The phenomenon of trade-based money laundering (TBML) – a critical review in

Sri Lankan context

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Abstract

Purpose – Money laundering (ML) has become a significant challenge all over the world today. Trade-based money laundering (TBML) is a type of ML that poses a hazard to any country. In recent years, developed and developing countries have pursued liberal policies for international financial markets. The Financial Action Task Force (FATF) defines TBML as the process of concealing criminal earnings and shifting value through trade transactions in an attempt to justify their illicit origins. As international financial markets have improved ML controls, criminals have turned to the trade sector as a new venue, raising trade risks. The purpose of this study is to highlight the danger posed by TBML and the initiatives that should be taken to prevent such.

Design/methodology/approach – A review of publicly available reports, case studies, secondary data and literature on TBML from a variety of Sri Lankan and international contexts comprised the methodology. However, due to the dearth of literature on TBML details/information in the Sri Lankan context, international case studies have been analyzed. More critically, there are no precise estimates of TBML or defined protocols for collecting and maintaining TBML data. As a result, the FATF potential TMBL typologies were analyzed, and typical TBML procedures were examined to identify viable treats for Sri Lanka.

Findings – The study found that TBML has a significant effect on the economy and, as a result, social conflicts. Sri Lanka has the potential for TBML, and ML through financial institutions was identified as a major risk. Literature, on the other hand, shows that a large quantity of money has been laundered using TBML in Sri Lanka. The geographical location entices criminals to wash their illicit gains, and so the country has potential danger from South Asian countries. However, because of the sociopolitical climate in Sri Lanka, criminals are constantly looking for ways to profit illegally. Relaxing rules to promote foreign investment may encourage launderers to use their illicit proceeds. The government needs to take great care when dealing with this particularly delicate issue.

Research limitations/implications – Due to the complexity of financial crimes, this study had a number of limitations, as do many others. The data used for this study was sourced from publicly available information and the TBML has been clearly defined or understood due to the fact that the complexity of the methods used by criminals. As a result, the number of local instances reported on TMBL is quite small, hence this study relied on international case studies.

Originality/value – This research on TBML in Sri Lanka is original. It is anticipated that the findings and contribution of the study would help the stakeholders develop TBML prevention measures.

Keywords Money laundering, Terrorist financing, Trade-based money laundering, Illicit activities, Economy

Paper type General review

Introduction

Sri Lanka is a developing country with a high risk of money laundering (ML) and terrorism financing. Sri Lanka has been blacklisted by the European Union Commission and the Financial Action Task Force (FATF), emphasizing the country's vulnerability to ML and