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Behind Closed Doors: Understanding the Layers of Illicit Wealth in Pakistan's Money Laundering Web and Tracing the Socio-Economic Fallouts

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ABSTRACT

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This research investigates the clandestine realm of money laundering, with a particular emphasis on the complex operations that are involved inside the financial trajectory of Pakistan. The purpose of this article is to shed light on the diverse nature of the illegal acquisition of riches by investigating the mysterious systems and networks that support activities related to money laundering. This study attempts to provide a thorough understanding of the processes that are driving illegal financial flows in Pakistan by gaining an understanding of the layers of secrecy that constitute the situation. Furthermore, it investigates the far-reaching socioeconomic ramifications of money laundering, including the negative effects that it has on government, economic development, and social cohesion. Through the use of empirical analysis and case studies, the research sheds light on the issues that money laundering poses to the integrity and stability of Pakistan's financial system. The purpose of this study is to contribute to the ongoing conversation on the fight against financial crimes and the enhancement of anti-money laundering measures by tracing the socio-economic fallout. In light of these findings, it is imperative that systemic vulnerabilities be addressed and regulatory frameworks be strengthened in order to reduce the negative effects that money laundering has on Pakistan's economy and society.

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1.0 Introduction

Money laundering is a fraudulent procedure used by criminals to conceal the illicit origin of their earnings. Through intricate transfers and transactions, or by means of a sequence of enterprises, the money is "purified" from its illicit source and presented as lawful company earnings(Levi & Reuter, 2006). Money laundering is the process by which illicit or filthy money undergoes a series of transactions or washes, resulting in its transformation into legal or clean money. Put simply, the origin of unlawfully acquired cash is concealed via a series of transfers and transactions, with the ultimate goal of presenting those monies as lawful revenue(Walker, 1999). Robinson One significant challenge faced by big, organized criminal businesses, such as drug smuggling operations, is to the accumulation of substantial sums of money that need concealment to evade scrutiny from law enforcement agencies(Unger et al., 2006). The beneficiaries of such substantial sums of money also want to avoid recognizing it as revenue, thereby resulting in significant income tax obligations(Unger & Busuioc, 2007).

The process of money laundering typically involves three distinct phases. The first stage involves intermitting monetary payments into international financial institutions. The process of placing money in foreign banks without attracting the notice of national authorities is referred to as placement. The second phase pertains to the execution of financial activities, such as cash withdrawals and wire transfers, while concealing the initial origin of funds. This process is referred to as layering, when the money launderer engages in many financial transactions that serve as successive layers of cash(Levi, 2002). Online transactions, particularly wire transfers, provide a rapid means of stacking, since they enable the swift execution of many currency transactions. During the integration stage of money laundering, the illicit funds are transferred into lawful company or personal interests. It has the potential to be used for the acquisition of upscale luxury commodities, such as jewels or vehicles. It might potentially be used to establish an additional company organization for the purpose of laundering future illicit funds(Schneider & Windischbauer, 2008).

There exists a strong correlation between money laundering and economic growth. The act of money laundering poses a significant risk to the economy of nations and their individual governments, particularly in developing countries such as Pakistan(Force, 1999). The ingress and sometimes inundation of illicit funds into lawful financial sectors and accounts pose a significant risk to both economic and political stability. Economic crimes have a profound impact on a nation's economy because to the much larger number of potential victims compared to other types of criminal activities(Alldridge, 2008). Economic crimes may also have a negative impact on those who may not first seem to be the victims of the crime. For instance, tax evasion leads to a decrease in government income, which in turn hampers the government's ability to allocate funds towards development initiatives. Consequently, a significant portion of the population, who might have derived advantages from such government spending, is adversely affected(Chong & Lopez-De-Silanes, 2015).

The Pakistani economy is now experiencing significant ramifications in relation to the issue of money laundering. However, the consequences of money laundering operations extend to society as a whole (Teichmann, 2017). In essence, money laundering enables criminals or launderers to intentionally broaden their activities. This significantly escalates the financial burden on the Pakistani government as a result of heightened law enforcement efforts and the need to allocate resources towards the healthcare industry and public welfare in order to address the adverse outcomes. Money laundering facilitates the transfer of economic power from people, government entities, and the broader market to individuals engaged in money laundering activities, hence leading to the concentration of wealth(Cox, 2014).

There are significant repercussions associated with money laundering in relation to both economic growth and social advancement(F. Teichmann, 2020). Money laundering in Pakistan hampers economic development by reducing income, reducing tax collection, and weakening government control over the economy. Additionally, it impedes social advancement. The criminal's indulgence in a more opulent lifestyle and adherence to procedure results in social injustice, since it imposes a burden on society. The repeated investment of unlawful cash by criminals has a detrimental impact on the whole financial structure of markets. The current situation raises concerns about the openness of the financial system and the government's ability to implement effective measures against money launderers(Ferwerda, 2009).

Extensive scholarly inquiry has been conducted on the subject of money laundering, including its many methods, routes, and its association with the funding of terrorism. This study has also included the examination of notable instances of money laundering in Pakistan and globally. Nevertheless, there is still a lack of attention given to the impact of money laundering on both economic growth and social advancement(Madinger, 2011). There is a pressing need to expose the dangers associated with money laundering, as it hinders the progress towards achieving sustainable development within the social and economic sphere. This study aims to provide a comprehensive strategy to address the existing research gap by examining the ramifications and suggesting methods to mitigate the threat of money laundering(Savona, 2005).

Aims and objectives

1. To investigate money laundering mechanisms in Pakistan's financial system.
2. To explore socio-economic impacts of money laundering in Pakistan.
3. To identify regulatory challenges in combating money laundering.
4. To assess anti-money laundering effectiveness and international cooperation.
5. To propose strategies to strengthen oversight and mitigate money laundering effects

2.0 Literature Review

2.1 Defining Money Laundering

Money laundering refers to the illicit process by which criminals transform the genuine origin and ownership of unlawfully obtained funds into lawful currency. The concept of Interpol, as established by the UNO General Assembly in 1995, encompasses *any action or endeavor aimed at concealing or obscuring the true origin of unlawfully acquired funds, so creating the illusion that they have come from lawful sources (Sultan & Mohamed, 2022)*. Illegitimate sources include illicit activities such as weapons sales, smuggling, drug trafficking, and prostitution, which may generate substantial profits. Instances of fraudulent activities, such as insider trading, bribery, and other fraudulent schemes, have the potential to provide substantial financial gains. When engaging in such actions that yield financial gains, individuals or groups involved must use various strategies to effectively manage and regulate these assets. This may be achieved by dividing the monies into smaller components and then investing them in legal sources, so concealing their original origins(Shah & Aish, 2022).

2.2 Historical Context

The historical record of money laundering reveals that it is not confined to any one nation, but rather represents a worldwide issue that is confronted by all nations as a whole. Financial institutions serve as a preferred avenue for money launderers to turn illicitly obtained funds, such as illicit weapons sales, smuggling, drug trafficking, and prostitution, into substantial revenues. Instances of fraudulent activities, such as insider trading, bribery, and other fraudulent schemes, may be used to create substantial profits(Patel & Thakkar, 2012). During the 1980s, governments adopted money laundering legislation as a means to oversee and seize the proceeds derived from drug-related endeavors, with the objective of apprehending the individuals and entities accountable for drug cartels. Moreover, it offered the benefit, as seen by law enforcement, of reversing the standards of proof. In the context of property seizure, it is customary for law enforcement authorities to ascertain an individual's culpability(Abel, 2016). Nevertheless, under money laundering laws, monies might be confiscated and it becomes the individual's duty to establish the authenticity of the funds' origin in order to retrieve the money. This drastically enhances the operational efficiency of law enforcement agencies and substantially alleviates the strain associated with gathering evidence. However, some law enforcement agencies have used this method to seize and keep monies without significant evidence of related illegal activity, with the aim of increasing their own financial assets.(Schroeder, 2001)

2.3 Globalization and Money Laundering

Furthermore, the phenomena of globalization has far-reaching implications for global monetary systems, potentially leading to adverse effects on international currencies and economies, depending on the magnitude of money laundering operations. The prevalence of money laundering has a substantial influence on emerging economies(Unger, 2007). Developing countries are more vulnerable to the consequences of money laundering since financial regulatory authorities tend to prioritize well-established and strong markets rather than those that are still emerging. Money launderers exert a deleterious influence on a nation's economy by inflicting harm onto the private sector. Money launderers often use front businesses to get their unlawful funds, so participating in criminal operations. Through the acquisition of considerable financial resources, firms may effectively decrease the prices of their services or commodities, therefore establishing a strong presence in the market. Enterprises gain a competitive advantage when their pricing tactics are impossible to be replicated by other enterprises(Muller et al., 2007).

2.4 Money Laundering in Relation to Terror Financing

Terrorist funding encompasses the use of finances, which may originate from legal or illegal sources, with the purpose of providing support for terrorist activities. While terrorist funding transactions often have lower monetary value compared to money laundering, they may nonetheless lead to devastating loss of stability(Hinterseer, 1997). The counter-terrorism finance system in Pakistan operates with the aim of safeguarding the general population, in collaboration with the United Nations and Pakistani authorities responsible for implementing targeted financial sanctions. The International Monetary Fund (IMF) expresses apprehension on the ramifications associated with money laundering, terrorist funding, and proliferation financing, which include the provision of finances or financial services for nuclear, chemical, or biological weapons. Additionally, the IMF acknowledges the detrimental impact of these activities on the financial sector and the overall economy(Rose-Ackerman & Palifka, 2018). These criminal activities have the potential to undermine the stability of nations, so compromising law enforcement, governance, regulatory efficacy, foreign investments, and international capital movements. Money laundering and terrorist funding activities inside a single nation may have significant detrimental consequences that extend beyond national boundaries and have global implications. Countries that possess inadequate or inefficient regulatory measures are particularly appealing to those involved in money laundering and the financing of terrorism. These perpetrators aim to obfuscate their illicit endeavors by capitalizing on the intricacies of the worldwide financial system, disparities in domestic legislation, and the rapidity with which funds may traverse international boundaries(Samantha Maitland Irwin et al., 2011).

2.5 Money Laundering and Pakistan

The issue of money laundering has become prevalent in Pakistan. The proliferation of this criminal activity has thrived in the last thirty years due to the illicit funds, which are held by the political and privileged elites, who also wield significant political sway and authority inside the nation. Regrettably, no government throughout this timeframe has achieved success in efficiently enforcing legislation to successfully combat money laundering and its associated illicit activities, such as drug trafficking, smuggling, and corruption(SM Irwin et al., 2014). Furthermore, the government has not developed any efficient strategies to address tax evasion. Insufficient stringency in tax legislation compels individuals to engage in tax evasion, therefore evading responsibility for outstanding tax obligations. Despite the implementation of new legislation with the objective of mitigating money laundering, its efficacy has been compromised due to the government's failure to dissuade societal norms that enable the activity of money laundering. Both politicians and staff in administrative and anticorruption agencies have been implicated in accepting bribes from money launderers. These individuals have been granted permission to embezzle substantial sums of money from the government and, in exchange, have also accepted payments from them(F. M. J. Teichmann, 2020). Personnel within the antinarcotics units and airport authorities have provided aid to those involved in money laundering and drug trafficking by facilitating the transfer of monies overseas. It is essential to maintain stringent oversight over workers, including those employed in departments where money launderers may coerce others into participating in their illicit operations by offering substantial bribes(Jayasekara, 2021).

2.6 Social and Economic Repercussions of Money Laundering

Research have shown that money laundering has negative consequences on the economy, including capital depreciation, slower growth rates, changes to interest rates and the Consumer

Price Index (CPI), which may result in inflation and damage financial institutions. Eventually, these effects will limit the chances for foreign and local direct investment(Rusanov & Pudovochkin, 2021). Furthermore, money laundering is bad for society since it might provide unlawful people a place to hide out, including terrorists, drug dealers, and other criminals who profit from cash laundering activities. The consequences of money laundering on society are significant. Money laundering affects a country's economy significantly and has a number of social repercussions as well. On the one hand, it has a negative effect that reduces the strength of the economy(Qureshi, 2017). Conversely, it has a detrimental effect on society. The government's ability to influence economic policy is weakened by the act of money laundering. Additionally, it presents the possibility of significant errors in the way that firms, governments, and financial institutions carry out their economic goals. Money laundering has far-reaching consequences for society since it helps drug traffickers, smugglers, and other criminal organizations grow. It also shifts economic power away from the market, the government, and the general public and towards these people who participate in illegal activity. In extreme cases, money laundering might lead to the complete takeover of legitimate government authority(Zia et al., 2022).

3.0 Methodology

For this study on understanding the layers of illicit wealth in Pakistan's money laundering web and tracing its socio-economic fallout, a descriptive research design was employed. This design aimed to thoroughly explore and elucidate the phenomena under investigation, providing a comprehensive picture of the intricacies involved. The research philosophy adopted for this study was interpretivism. In the context of money laundering in Pakistan, interpretivism facilitated an in-depth understanding of the socio-economic implications and the underlying mechanisms driving illicit financial flows.

Data collection involved a multidimensional approach, incorporating information from various sources. Secondary data were gathered from scholarly articles, reports, books, and available data sets, including indexes related to financial transparency and corruption. The collected data underwent rigorous analysis utilizing Contextual analysis of data gathered from various sources like scholarly articles, reports, books, and available data sets, including indexes related to financial transparency and corruption focusing on understanding the socio-economic context surrounding money laundering activities in Pakistan. This approach allowed for a nuanced exploration of the factors influencing illicit wealth accumulation and its consequences.

Ethical considerations were paramount throughout the research process. Measures were taken to ensure the confidentiality and anonymity of data sources, especially in sensitive materials obtained from reports, books, and scholarly articles. Informed consent was not applicable in this case, as no interviews were conducted. However, efforts were made to present findings accurately and responsibly, avoiding any misrepresentation or bias. Through the utilization of a descriptive research design grounded in interpretivism, coupled with a comprehensive data collection and analysis process, this study provided valuable insights into the layers of illicit wealth in Pakistan's money laundering web and its socio-economic fallout. Ethical considerations were central to the research process, ensuring the integrity and credibility of the findings.

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4.0 Findings and Results

The principal predicate offenses identified in this research are corruption, tax crimes, smuggling, as well as drug and human trafficking. Pakistani individuals involved in money laundering often use conventional methods such as cash smuggling, round-tripping, maintaining several bank accounts, investing in real estate (both in Pakistan and Dubai), and engaging in hawala transactions. Cybercrimes, cyber laundering, and trade-based money laundering are seeing an upward trend. The majority of laundering instances involve individuals who are politically exposed.

4.1 Channels of Money Laundering in Pakistan

The money launderer used various methods to manage his illicitly obtained funds.

- ✓ To deposit these moneys into the financial sectors
- ✓ To be invested in some development work project
- ✓ To be invested in some government securities
- ✓ All other forms of legitimated sources

Money laundering in Pakistan occurs via multiple channels and channels, including individuals such as politicians, terrorist groups, businesses, criminal agencies, and others. The following are some of the most prevalent methods of money laundering in the nation.

4.1.1 Drug Trafficking

Pakistan is geographically adjacent to Afghanistan, India, and Iran, all of which possess significant opium or drug manufacturing capabilities. The permeability and inadequate security measures of these borders contribute to the frequent occurrence of drug trafficking across them. The drug lords use the profits derived from the illicit drug trade, acquired via the smuggling of narcotics over international borders, to finance other criminal or terrorist endeavors. Due to the exorbitant pricing of the illicit substances transported over Pakistan's borders, the volume of cash being transferred is often substantial, sometimes reaching hundreds of millions of Pakistani rupees. Consequently, drug traffickers engage in the illicit practice of laundering substantial sums of currency, commonly referred to as "black money" or "dirty money," which remains unregulated. This is particularly evident when drug traffickers possess influential connections within the establishment or government, enabling them to offer bribes to relevant authorities or leverage their power to ensure their secure operations.

4.1.2 Hawala and Hundi

Hundi is well recognized as a significant form of money laundering in Pakistan and its surrounding nations. Hawala/hundi is a prevalent method of currency exchange in Pakistan and India. In this approach, the representative of Hundi in one country gets cash from the sender and, rather than transferring the funds, requests the representative of Hundi in another country to pay the money supplied, thereby circumventing the appropriate banking route. Through Hundi, they evade the payment of the relevant tax on the cash, resulting in the banking channels assuming the financial burden. The lack of oversight in monitoring illicit transactions leads to the laundering of substantial amounts of money, so presenting a significant risk to the integrity of the economic system. Unfortunately, the daily monetary transactions facilitated by this method have surpassed

USD30 million.

4.1.3 Tax Evasion Tactics

Similar to other nations, the governing class in Pakistan shown a lack of concern towards tax payment. They often engage in further criminal activities in order to perpetrate tax evasion. Usually, they provide bribes to tax authorities, enabling them to evade tax obligations. Following the disbursement of the bribe, often only a little fraction of the taxable sum, there is a subsequent decrease in tax revenue. In contrast, the remuneration received by government officials in the past was notably inadequate, making it unfeasible for them to have a lavish or even satisfactory standard of living. Consequently, the provision of a bribe serves as an incentive for individuals to satisfy their desires, leading to Pakistan being classified as the country with the greatest frequency of bribery in South Asia. In addition, anti-money laundering agencies are paid with a substantial amount of money, which therefore permits the movement of funds to other countries. Consequently, the harmful culture of bribery serves as a primary means and conduit for money laundering in Pakistan.

4.1.4 Underground/Alternative Banking

Subterranean or alternate routes of distribution are quite common in developing or third world countries, especially in Asian countries like China, Pakistan, India, and Sri Lanka. Customers using these channels have access to a multitude of possibilities, such as the ability to transfer or withdraw funds across channels or nations without official documents. Individuals entrust these systems with their confidence. The system in question includes the "fie chen" system in China and the "hawala" system in Pakistan and India.

4.1.5 Investment in Business Project

Money launderers may transfer their illegal money to reputable big businesses with substantial daily cash turnover, such stock exchanges, casinos, and brokerage companies. As an alternative, they can decide to put money into minor companies like building a chain of gas stations, convenience stores, retail stores, and lodging facilities. These businesses could provide their clients with effective services, but their main goal is to quickly turn illegal money into legitimate assets. The money launderer mixed illegal money with earnings from legitimate business ventures.

4.1.6 Corrupt Politicians and Administrators

Unfortunately, the presence of unscrupulous politicians and bureaucrats is facilitating the emergence of significant criminal activities in the nation, such as corruption, bribery, money laundering, and the process of "whitening" illicit funds. The promotion of these crimes is facilitated by corrupt officeholders who engage in activities such as money laundering, offshore property creation, drug trafficking, smuggling, corruption, misappropriation of funds, bribery, and others. Additionally, these officeholders may also accept bribes from individuals involved in these illicit activities. In addition to politicians, employees in anticorruption and administrative offices have also been linked to receiving bribes from money launderers. These individuals have been granted permission to withdraw substantial sums of money from the country and, in exchange, have also accepted bribes from them. Personnel in the antinarcotics units and airport authorities have provided aid to those involved in money laundering and drug trafficking by facilitating the transfer of monies overseas.

4.2 Socio-Economic Impacts of Money Laundering in Pakistan

The detrimental socio-economic impacts on society and the persistent threats faced by enterprises and governments are mostly attributed to money laundering and terrorist funding. Criminal behavior may flourish in countries that exhibit weaknesses, inadequate resources, or leniency in addressing anti-money laundering (AML) and counter-terrorism financing (CFT) concerns.

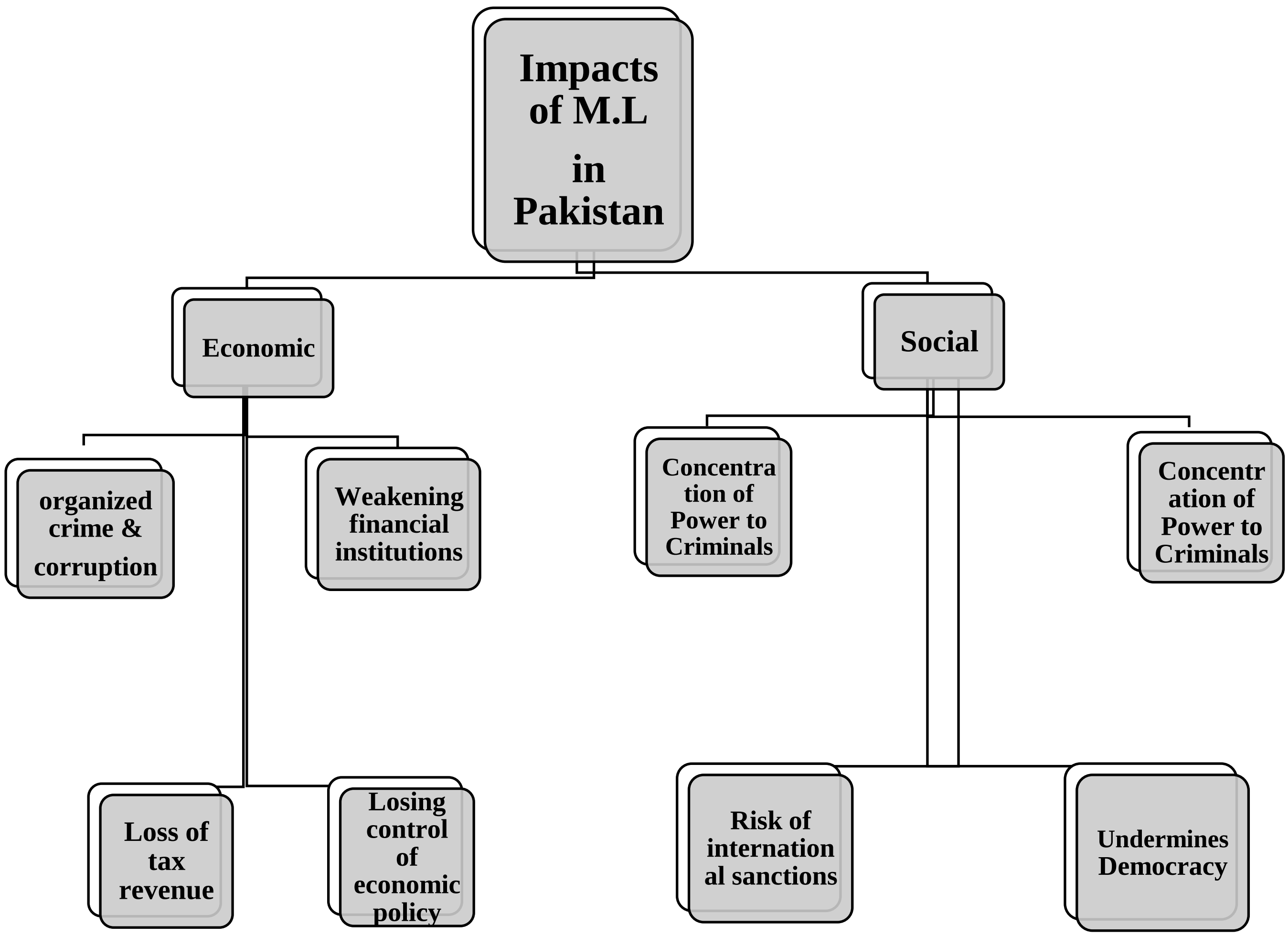
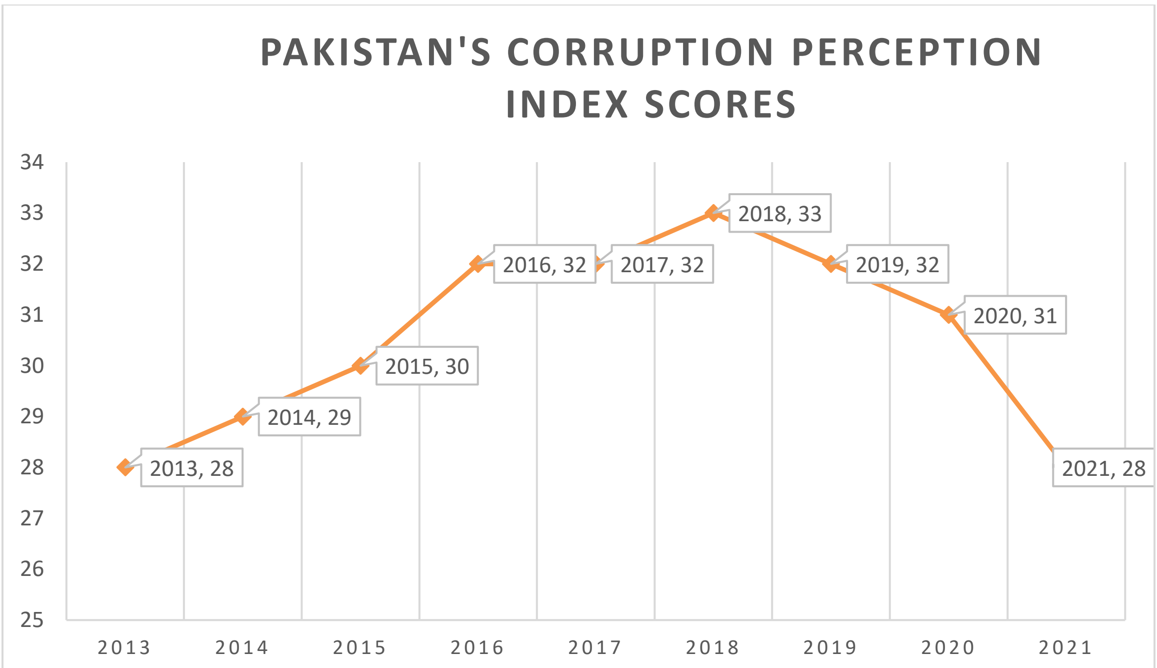


Fig 1. Social-Economic Implications of Money Laundering

4.2.1 Increased exposure to organized crime and corruption

The susceptibility to money laundering creates an ideal environment for crooks to thrive. Jurisdictions that facilitate money laundering will inevitably attract an increasing amount of illicit funds for laundering purposes. This establishes a detrimental cycle in which firms and companies can rapidly become victims of 'placement' influxes of illicitly obtained funds, while government officials and financial experts are ridiculed for accepting bribes and ignoring or directly participating in these activities.



Graph 1. Source: Transparency International 2021

4.2.2 Weakening financial institutions

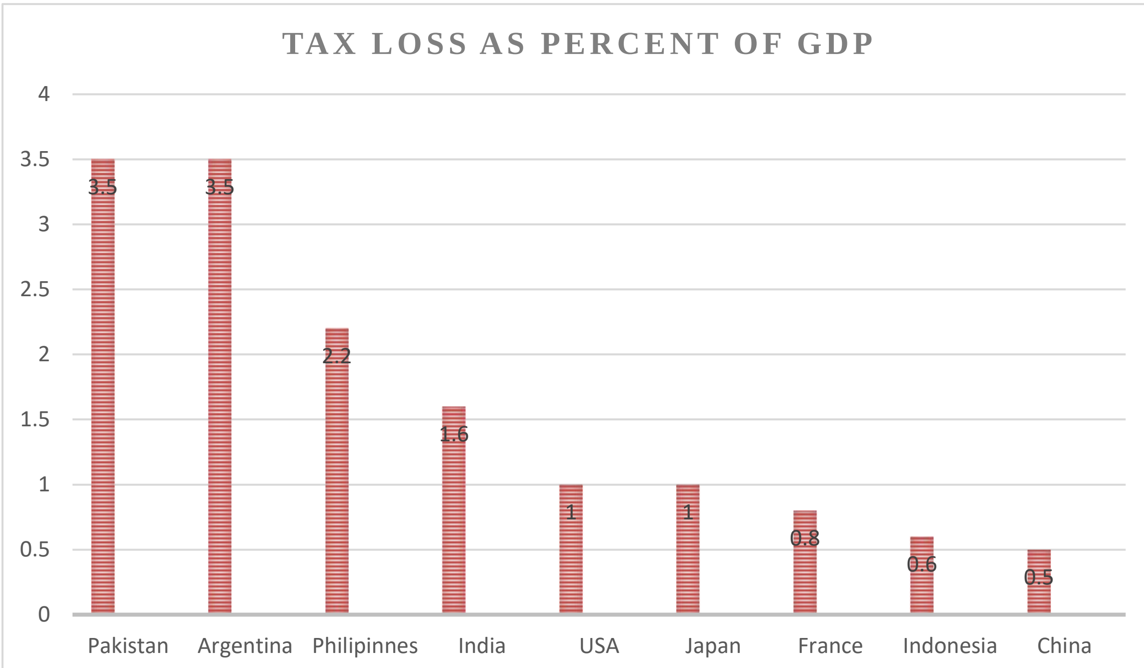
The stability of individual banks and financial institutions, such as securities firms and insurance companies, is adversely impacted by money laundering. The establishment and upkeep of an effective Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) programme is typically a requirement for a financial institution's operational mandate. Failure to comply with this requirement may lead to substantial civil monetary fines, perhaps resulting in the revocation of the institution's charter..

4.2.3 Losing control of economic policy

When substantial quantities of assets are intricately entangled in money laundering procedures, these unlawful gains can significantly outweigh government budgets, generate instability in currency exchange rates, and have a negative impact on currencies. This kind of manipulation may also lead to the relinquishment of governmental authority over economic policy or the occurrence of policy errors stemming from measurement inaccuracies in macroeconomic statistics.

4.2.4 Loss of tax revenue

Income for the government is immediately reduced as a result of tax evasion, which therefore takes advantage of taxpayers who are honest. The majority of economic stabilization initiatives prioritize the correction of this issue as their primary priority because it is at the core of the economic troubles that many countries are experiencing.



Graph 2. Source: IMF Report 2021

4.2.5 Risk of international sanctions

Nations and institutions frequently employ sanctions as a means to safeguard their financial system against money laundering operations, targeting jurisdictions, entities, persons, terrorist groups, and drug traffickers. As a result, countries impose either sweeping or tailored penalties on themselves. Comprehensive sanctions impose a prohibition on all transactions involving a particular country, whereas targeted sanctions restrict transactions with specific industries, businesses, or individuals that are included on OFAC's Specially Designated Nationals and Blocked Parties List. Compliance is crucial for your firm due to the potential consequences of non-compliance, which can lead to both criminal and civil penalties. The Financial Action Task Force (FATF) urges its members to enforce measures against jurisdictions and businesses, requiring them to exercise increased scrutiny in their commercial connections and transactions with individuals and legal entities. This is done to boost a country's ability to combat money laundering and counter-terrorism financing.

4.3 Social Impacts

Money laundering exerts a pervasive influence on several facets of society, encompassing not just the economic landscape of a nation but also serving as a fundamental catalyst for numerous social problems and challenges. The credibility and reputation of financial institutions are negatively impacted when the international community becomes aware of a country's leniency in the enforcement of Anti-Money Laundering (AML) legislation. The contraction of firms and investments has significant societal ramifications. This phenomenon exposes the populace of a nation to many illicit activities, including but not limited to smuggling, drug trafficking, and tax fraud. Drug lords, hardened criminals, and traffickers use the profits from crimes to finance more illegal activities. Other offenders are incentivized and driven to participate in money laundering due to their lack of punishment. Consequently, machine learning (ML) contributes to the proliferation of criminal behavior inside society, so adversely impacting the overall community

4.3.1 Centralized Power to Criminals

In addition to its numerous detrimental consequences on the socioeconomic system, money laundering is responsible for the shift of economic power from the market, the government, and residents to criminals. Considering that criminals have the capacity to control the economy, it is inevitable that they would have an influence of corruption on every aspect of society. In severe circumstances, it may result in the virtual takeover of the government that it is supposed to represent.

4.3.2 Undermines Democracy

Criminal organizations have the potential to become economically and politically powerful, which may, in the long run, lead to the weakening of democratic institutions, as well as the social fabric, collective ethical norms, and other aspects of society that are democratic in nature. This is a possibility because criminal organizations have the ability to give rise to economic and political power. In addition, criminal organizations have the potential to produce political power in the future.

4.3.3. Surge in Criminal Activities

Money laundering facilitates the expansion of operations for drug traffickers, smugglers, and other criminal entities. This leads to an escalation in government expenses as a result of the need for heightened law enforcement and healthcare outlays (such as for the treatment of drug addicts) in order to address the severe repercussions that ensue. Criminals use several strategies to convert their illicit funds into lawful revenue. The illicit Money Laundering syndicate has a worldwide reach. Based on an enquiry conducted by the United Nations Office on Drugs and Crime (UNODC), an examination of the magnitude of money laundering (ML) revealed that illicit gains constituted 3.6 percent of the worldwide Gross Domestic Product (GDP), with 2.7 percent (equivalent to USD 1.6 trillion) being subjected to laundering activities.

4.4 Prominent Cases of Money Laundering In Pakistan

Several notable instances of money laundering have been documented in the last decade, and the ones taking place in Pakistan are listed here.

4.4.1 Case of the Khanani and Kalia Foreign Exchange Company

In Pakistan, the Khanani and Kalia Company engaged in the operation of foreign currency exchange and was implicated in the illicit activity of money laundering.Javed Khanani and Munaf Kalia were apprehended and subsequently transferred to the Federal Investigation Agency (F.I.A). Both individuals were convicted of unlawfully moving around $10 billion out of Pakistan and were formally prosecuted by the Federal Investigation Agency (F.I.A.) after the conclusion of their investigations. U.S officials have also accused both individuals of participating in money laundering activities inside the United States and offshore areas.

4.4.2 Cash Smuggling Case of Ayyan Ali

Ayyan Ali, a Pakistani model, was apprehended at Islamabad Airport upon the detection of a sum of U.S. $506,000 in her suitcase, which was allegedly intended for transportation to Dubai. The aforementioned sum exceeds the prescribed upper limit for cash withdrawals from Pakistan, which was established at $10,000 and $60,000 annually. Ali's quantity was tenfold more than that. Ali was subjected to legal proceedings and subsequently incarcerated at Adiala prison. In addition, investigations were conducted; nonetheless, Ayan Ali was given bail and subsequently freed from incarceration subsequent to the payment of substantial penalties amounting to around 50.5 million (5.5 crore) Pakistani rupees for her contravention of Pakistan's A.M.L. legislation. As a kind of retribution, her name was further included on the exit control list to prohibit her from engaging in any further international travel.

4.5 Credibility of Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) has gained global recognition and recognition for its stringent standards and highly efficient efforts in combating money laundering and terrorist funding. The establishment of this Task Force took place at the 1989 summit via the collaborative efforts of the G7 countries. Initially, this organization had a presence in just 16 countries. However, due to its popularity and the implementation of very successful advice, it expanded its reach to 37 nations.

Graph 3. Source: Basel Anti Money Laundering index (AML) Index 2021

The technical term for this is the International Standards for Pakistan's Response to Money Laundering and Terrorist Financing, which aims to fight money laundering and the spread of mass devastation.

4.5.1 Pakistan and FATF

Regrettably, Pakistan has been severely impacted by the pervasive issue of money laundering and faces a heightened vulnerability to terrorist funding. Many nations, particularly India, have used this opportunity to engage in a blame game with the aim of undermining Pakistan's reputation in the international arena and portraying it as a center for terrorist funding. As a consequence, Pakistan's name has been included in a watch list. This was done to closely monitor the funding process, which may potentially be linked to terrorist financing. In the current context, Pakistan has encountered several issues pertaining to corruption, terrorism, and narcotics trafficking

Money Laundering	*Terror Financing*

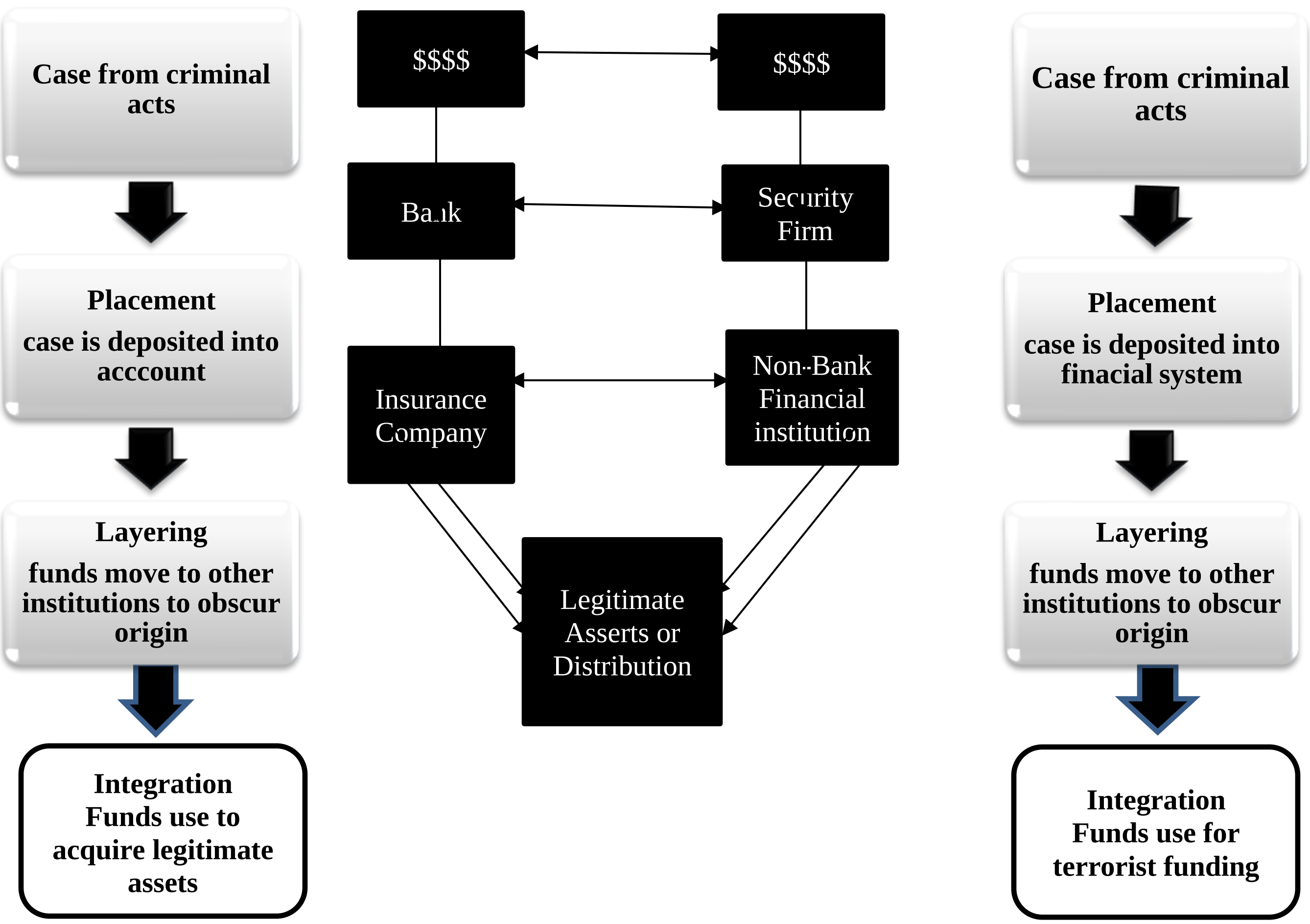


Fig 2. Money laundering and terror financing

The national and global challenges faced by Pakistan from the standpoint of machine learning and text generation. Pakistan is faced with significant challenges in addressing money laundering (ML) and terrorist financing (TF) due to the need to mitigate the trust deficit that has emerged on an international scale in the context of commerce and foreign investment. The achievement of earning the trust level of stakeholders is contingent upon Pakistan's performance. The widespread acceptance of cash without documentation is a significant phenomenon that presents considerable issues in terms of tracking and tracing its source, as well as determining net income. This has a wide-ranging impact on tax collection. Money laundering encompasses the illicit transfer of criminal activities to developed nations, resulting in significant consequences for the country. These consequences include trade penalties, the perception of ineffectiveness in countering terrorism, and the imposition of stringent restrictions by other countries. Tracking the distinction between valid and illicit money necessitates thorough examination in order to address the issue, given the presence of many operational enterprises in Pakistan that receive substantial investment to ensure their smooth operation.

The honorable courts persistent long-term judgment-based rulings, which limit the capacity to track down and freeze accounts, are one of the problems Pakistan faces. The lack of interrogative provisions in sections 111(4) of the Income Tax Ordinance, 1998 and 5 and 9 of the Protection of Economic Reforms Act, 1992 presents difficulties in the execution of Foreign Currency statements. Loopholes in banking and financial systems may be exploited for malicious intent. One strong indication that there are weaknesses in the financial system is the discovery of bogus accounts, which have been looked at by a Joint Investigation Team with the approval of the prestigious Supreme Court of Pakistan. One major barrier to ongoing money laundering surveillance is the application of sanctions by global communities with the intention of blocking accounts and trade. The issues raised by the unrecorded cash flow economy are serious and need for quick resolution. This presents a significant challenge to the enforcement of anti-money laundering legislation. Recently, the Pakistani government suggested a system for calculating tax rates based on the assets and worth of business owners.

Table 1. Timeline of compliance of Pakistan on FATF Action Plan

Year	Narrative Of Compliance
June 2018	FATF placed Pakistan on grey list on 28 June 2018. Pakistan has 15 months to complete FATF's 27-point action plan to avoid being added to the black list.
August 2018	A FATF Asia-Pacific Group team reviewed Pakistan's 27 action item work. The team observed the functioning and noted Action Plan progress inconsistencies in its 26 August 2018 report.
October 2018	FATF deemed Pakistan's action plan progress inadequate.
October 2019	FATF ultimately assessed Pakistan's Action plan performance. FATF extended Pakistan's Action plan deadline to February

	2020, keeping it on the Grey list until then.
January 2020	Pakistan's FATF case being examined at a Beijing semi-plenary on numerous topics. Pakistan is expected to make significant progress on 10-15 items before the Feb 16-21, 2020 plenary.
February 2020	The anti-money-laundering authority complimented Pakistan's accomplishments on its 27-point action plan at a plenary. Pakistan was given till June 2020 by FATF to comply with the remaining 14 criteria.
April 2020	Since ministries and other departments are online due to global lockdowns, FATF has granted Pakistan another extension to comply with its 27-point action plan until October 2020.

In order to solve the underlying issues, tax collection is being taken into consideration, and efficient planning and processes are being developed with stakeholders. Pakistan is adopting FATF ML & CFT recommendations and UNO decisions. FATF recommendations include identifying and supervising terrorist funding, corrective steps, and countering unlawful money transfers and financial flows to halt terrorist financing.9 Pakistan recently won her lawsuit against FATF's grey list and alerted FATF of the rigors steps taken against the ML and TF).

5.0 Discussion and Conclusion

Money laundering has been acknowledged as a significant illicit activity on a global scale. Terrorists, drug traffickers, smugglers, and black money owners use various money laundering techniques to fund their operations, facilitate drug trafficking, and purify their unlawfully acquired assets. Regardless of the specific approach used, the process of money laundering involves three fundamental stages: placement, layering, and integration of funds(Zia et al., 2022). Despite the efforts made by A.M.L. organizations worldwide to establish processes, regulations, and policies aimed at preventing and mitigating money laundering, these measures have proven inadequate, resulting in a significant escalation of the issue to the extent of billions of U.S. dollars on a global scale. Money laundering has detrimental effects on a broader scale, including a decrease in income, hindered tax collection, and weakened government control over the economy. It results in social injustice as the criminal relishes a more opulent lifestyle and adheres to stricter protocols, at the expense of society, which should have prioritized their well-being. The repeated investment of unlawful cash by criminals has a detrimental impact on the whole financial structure of markets(Sultan & Mohamed, 2023). The current situation raises concerns about the openness of the financial system and the government's ability to implement effective measures against money launderers.

Cash laundering gives rise to a multitude of economic, social, and political issues and complexities.

Presently, Pakistan is facing economic difficulties that need substantial international trade and investment. Consequently, there is a direct requirement for valuable players to ensure the stabilization of the economy. Without a question, the economy is a crucial foundation for a country's growth(Sultan et al., 2022). Pakistan, in particular, has been significantly impacted by money laundering, resulting in a decline in its economy. Furthermore, the extreme ideology has a significant and focused impact on the cognitive faculties of young individuals, shaping their perspectives and values. The Pakistani government has devised and executed a set of guidelines and initiatives, facilitated by NACTA, to empower the young and assist them overcome their challenges(Ahmed, 2014). The registration and equal status of Madaris, in partnership with the Federal Board of Revenue and Higher Education Commission, are constructive measures towards fostering peaceful concord among education institutions in Pakistan. These efforts align with the viewpoint of the Financial Action Task Force (FATF) (Shah, 2023).

Undoubtedly, the younger generations play a crucial part in the growth of the nation, and the ultimate goal of Pakistan's policy is to provide equal opportunities for the youngsters. Pakistan has implemented many centralized mechanisms that effectively monitor the financial transaction system(Amin et al., 2020). These mechanisms have made significant progress in meeting the stringent requirements required to detect and prevent money laundering and terrorism funding.

Pakistan has always endeavored to adhere to the standards set out by the international financial framework and has implemented various measures in pursuit of this objective. The nation has pledged to provide many reports to the FATF authorities in order to substantiate its pledges pertaining to anti-money laundering/counter-terrorism financing endeavors. The National Security Committee reiterated its commitment to collaboration with the Financial Action Task Force (FATF) on June 8, 2018. Additionally, the South-east China Partnership (SECP) released the Anti-money Laundering and Countering Financing of Terrorism Regulations on June 20, 2018(Chohan, 2020).

Pakistan has made notable advancements in combating money laundering (ML) and terrorist financing (TF), and the comprehension of private banks about this matter has also been enhanced via several capacity development workshops(Gul et al., 2021). Further action is required to address the informal financial network known as Hundi/Hawala. This may be achieved by the implementation of physical measures, such as border control and enhanced physical inspections, to prevent the transfer of any kind of liquid currency. Financial transactions should be conducted only via banks that are transparent to the State Bank of Pakistan, the financial regulator.

The government should promptly establish a working group, either via the Financial Services Board (FBR) or the Ministry of Finance, to document Pakistan's economy. India has had similar challenges, prompting repeated experimentation to explore strategies for mitigating the proliferation of parallel economies(Hussain, 2019). This is important because to the inherent difficulties in tracing, apprehending, and penalizing defaulters within a cash-based economic system. In order to effectively address money laundering and terrorist financing, the Government of Pakistan should extend invitations to private sector money exchangers and solicit their participation. These exchangers possess knowledge of the pathways via which illicit transactions are conducted. Lastly, it is imperative for Pakistan to enhance its diplomatic endeavors and adopt a proactive approach in engaging with the Financial Action Task Force (FATF) as well as observer organizations and nations(Amin et al., 2022).

In addition, it is essential for law enforcement authorities to develop efficient methods and processes to enhance collaboration at the local, regional, and international scales in order to monitor and trace actions associated with money laundering, whether they are directly or indirectly connected (Aslam & Aslam, 2019). Implementing ongoing and stringent security measures at permeable international borders and airports would effectively deter smugglers and money launderers from transferring funds across different regions. Moreover, by regular monitoring of wire transfers and other currency transfer methods, financial institutions may actively contribute to the detection of money laundering and the identification of its origins. Consequently, they can promptly report any questionable money transfers to the appropriate security services(Sultan et al., 2024).

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Asiya Anwar: Data Analysis, Supervision and Drafting
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