

# The phenomenon of money laundering and its economic and social effects at the global level

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**Abstract:** Due to the economic, political and social influences in the countries of the world, money laundering has emerged.

Money laundering is a serious phenomenon, as this phenomenon faces many countries in the world and the international community in general.

The liberalization of international trade facilitated the spread of this phenomenon, and the ease of movement of capital in various countries around the world increased the movement of funds of criminal organizations both domestically and internationally

The purpose of this study is to expose the phenomenon of money laundering (in all its aspects) and to explain its effects and the efforts exerted to combat it at the international level, in addition to the exposure to the size of this problem and the methods used to treat it. Its negative effects on the social, economic and political aspects of the State.

The prevalence of this phenomenon is attributed to a number of objective or procedural reasons, including the shortcomings of the legislative aspect of the lack of cooperation between the concerned parties. In view of the seriousness of this phenomenon, international, regional and local efforts have been combined to combat this phenomenon through conventions, international and regional conferences and the enactment of legislation.

**Keywords:** money laundering, Crime, Methods, World, global actions, Combat.

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## 1. INTRODUCTION

The phenomenon of money laundering is one of the serious phenomena faced by many countries of the world because of its economic and social status in the international arena.

The spread of this phenomenon has helped ease the movement of capital across the various countries in light of the liberalization of international trade, leading to the increasing circulation of funds of criminal organizations at the local and international levels, in order to conceal the legitimacy of funds obtained illegally to look as if The money laundering operations are one of the most important criminal economic activities, which are highly profitable. They aim to hide the sources that are generated by them, which are mostly made up of drug trafficking and corruption.

This phenomenon is not the origin of this century, the jewelry holders in India, a number of similar activities in the last century. Money laundering has been of major importance in the global economic arena in recent years, as the movement of these funds affects domestic and international resources, and hence global economic stability.

In the 1980s, the phenomenon of money laundering began to be marked by the lack of credibility of the global economic data, because the accumulated financial assets resulting from money laundering are much larger than the international financial flows, increasing economic imbalances and causing serious shocks. This may lead to collapse, not to mention the lack of confidence in the local economy and the increasing rumors of financial and administrative corruption, which enters the economy in a vicious circle, starting with drug trafficking, ending with tax evasion and breaking laws one by one.

In addition, this is one of the international community to launch a broad campaign aimed at combating this phenomenon and the caste levels, and considered freedom to be held accountable by law. This will be followed by the use by many countries of restrictive legislation relating to inter-fund transactions.

## 2. MONEY LAUNDERING CONCEPT

There is no general agreement among countries on the concept of money laundering, making it more difficult to try to combat these crimes, especially at the international level. Some countries take the broad concept of money laundering in terms of the financial proceeds of all criminal acts as methods of money laundering (Slavery, money trafficking, embezzlement, arms trade, counterfeiting, tax evasion, espionage, theft and other crimes and illegal acts), while some other countries take the narrow concept. Eraser lets hide the proceeds of the smuggling of drugs only without the rest of the crimes. (Kamel, 2001: 161) and Mokhtar 2001: 170)

That money laundering operations are: "those actions that are taken to conceal the sources of illicit funds and to bring them into the river of the legitimate economy, through a series of remittances and cash."

While Kamel (2001: 161) argues that money laundering operations are: the operations by which the perpetrators of the various crimes are committed, the concealment of the sources of these funds resulting from the illegal acts and the blurring of their identity, in such a case it is difficult to identify whether these funds "The process of concealing the sources of funds generated by criminal activity and illegal activities such as the drug trade, corruption, gambling, prostitution, Embezzlement, arms trade prohibited to individuals, smuggling, work to bring them back into the project economy, Through a series of transfers of money and cash so that it becomes difficult to identify the original sources of these funds, and then spend and invest for legitimate purposes.

The European Commission's guide to the money laundering process: the process of transfer funds obtained from criminal activities to conceal or deny the illegal and prohibited source of such funds, or to assist any person who committed an offense to spare him or her the legal responsibility for that offense. (Eagles, 1994: 4).

The money-laundering process drives those who work in the narcotics trade to conceal the real source of income (or the supplier) and to do other acts of camouflage so that the income seems to have been obtained from a legitimate source.

Qashqoush (1998: 7) notes that money laundering is the combination of overlapping financial transactions to hide the illicit source of funds and to show them in the form of funds obtained from a source other than contributing to the employment or concealment of the direct or indirect proceeds of a felony. : 39), it is considered that the operations of the funds are: "All operations and actions taken with a view to changing the character of the funds, obtained illegally, to eventually appear as if they were obtained from legitimate sources and may be done through the creation of fictitious projects or the purchase of assets Or financing or losing companies, buying or opening accounts And deposit funds in the banks of countries that are lenient in knowing the source of such funds as Switzerland, Panama, and Monaco "

At the local level, the Central Bank of Jordan has defined the money laundering process as a process aimed at concealing the real source of illegal funds derived from illegal work, giving false information about this source by any means, transferring money or replacing it for the purpose of concealing or disguising its source, or used or employed by any means to purchase movable or immovable property or carry out financial transactions. (Zoubi, 2004: 1917)

The United Nations International Drug Control Program has also defined the money-laundering process as a process by traffickers and drug and psychotropic substance traffickers to conceal the existence or concealment of their illicit origin or use of income in an illegal manner, making it appear to have been verified as a legitimate source.

The United Nations means: to dispose of money in such a way that its sources conceal its true continuum "(United Nations Program, 2001: 9) According to one researcher, the main objective of money-laundering is to convert cash from illegal acts into other forms of assets, thereby helping to secure the flow of illicit financial returns and to be later used in lawful activities that remove any suspicion. Al-Qusus, 2002: 14)

While another researcher believes that the primary purpose of money laundering is to hide the link between the criminal and the crime, through multiple operations, designed to disguise or blur the features of the criminal source of funds, and convert them from monetary assets to bank account assets, both inside and outside the country, making them safe Of the law enforcement agencies, and reduces the size of the legal risks facing criminals on the one hand, and enable them to act

freely in these funds, on the other hand, and that among the illusions of money laundering is the use of proceeds of crime, to achieve purely investment, through work on legal projects, In the economy Project, which provides money launderers with sufficient flexibility to achieve more profits, and achieve the status of social objectives prestigious. (Tahir, 6: 2004 - 7)

The phenomenon of money laundering is not a new phenomenon but is as old as the need to hide the wealth obtained from illegal activities. Money laundering is the term for the second decade of the last century. Mafia gangs resorted to a new trick to escape from the eyes of security by setting up laundry washers, and these washing machines operated in small financial categories obtained from this laundry. At the end of the day, they added the profits of the laundry to part of the drug trade, thus cleaning it up, without doubting the large sums they were collecting. (Khalil, 2001: 240)

Rover and Doby (1997) point out that the term money-laundering dates back to the 1920s when a Mafia financier bought many automatic washing machines, which only accept wages in a critical manner. All the income of these washing machines adds to the dirty money. According to Kamel (2001), the concept of money, laundering was purged in the framework of the Watergate Scandal scandal in the United States of America in the 1970s when the call for the importance of tracking the proceeds of this scandal was made clear to identify the perpetrators and those involved. 2001, p. 161)

The amount of money laundering crime committed by the world's banks and banking institutions is estimated at about \$ 3 trillion a year, an estimated 5% of the world's GDP (Al-Khudairy, 2003)

The United States is one of the first countries to launder the money of drug traffickers, who use US banks and financial markets, as well as branches of American banks in Latin America and the Pacific in money laundering. The amount of money being laundered in the United States is estimated at about \$ 283 billion.

The volume of money laundering operations in the Russian Federation is estimated at about \$ 100 billion. According to Russian President Vladimir Putin, Russia lost about \$ 25 billion because of money laundering. Money laundering in Italy amounts to 52 billion dollars, Germany 24.6 billion dollars, Japan 24.2 billion dollars, and Canada 23.3 billion dollars).

The least money-laundering countries are Ireland, where money laundering is estimated at around \$ 538.8 million. It is worth mentioning that 25% of money laundering activities occur in the global financial markets (\$ 125-175 billion) Worldwide.

The rest of the money being laundered it is through banks, direct investment, and the purchase of rare antiques, real estate, durable goods and others outside the banking system.

New York is the world's largest money laundering center, competing in London in this context. The money, which was laundered through London's financial markets, exceeded more than \$ 2.4 billion a year.

There are those who point out that money laundering is the third largest industry in the world. The amount of money that is laundered annually worldwide is estimated at \$ 844.6 billion, 1. 2 trillion US dollars.

## 2.1 Money laundering steps

Money laundering processes are carried out in three major phases. Each phase involves several steps that vary depending on how and how the process is completed. In some cases laundering is done in two stages only. In general, the stages of money laundering are as follows:

1. Substitution: means the attempt by the moneychanger to include funds derived from illegal activity in the banking system. Illegal activities Drug trafficking, prostitution illicit arms trade. . . In addition, others.

This process begins by choosing the place where the transaction is carried out. Funds from illegal or legitimate transactions are deposited in the commercial financial system or transferred outside the country where the illegal acts are carried out. Such funds are transferred to countries with less stringent banking laws, the secrecy of the banking profession, or the secrecy of customer accounts with the banking system. These funds are also transferred to countries that have weak regulatory and supervisory financial institutions compared to developed countries. (Khudairy, 2003: 55).

This stage is called the stage of early laundering of these funds, followed by the stage of legalization of these funds. When money is illegally deposited in banks, this is called the foundation because the next steps in money laundering follow these foundations. (Arab, 2000: 20).

This is the most difficult step in the money laundering process because of the following:

A) In some countries, there is legislation that obliges banks to contact the police in the event of deposits above a certain ceiling to find out the source of such funds.

The money launders use the money to avoid this by renting several people to deposit the money involved in several bank accounts, provided that the amount deposited does not amount to the ceiling that the bank is obliged to inform the police.

B) In countries where there is no binding legislation to contact the police, banks in the event of depositing an amount exceeding a certain threshold or in doubt are used.

In order to avoid this, money launderers would deposit their money in the banks of countries that lacked legislation requiring the police to be notified when the amount deposited exceeded a ceiling. Where they take advantage of the poor economic conditions in some countries, which welcomes the funds that come to them regardless of their sources, even if the funds are large and suspicious. The most prominent examples of these States are the Eastern European and African States. (Eagles, 1994: 4)

2. Coverage: It is also a phase of opacity or separation, which is a series of successive financial transactions. This phase is of great importance to money launderers, who rely on the creation of complexity and a multitude of commercial transactions and remittances that conceal illegal proceeds, disguise their nature and their connection to their criminal origin, to avoid their effect on law enforcement agencies and to allow full Various Purposes

It is also one of the most complex stages, most related to international nature. It is often done in many countries and includes many different and diverse methods, including:

- The transfer of funds very quickly, from one country to another, especially through safe areas, through wire transfers, or using secret banking systems and branches. Effects, unlike legal banking systems.
- Distribution of funds between multiple investments, in different countries, with the resale of acquired assets, and the continuous transfer of investments, to avoid their acquisition, by the competent authorities.
- Compromise with national and foreign banks and use of electronic payment cards Facilitate the movement of illegal funds, both within and across countries. - Taking advantage of the services of casinos, changing the currency, issuing checks and transferring money to other gambling clubs

3. Inclusion: At this stage, they are absorbed by merging them into lawful operations or legitimate economic activities, so that they are difficult to distinguish or separate from the financial proceeds of legitimate legal acts. In other words, money that has been laundered into the economy is re-injected as regular normal money, increasing gaining a legal appearance. This is usually done by financial instruments, such as stocks, bonds, and investment certificates, as well as the possibility of investing in real estate, tourism, and other legitimate activities. (Al-Arian, 2005: 44)

Al-Khudairi (2001) notes that money laundering has a number of negative economic effects, which can be summarized as follows:

- Liquidity is declining both in local currency and in foreign currencies, as every money leads to remittances through banks.
- Pressure on the state's resources, foreign exchange, and finding imbalanced, fair and unfair exchange rates.

B) Pressure on the State's resources and foreign exchange rates. C) The society suffers from conflicting economic phenomena.

C) The increase in the number and percentage of the unemployed, because of their inability to provide their services

D) the spread of crime and the breadth, the scope of the usual practice

E) Increasing the volume of public expenditure as well as the state's tax revenues.

The ability of the State to pay off its domestic and external obligations, the worsening of the domestic and external debt and the inability of the State to service these debts.

F) Poor distribution of national income, leading to increased social tension, and the current high tendency of deviation.

G) The high volatility in the prices of securities, between the sharp rise and the sharp decline, which leads to a lot of losses.

H) Banks' bankruptcy and collapse, and the lack of economic and financial feasibility. One study in the United States of America indicated that illegal funds led to a 27% decline in productivity in the US economy due to the growth of the informal economic sector. (Elliott, 1997, p23).

According to Fichtenbown (1993, p86), money laundering leads to higher consumption rates, which contributes to lower savings and investment rates, and thus weak productivity and decline.

## 2.2 Money laundering methods

Money-laundering methods are used in these methods. Money-laundering operations vary according to the circumstances through several methods. The following are some of these methods (Al-Arian, 2005: 47)

1- Deposits and transfers through banks: Banks play a major role in such suspicious transactions, which may lead to the banks becoming an effective party. Money launderers can conceal illegal proceeds by depositing them in a bank and then in a subsequent stage.

2- Borrowing: Illegal funds are deposited in any foreign country with certain benefits, such as lack of income taxes, lack of control over banks, easy establishment or purchase of companies, political and monetary stability and the availability of modern means of communication. A person then requests a loan from a local bank.

3- The use of non-bank financial institutions, which play a role in the exchange of funds, whether through participation or participation in such operations, such as exchange companies, brokerage firms operating in the field of securities and others, and may send money. These funds are illegal and shown in a legitimate and legal form.

4- Cash transactions: Money laundering. The local currency can also be converted into gold, jewelry, or other money. In the same foreign country.

5- Counterfeit invoices: Money-laundering may involve sham operations, in which the moneylender buys the goods, which the money is transferred to, through several images, such as raising the value of the goods services listed in the invoice, and the difference is the money laundering, the total amount paid in this case would represent the money being laundered.

Money-laundering techniques and techniques have become more sophisticated, more diversified and complex, especially in criminal organizations.

In various countries, with a view to concealing the original origin of illicit funds and reinvesting them in legitimate activities, Taking advantage of the gaps in the national laws and regulations.

In addition to the use of familiar methods of money, laundering, criminal organizations have used modern techniques of payment and communication.

The emergence of a new and distinguished professional criminal lawyer, bankers, lawyers and other professionals who practice the money-laundering profession in subsequent investment management in real estate, financial transactions, (Taher, 2004: 12)

Money laundering activities are directed towards electronic means as well as banking services are becoming more sophisticated, with extensive patterns of e-financial services, increasing reliance on digital money, in which cash values are stored. Through electronic chips, they are recharged with the required values and currencies.

Cash payments, for example, through credit cards, and access to products and services. Online borrowing and collateral, Accounts with virtual banks. In addition to the powers of banking supervision and jurisdiction, the events of financial centers which are subsequently exploited in the process of concealing the source of funds is not a legitimate source.

### 3. INTERNATIONAL EFFORTS TO COMBAT MONEY LAUNDERING

All the countries in the world have realized the negative effects of the phenomenon. Therefore, international efforts have been combined to reduce this phenomenon.

1. Vienna Convention of 1988: Vienna Convention This Convention is one of the most important international agreements reached in the fight against money-laundering operations. It was foreseen in December 1988, which constitutes the basis for all necessary efforts to combat money laundering By binding the countries to participate In the Convention of Criminalize money-laundering operations beside encouraging International cooperation to investigate and share the information between them, It even obliged the States to not allow the secret accounts to stand in there way . (Saadi, 2001: 167)

2. Basel Convention Declaration of Principles document 1988: In December 1988, the Basel Committee issued a document known as the Basel Statement on the Prevention of Criminal Use of the Banking System for Money Laundering. This document calls on the international banking community.

These principles include identification of customers and identification of their identity, complete knowledge, and compliance with financial transactions, as well as cooperation with the judiciary, the police and other authorities to improve the law to the maximum extent possible by the regulations of the safeguarding of the secrets of the customer secrets (Al-Attiyah, 2001: 12)

3. The Convention of the European Council of 1990: the member of the Council of Europe and a number of other States signed the Convention in 1990. In its article 6, the Convention enumerated the practical actions to be taken by the parties under their domestic law (Khalil, 2005: 39)

4. The International Financial Action Task Force (FATF): This group was formed at the Economic Summit of the G-7 in 1989 and is one of the strongest and most famous international anti-money laundering organizations. (FATF). This group works to develop anti-money laundering policies, especially those derived from the drug trade (Shawa, 2001: 162).

This group issued its first report on February 6, 1990, which contained 40 recommendations, representing the general framework for the fight against money laundering, and introduced some amendments in 1996. In its general framework, the recommendations urge to the Vienna Convention and ensure that the laws do not impede the implementation of the recommendations. The recommendations are based on three axes:

- Legal framework: It includes urging.
- The role of financial institutions: Recommendations are not limited to banks, but include non-bank financial institutions, and urges them to identify their clients and financial centers.
- Development of international cooperation: The 40 recommendations urge International coordination in the exchange of information. Against the backdrop of the events of September 2001, these 40 recommendations have been supplemented by new recommendations on combating the financing of terrorism. (Khalil 2005: 245)

5. EU Directive 1991: This Directive was issued by the European Union On the prevention of the use of the banking system for money This directive requires Member States to enact legislation in accordance with the Vienna Convention, In five years, Cooperation between the competent authorities and the financial documents of customers exceeding 15,000 (ECU). (Eagles, 1994: 8).

6. Resolution of the International Organization of Securities Commissions 1992: The International Organization of the Securities Commissions adopted in October 1992, In order to face the money, there is a serious crime that can be committed. (Zoubi, 2004: p. 1905)

7. Model Regulations 1993: The Inter-American Drug Control Committee, which emerged from the Organization of American States, issued the so-called Model Regulations on Money Laundering and Asset Confiscation. In addition to the prohibition of money laundering, the regulation included procedural aspects and obligations of the financial institutions, their preventive role in this beauty, and the introduction of problematic banking secrecy solutions. (Al-Arian, 2005: 106).



8. Arab Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1994: This Convention was signed in Tunisia in 1994 by the Arab Ministers of the Interior. This Convention contains articles on combating money. The Vienna Convention in Vienna, Germany (Taher, 2004: 41).

9. Model legislation 1995: The Model Law on Money-Laundering was promulgated through the United Nations Program on International Drug Control. It was issued in November 1995 to serve as a revised and unique version of the Model Money Laundering Legislation. (Al-Arian, 1982: 82)

10 - Political Declaration of the United Nations General Assembly 1998: The member States of the United Nations adopted the Declaration at the end of the twentieth special session of the General Assembly of the United Nations, and pledged to Member of the United Nations to make special Drug trafficking and the need to emphasize the importance of supporting international and regional judicial cooperation. The declaration also included a recommendation by a member of the United States to pass two anti-money laundering legislation by 2003. The declaration also included the necessary measures. (Taher, 2004: 42).

11. Palermo Convention 2000: the United Nations Convention against Transnational Organized Crime of 2000, which aims to strengthen international cooperation in various forms of transnational organized crime, including money-laundering offenses, and to combat them more effectively. (Al-Arian, 2005: 85)

12. The 2003 Vienna Convention: the 2003 United Nations Convention against Corruption, which aims at promoting and strengthening measures and facilitating international cooperation to prevent and combat corruption, including money-laundering offenses, since this crime is an economic crime.

#### 4. CONCLUSION

All countries of the world are working to attract foreign capital. The majority of the countries of the world give the foreign investors the advantages and guarantees of such exemptions, as well as the laws of confidentiality accounts, but this may make them vulnerable to the charge of money, and this forces them to tighten control over their financial institutions. They are required to follow certain rules to protect the financial system and not expose it to money.

Most countries today face the problem of reconciling public interest and integrity and the desire to attract domestic and foreign funds to invest in their territories.

Money laundering is linked to international corruption. Drug traffickers, white slave women, organized crime, all criminal acts and bribes are seeking secure international financial channels that will deter them from illegal gains. In the global money laundering game.

As a result of the negative effects of money. However, such legislation may be deficient (especially in developing countries). This requires cooperation and coordination between financial, banking, regulatory and security institutions in different countries. In addition to the development of the laws, the confidentiality of the bank accounts and the training of the banks and the financial institutions, the financial markets and others.

To make this phenomenon more dangerous, is that effort to combat money laundering. Counter-countermeasures, where money laundering is witnessing the entry of groups of specialists in various professions, they are employed by money launderers.

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