

Chapter 84

The Effects of Money Laundering (ML) on Growth Application to the Gulf Countries

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ABSTRACT

The strategic goal of this paper is to study the effects of the prevention policies against money laundering on growth in the gulf countries (Saudi Arabia, Kuwait, Qatar, Bahrain, UAE and Oman) from 1980 to 2014. Thus, the logistic regression (logit model) had given three fundamental results. The first had shown that the main policies in matter of fight against money laundering (anti money laundering law AMLL, suspicious transaction reporting STR, the criminalizing of terrorist financing CTF) have had positive effects on the increasing of probabilities to realize more growth. The second is that the said policies have had positive effects on the increasing of the degree of openness of the whole sample. The third is that the variable (proximity) had a positive and significant effect on anti-money laundering policies.

INTRODUCTION

Since long time, the phenomena of Money laundering had constituted a major problem for governments because its source was illicit and this type of money is the result of illicit activities (drug, human organ traffics and others). Since 11/09/2011 and the destruction of the world trade tower the UN and their

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different institutions have given more importance to money laundering because the major part of this illicit money was accused to finance terrorism. Just after these attacks, a set of laws were adopted such as the anti-money laundering law, the criminalization of terrorism law and the ability given to banks to report the suspicious transactions.

Nevertheless, unlike other economic subjects, the treatment of the problem is more difficult simply because there is not a database on this variable. Also, it is difficult to follow all their stages beginning by their constitution to their entry in the economic circuit. As a consequence, we will try in this paper to study the effects of ML on growth with logit models. Thus, in the first section we will try to focus our interest in the origin and definitions of the ML concept. The third section will present the macro-economic and microeconomic effects of ML. The fourth section will present the empirical study and discuss the main results.

ORIGIN, DEFINITIONS, AND PROCESS OF MONEY LAUNDERING

The “economic and financial crime” refers generally to any form of non-violent crime which results in a financial loss. This crime covers a wide range of illegal activities, including fraud, tax evasion and money laundering. The latter is one of the most widespread forms of economic and financial crime. The origin of the term “money laundering” comes from the fact that in 1928 in Chicago, a leader of a mafia family (Al Capone) would have bought a chain of laundries called “the Sanitary Cleaning Shops”. This legal status allows him to recycle financial resources from numerous illicit activities.

However, from the 70s, the term “money laundering” has become widespread and it was used, for the first time, in 1982 in a court case. The first definition of money laundering having an international scope was given in 1988 by the United Nations Convention against trafficking in drugs and psychotropic substances (Vienna, 19 December 1988). It was developed mainly around the notions of conversion or transfer of property acquired illegally. It will be taken up by the Strasbourg Convention of 1990. The Financial Action Task Force (FATF), in 1990, gave a more inclusive definition: “Money laundering is the process of transformation of criminal proceeds to disguise their illegal origin”.

Similarly, the International Monetary Fund (2014) defines money laundering as “a process by which the illicit source of assets or proceeds obtained by criminal activity is concealed to obscure the link between the funds obtained and the source of initial offense». By consequence despite the plurality of definitions of money laundering we can converge to a common element: the transfer of illegally acquired assets towards the legal economic system.

PROCESS OF MONEY LAUNDERING

CD Schaap (1999) usually distinguished three distinct phases in the process of money laundering:

- **Placement Stage:** The purpose of this phase is to place cash into a bank account, hiding its illegal origin.
- **Layering Stage (Dispersion/Stacking):** to hide one’s tracks by complex financial transactions to hide the source of funds or legitimize their possession.

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