

## GLOBALIZATION TODAY AND MONEY LAUNDERING

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*Abstract: The billions of crimes yearly taking place all over the world, "produced" billions of US dollars. This enormous amount of money obtained by perpetrators should be used in the legal way in the worldwide economy. The main problem is that, the money originated in illegal activities is not welcome in the legal economy. That is the reason this money should be undergo a "recycling process". The money laundering is the process of creating the appearance that "black money "obtained from serious crimes, such as drug trafficking, trafficking in human beings or terrorist activity, are originated from a legal sources, after a complex recycling process. This criminal process by which money could be laundered is extensive and hundreds of billions of US dollars is yearly laundered through financial institutions. In the contemporary financial and banking world, money laundering could be understood only by analyzing it in correlation with global financial transactions and huge capital investments occurring in the world economy today. Contemporary world market includes daily transactions of about hundred billions of UD dollars, of which, paradoxically, only a small fraction (about 10%) is related to world trade. Most of the transactions taking place in the global market are the result of contemporary financial speculation and short-term investments often under the cover of anonymity. That's why one of the objectives of the Law Enforcement Bodies is to discover and punish individuals and organizations involved in assisting criminals to benefit from the proceeds of their criminal activity or to facilitate providing financial services to them. By volume of recycled money, money laundering can affect a country financial, economic, social and even political. Romania, conscious of this danger to national security has made the necessary technical, administrative and legislative demarches. National Office for Prevention and Control of Money Laundering, operatinG according to the law, preventing and fighting money laundering and terrorist financing. Among other tasks, the office is monitoring and analyzing the fluxes of money and suspect financial transactions, informing the Prosecutor's Office and where is become aware of suspicious transactions for the financing of terrorism, immediately notify the Romanian Intelligence Service. This paper is aiming to emphasize the existing connections between globalization, trans-border organized crime and money laundering.*

*Keywords: globalization; money laundering; banking system; financial operators; financial law.*

### **1. General information about money laundering and transnational organized crime.**

The term of money laundering occurred in 1920 when American mobsters Al Capone and Bugsy Moran opened laundries in Chicago in order to "wash dirty money "coming from illegal activities and to reintroduce it in legal businesses as "clean and honest" money. Today recycling techniques are very complicated and the capital export in different countries is very often used. Abroad but also in Romania are speculated legislative and administrative inadequacies, banking vulnerabilities, corruption and faulty action of state institutions.

The effects of money laundering on any state are disastrous:

- Breaks and compromise the mechanisms and institutions of the market economy and the rule of law.

- Damage mechanisms, operations and financial – banking system.

- Determine the loss of confidence in the financial system and economy.

- Favors organized crime and terrorism.

- Ultimately lead to a reduction in the rate of economic growth.

- Diminish economic and social stability causing significant financial. losses to the state. Strong growth of this kind of phenomenon was particularly favored in recent years by the internationalization of the banking system.

Money laundering has been favored by other economic and financial phenomena:

- huge impact of modern technology in the area of communication.

- unprecedented development of stock exchanges and commodities.

- removal of restrictions and controls on foreign investments.

These processes have led to dramatic changes in the organization and functioning of international financial markets, banks and the relationships between banks. These changes occurred in the global financial system had a lot of positive consequences in the structure and value of contemporary global market, but also some negative consequences. This "internationalization" of the financial and banking systems led to different phenomena such as: tax evasion, illegal export of the capital, the appearance of illicit capital markets, developing of the underground economy, massive financial fraud etc. A serious indicator that the world circuit of economic transactions shows some anomalies is that the global balance of payments who is not "zero" as it should be. In other words, the total amount of goods and services exported worldwide is not equal to the total amount of goods and services imported. Some studies carried out by specialized institutions show that since 1970 appeared and then emphasized the difference between the overall value of global imports and exports. Thus, in 1997 the difference between imports and exports reached about 250 billion dollars and remained relatively constant at this value until today. Of course, it is plausible that the methods of analysis and registration of international trade are far from perfect, but much safer is that a large part of global transactions take place outside the legal framework, which makes it impossible for recording and evaluating their. The IMF has repeatedly drawn attention to the fact that worldwide there are some negative financial events, or illegal financial and banking phenomena.

## **2. The globalization of the markets and economies.**

In today's world, globalization of financial markets has led to an extraordinary mobility of funds. This mobility facilitated the free flow of funds from organized crime activities. Following this globalization, there has been a dramatic increase in the mass of speculative capital. Also, the process of development and integration of national markets has favored the development of illegal markets. This development of illegal markets led to transnational crimes and determined delinquency to establish links with financial and banking institutions. For this reason, the money laundering through financial institutions, influences significantly underdeveloped countries' economies. Another phenomenon that favors money laundering is the activity of "underground" economy. "Underground" economy should not be confused with organized crime being relatively different from the specific activities of organized crime. This "underground" economy includes all productions and financial and commercial transactions, which is not mentioned in official documents tax. Usually there is a hidden accountancy used to avoid taxes and tax liabilities. Recent research reveals that the "underground" global economy has a market share of 10-15 % among developed countries. So, "underground" economy has an important global role in the formation of the total volume of speculative capital. The funds of "underground" economy must be recycled through money laundering. Finally, another source of speculative capital is the transfer of capital from third world countries. This shift began in the '70s, when the lack of raw materials and the rising of the prices have led to the transfer of large amounts of currency from developing countries to developed countries. Then, in the '80s, there was a tendency for granting a larger volume of loans in order to "conquer" international banking market. In this context, an important part of loans destined to third world countries were not invested locally, but used for different purpose by the leaders of these countries, in the form of money deposited in the banking systems of developed countries for their own advantages.

Also, abovementioned funds required money laundering activities, to be used in legal economy and legal financial market.

A United Nations report shows recent trends in money laundering process:

- amplification of the privacy relationship between attorney and client;
- emergence and development of financial "super-institutions" leading to the removal of financial barriers to international capital flows;

- appearance of strict legislation in the areas of banking secrecy;
- development of offshore centers and tax havens;
- international corporate business development;
- widespread use of cash to pay for services;
- extensive use of electronic transfer of funds;
- tend to use the U.S. dollar in the world;
- use on the worldwide level of the credit or debit cards for trade without highlighting in accountancy papers of those operations ;

These phenomena persist amid legislative inconsistency and unclear separation of the agencies' tasks of the world states.

### **3. Money laundering today.**

Money laundering wears a lot of forms, and used a series of schemes increasingly complicated. Stages of money laundering in any such process are:

- prewash funds - placing "dirty money" in cash flow.
- layering - concealing the illicit origin of the funds.
- integration - including of funds in the real economy.

At this time, the global money laundering methods used are:

- casinos and gambling agencies.
- fictitious business transactions (export, leasing)
- estate purchases (over and deliberately understated)
- procurement of works and objects of art (through third parties) .
- export of the currency out of the country through couriers.
- foreign investment in "tax havens" and simulation of international trade operations (imports - exports).

Despite of this all this diversity, operators involved in money laundering established some basic principles:

- best money laundering mechanism is that one who imitating the best legal transactions because the risk to be discovered by authorities is the lowest.
- developed countries in the field of financial services and banking are preferred by operators involved in money laundering operations.
- illegal activities need to be more integrated into the legal economy.
- laundering scheme should include as many small and independent individuals to be more difficult to detect.
- states that have a very good infrastructure and very good communication systems are preferred for laundering money.
- states with permissive financial legislation are preferred for laundering money.
- use of checks and credit cards makes more difficult detection of the money laundering .

Obviously the techniques used differ depending on the amount of money to be recycled. For small amount of money usually are used techniques that do not involve "export of capital" at large funds is mandatory to seek the bank operators in different countries.

### **4. The ratio of tax evasion and money laundering.**

Tax evasion is a "spring" of black money and money laundering phenomenon enhancer. Tax evasion is linked to the process of money laundering, but the two concepts are completely different. Tax evasion involves development of legal economic activities and then hiding of the real value of profits legally obtained. Tax evasion sometimes requires the transformation of the profit by passing it in the category of untaxable income. This described process, makes tax evasion to move into underground field. Money laundering is a financial and economic process that stands on diametrically opposed positions. Profits illegally obtained after carrying illicit activities tries to gain the appearance of legality. People

involved in tax evasion, usually declare to treasury much lower incomes than they actually achieved. Operators involved in economic and financial activity of money laundering state report much higher profits than in reality. Companies involved in money laundering, pay much higher taxes than they would have to pay in reality. Initially, the proceeds from crime are not in any financial accounting record. Operators place money in accounts to intentionally hide the illegal origin of these funds. In conclusion, there are some similarities in terms of techniques used, but the two goals are diametrically opposed.

### **5. Conclusions on globalization and money laundering.**

Ministry Of paramount importance today, is how state and banks experts are trained to recognize suspicious financial transactions. This is because this activity has mainly investigation character and requires specialized training. Extremely important is the understanding of economic and financial mechanisms, techniques and methods that are used. Globalization disrupts recognition of the fraud and money laundering or illicit trade circuit to recycle funds illegally obtained. Analyzing in detail, it can be seen that each fund recycling operation has typically way. Each action used on banking institution depends on the duration and complexity of banking rules, the amount of funds laundered and experience and intellectual capacity of the people involved. Money laundering requires high technical skills and great subtlety. In principle, only specialists in the field of finance or legal sciences can perform such operations internationally. "Erasing" of the borders of the countries have favored the proliferation of organized crime including money laundering. The internationalization of organized crime determined world states to adopt legislative measures and joint operations. The war took place between state institutions and operators involved in money laundering are less spectacular. Fight takes place in front of computers and involves a good documentary on both sides. State seeking effective measures to protect the financial institution on the one hand and offenders seek measures for "penetration" of the financial and legal protection of the bank on the other hand. To act effectively to prevent and combat money laundering, countries have identified "special criminal tools". International rogatory commission is a procedure whereby a court of a country requires a court in another country to administrate evidence in a particular case. International rogatory commission refers to actions and special procedures - controlled delivery, electronic surveillance, shares in another state in cooperation with representatives of the state, etc. Moreover, according to bi-or multilateral treaties can carry out joint investigations and can transfer information on a crime or to conduct criminal investigations in centralized way. A widely used international instrument against money laundering is the recognition of judgments issued by the judicial authorities of other states and acceptance of the foreign judicial documents. Finally, it is important to mention that only international cooperation in legislative, technical, administrative and operational field could stop this scourge. Only international organizations such as INTERPOL, EUROPOL or EUROJUST will be those that could make a difference in the fight against money laundering.

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