

# Money Laundering and Terrorism in the Context of Globalization

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## Abstract

*In this article, are presented the negative effects of globalization, such as terrorism and money laundering, effects that sometimes overcome the true purpose of globalization: the development and improvement of human life. As it will be mentioned, these are harmful for the society in all respects, because of their fast developing to the modern world. The phenomena of money laundering and terrorism have managed to develop in all the countries with a complicated financial system. These complex organizations lead to poor legislation, a permissive and insufficient infrastructure that doesn't combat and prevent such crimes. This research, in addition, shows that the fight against money laundering and terrorism is intensifying at international level through the already established organizations against the regarded crimes. However, in the context of globalization, it is very difficult to identify whether countermeasures and prevention measures implementation are higher or at least equal to the rate of crime rise. As a result, therefore the only way to combat money laundering and terrorism at national and international level lies in the cooperation between states. This should be based on a mechanism designed to reduce or, at best, eliminate the economical differences between states, on one hand, and coordinate internal and external regulation, on the other hand.*

**JEL Classification:** F69, F53

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## 1. Introduction

In nowadays socio-economic and political context, the phenomenon of organized crime has undergone mutations in expanding its sphere of activity, seeking to weaken the democracy of states and the entire construction of the rule of law. The majority of specialists in the field consider that the true motivation of the actions is the poor perpetuation of the economic, political, legislative structures, the continuation and the increase of the social and economic discrepancies among the citizens and groups, such as the strengthening of conflicts and tensions, both social and ethnic and religious.

As a result of the global events, the **violent and aggressive character of organized crime can be observed through their ability to influence authorities to achieve their goals**. It should be noted that their involvement with the institutions may expose the security and stability of a states.

Thus, all these actions are a threat to a controlled development of economic and political institutions and to the society. A further reason for the expansion of organized crime is due to their well developed logistics, which tend to be supported by occult financial forces, that have strong roots in the world's underground economy. All these negative phenomena have developed amid the expansion of the globalization process.

## **2. Problem Statement**

The central idea of the article is understanding the phenomena of money laundering, terrorism, on the basis of which premises have been developed, how they operate and what the authorities can do. Money laundering is an expression of cross-border economic crime (Popa, 2012) characterized by structures with exponential human and financial capacities, demonstrating a high degree of adaptability to the new economic, political, social and normative realities, showing professionalism and creativity in achieving the proposed objectives against the backdrop of a society. The offenders are in a permanent action to hide illegally acquired profits, especially if these earnings reach colossal sums.

These activities generated a stream of income which needs to be legalized and integrated into the economy (FATF).

The practice of hiding the origin of illegal income **originated about 3000 years ago**, a period when Chinese merchants tried to conceal wealth from the authorities through ways similar to the current ones, namely: the cash was converted into real estate or was transferred over local borders and invested in different businesses, over-valuation of the goods traded for the outsourcing of funds, etc. All these are principles of money laundering, so hiding, transferring, investing or purchasing on behalf of someone else is the basis of the mechanism, which, depending on circumstances, is changed or adapted to achieve objectives.

**The notion of money laundering has been used for the first time by the US authorities in view of the process of laundering mafia property, so as well as the well-known washing process of clothes, the same is the case when the change of money acquired illegally.**

The meaning of the phrase “money laundering” hinges on the component “laundering” and it is alleged that the phrase derives from the habit of the gangster Al Capone of funneling his ill-gotten gains through laundrettes to construct the pretense of a legitimate income (Duyne van O. C., 2003) from gambling, prostitution, extortion and smuggling. Thus, the offenders found that once the nature of the profits was legitimate, they no longer accounted for the authorities and could use the money.

Following Al Capone’s arrest, new methods and means of concealing money were sought, the most relevant being the service provided by Swiss banks: the numeric accounts. In the 1980s, “money laundering” was associated with drug trafficking as a result of the huge profits generated by this action, so governments took legislative action.

Another observation, which is currently valid, is that criminal organizations have the ability to corrupt the structures of the rule of law at all hierarchical levels, as a result of the revenues from drug trafficking. Money laundering affects all the countries (developed or developing) which can lead to a total collapse because of their reliance on the financial aspects (IMF,2006).

The money laundering operation involves a process in which the numeral or other assets obtained by illegal means acquire legal preference and must fulfill three conditions (Hasan and Abd Murad, 2010):

- Illicit earnings are converted without suspicion (placement);
- The origin of profits is not known (stratification);
- Inclusion in the legal economic circuit of “washed” profits (integration).

**According to GAFI money laundering represent “a process of criminal profit in order to conceal their illegal origin” (FATF, Money Laundering FAQ, what is Money laundering? [www.fatf-gafi.org](http://www.fatf-gafi.org)). As stipulated in the report of UNODC and FMI, money laundering is “the process by which a person hides or conceals the identity or the illegal origin of income so that it appears to have come from other sources” (Report IMF, UNODC, 2005)**

The **operation of ML** (Raweh, Erbao, Shihadeh, 2017) and financing terrorism can be similar and interdependent Reference guide to Anti-money Laundering and Combating the Financing of Terrorism, Second. Also, according to some authors (Masciandaro, 2017), the approach of organizational crime, money laundering and terrorist financing should address the following common issue:

1. Use of rapid money transfers or electronic payment systems to drive illicit funds through multiple jurisdictions;
2. Engaging a wide variety of criminal activities and criminals (from simple traffickers to criminal syndicates). Who are the authors? It is difficult to answer because the people in question are in all areas of activity from accountants, lawyers, bankers, car dealers, etc.

The motivation of these actions is determined by the feeling of power, the possibility of committing the crime without being caught, or the ease with which to obtain these unlawful, unjustified and undeclared profits.

Among the most popular and used money laundering methods we find: cash deposits, quick transfers or e-banking, gambling, insurance policies, auto loan, financial instruments, business management (hotels, restaurants).

During the money laundering operation, offenders have to take into account some basic rules which would lead them to complete the operation: anonymity (the illegal origin of funds must be lost), the speed of the operation (rapid movement of funds to avoid detection), complexity (division of funds into more transactions) and secrecy. When these revenues are made, offenders have three options: reinvesting in a new offense, hide or spend immediately. The real problem arising from these facts is precisely reinvestment in support of terrorist acts.

In addition, another phenomenon in full swing and closely related to money laundering is terrorism. The UN Convention for the Suppression of Terrorist Financing describes the main objective of the terrorist acts as “intimidating the population and obliging states or an international body to put into practice or not a particular action” (The UN Convention for the Suppression of Terrorism Financing, ART 2).

The Article 2 Law No. 535/2004, In Romania, on the prevention and combating of terrorism (Parlamentul României, 2004), terrorism **affects national security and endangers society as a result of unlawful acts and threats to the public space**. In essence, the main objective is to manipulate or intimidate the divisions, the population, or to force a person, government or institution to act or refrain from undertaking activities or actions. Funding can be done through institutions/individuals/states, as well as indirect earnings through income-generating activities.

For example, in the case of criminal organizations, sources of income may be created as a result of criminal offenses or illegal activities. Main causes: underground economy, religious or ethical conflicts and social conflicts and current economic instability.

In both activities of money laundering and terrorism, it can be noted the same transaction mechanism, consisting in hiding or concealing funds. For example, in the case of money laundering, **illegal gain is sent through legal channels so as to hide its original origin, and those who support terrorist financing move funds to hide the nature and end use, that is, to support terrorist acts**. To a greater extent, illegally obtained funds are the sources of income for terrorists in their pursuit of taking certain actions to manipulate or influence a small group of people or the whole nation. Terrorist organizations are constantly seeking new ways and engaging advanced means of recycling financial resources from illicit activities in order to adapt to the contemporary society transformation.

### 3. Research Questions/Aims of the research

The principal objectives of the research target the purpose and direction of the money laundering offense, which were the main premises that allowed the creation of space for the development of money laundering phenomena, the financing of terrorism and the fight of the authorities in order to fight crimes.

The main purpose of money laundering, as we have already said, involves a procedure designed to change the state of funds so as to lose the illegal nature and become “**the most honorable and the purest**” (Bari, 2001). All crimes that have been committed today have managed to adapt and develop in the context of the globalization process. Of course, globalization has created new opportunities for both economic and social manifestation, with a direct relationship between this phenomenon and economic activities, as well as their evolution over time. At the same time, in practice, against the backdrop of an economically, socially, socially changing society, the perpetrators of the crimes have found the opportunity to manifest themselves and to take advantage of the current syncope. Therefore, the proper space was created for the conduct of money laundering and terrorist financing crimes, allowing offenders to “bypass” the laws already outdated as a field of activity and scope.

At the same time, the authorities sought ways to counteract this phenomenon at international level and was formed the Financial Action Task Force (FATF), known as the Money Laundering Authority, defining this term as a process of hiding the illegal source of earnings in order to justify them.

**Initially, the money laundering offense was not mentioned in the Vienna Convention, but the rapidity with which this illegal action has developed, even surpassing drug trafficking, has prompted authorities to incorporate this offense technically and legally, developing “the 40 principles on money laundering” (FATF/GAFI).**

At European level, the fight against money laundering and terrorist financing is underway, so that after the terrorist attacks in 2015, the EU Council and the European Council expressed the need to strengthen and adapt the rules to the current realities. Directive 2015/849 (The European Commission, 2015) has been amended to:

- improving transparency in ownership of companies and trusts;
- tightening controls on high-risk third countries;
- address the risks associated with prepaid cards and virtual coins;
- strengthening cooperation between national financial intelligence units.

Internally, the National Office for the Prevention and Combating of Money Laundering, the ONPCSB, has created the relevant legal framework (ONPCSB, 2002, 2008):

- Law no. 656/2002 on the prevention and sanctioning of money laundering, as well as for the establishment of measures for preventing and combating the financing of acts of terrorism, republished;
- Government Decision no. 594/2008 regarding the approval of the Regulation for the application of the provisions of Law no. 656/2002 on the prevention and sanctioning of money laundering, as well as for the establishment of measures to prevent and combat the financing of acts of terrorism;
- Government Decision no. 1.599/2008 for the approval of the Regulation on the organization and functioning of the National Office for Prevention and Control of Money Laundering.

Currently, as it can be seen, **the authorities are working globally to combat and mitigate the effects of money laundering crimes, especially those aimed at financing terrorism.**

#### **4. Research Methods**

The research methodology used in the article is quantitative because I wanted to understand the concepts of money laundering and terrorism financing. Thus, I used the historical method of the events showing, from genesis, money laundering's first purpose: to spend the money obtained from illicit activities; to the present, in which it is also used to finance terrorism in the context of the globalization process. The existing gaps or the lack of legislation in the field together with the adaptability of the criminal methods leads the development of the phenomenon of money laundering and terrorism.

I also used the method of comparison to find the similarities (both offenses are constantly adapting and evolving to the current economic realities) and the differences, so that the money laundering process has to fulfill three conditions of placement, stratification and integration while the financing of terrorism can be done from external or internal sources, regardless of whether they are physical persons, companies. The last research method used was the synthesis through which I managed to present both phenomena and methods to counteract and combat the spread of these offenses worldwide.

## 5. Findings

Money laundering is an illegal activity that dates back to the oldest times and has gained a colossal rise in the era of globalization. Against the backdrop of a changing society and adaptation to new realities, offenders benefit from permissive or outdated legislation to make profit at the expense of human well-being. Thus, money laundering may, in some cases, also support terrorist operations by occult funding of groups without the knowledge of the authorities, through the money circulation information system known as Hawala (FAF T, Report October 2013).

With the development of the globalization process of the free movement of capital, goods, individuals, information, criminal networks have been taught to refine their mechanisms, operating modes, attracting funds or taking them through different processes so that the authorities do not discover the nature of the profits or the mode of action. Also, terrorism has grown as a result of the gap between the poor and the rich, the ideologies of individuals who, in their opinion, want to do justice.

There is a direct link between money laundering and terrorism, since illegally earning funds have three directions: reinvestment, spending or hiding (Isa, Sanusi, Haniff, Barnes, 2015), but because the money laundering process is very difficult to detect, the authorities cannot find out exactly where the money is redirected. Also, the harmful effects of this operation against the economy are potentially devastating such as: undermining the legitimate private sector and the integrity of financial markets, loss of control of Economic Policy and the loss of revenue, reputation risk and economic instability and distortion (John McDowell, Gary Novis, 2001).

**These funds can be used to buy weapons for terrorist groups or to bribe people in key positions.** The eradication of terrorism cannot be accomplished without interruption and irradiation of the main power supplies, action taken worldwide, especially because this phenomenon is generated and sustained by the technological progress of modern era.

Although these phenomena seem unstoppable, the international and domestic authorities are in continuous collaboration for a legislative improvement, seeking to cover all the gaps that allow the expansion of these crimes.

## 6. Conclusions

Globalization can be responsible for producing and creating the right space for the emergence of the main threats: money laundering, terrorism, drug and people trafficking, crime, environmental disasters, climate change, pollution, etc. These unknown trends cannot be controlled, leading to both a global disorder that is virtually unpredictable and a new world order.

Because of this, money laundering and terrorist financing have begun to defend in almost every country, against the background of insufficient or permissive legislation, as a major lack in preventing money laundering and terrorist financing.

Consequently, in order to counteract these phenomena and antiterrorist struggle, it is necessary to understand what constitutes the money laundering offense, the purpose and direction of “freshly washed” money. The combination of money laundering and terrorist financing has now become the biggest threat to society, fundamental human rights and democracy.

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