manage incoming funds

It must be said that the flow of illicit capital is distorting the global economy, draining wealth from emerging nations and inflating the cost of assets in the developed world. Neither of which seems to deter people from doing it every day.

Illegal money can be moved in a variety of ways, such as transporting diamonds bought with the proceeds of crime and destined for criminal groups and even cash deposited in a checking account can be withdrawn world-wide with debit cards. Even simple methods such as wire transfers can facilitate money laundering.

Economic and financial globalisation has also made the life of a launderer easier. The high volume of legal funds circulating around the globe makes the movement of dirty money less conspicuous. Similarly, the globalisation of financial-services companies means that money placed in a bank branch in a less regulated jurisdiction is easily transferred internally within the organisation to a branch in a more regulated jurisdiction enough, an industry that we cannot measure and cannot see, in fact an industry whose inherent primary objective is secrecy and covert operation

Organization of American States (OAS) have determined that the laundering of money derived from serious crime represents a threat to the integrity, reliability, and stability of financial, as well as government, structures around the world.

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