

**Negative Effects of Money Laundering on Economic Development**  
**Brent L Bartlett**  
**Dewey Ballentine Study for ADB - May 2002**  
**APG Secretariat Summary**

This paper remains a relevant resource for the APG to help support the effective engagement of a number of directly political arguments put forward in some quarters for inaction against money laundering. The experience in the Philippines in early 2003 regarding efforts surrounding their NCCT status illustrates the need to address these live political issues. The study is useful for anti-money laundering policy decision support in developing APG jurisdictions.

The paper is rigorous and well presented. It focuses on qualitative analyses of questions regarding “why anti-money laundering efforts matter”. The analyses explore the parameters of the effects of money laundering and provide necessary contrasts to the more often addressed issues of the extent of money laundering in developing countries.

A summary of the key points raised in the study are outlined below:

***Summary of key points***

Many of the existing formal economic analyses of money laundering have sought to quantify the extent of money laundering, rather than qualify its effects on individual economies or groups of economies.

The negative economic effects of money laundering on economic development can be qualified in terms of three sectors of the economy: financial, real and external.

Money laundering:

- damages the financial-sector institutions that are critical to economic growth (internal corruption & reputational damage);
- reduces productivity in the economy's real sector by diverting resources and encouraging crime and *corruption*, which slow economic growth;
- distorts the economy's external sector—international trade and capital flows— (reputational damage & market distortion) to the detriment of long-term economic development.

Developing countries' strategies to establish offshore financial centres (OFCs) as vehicles for economic development are also impaired by significant money-laundering activity through OFC channels.

Effective anti-money-laundering policies reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

APG Secretariat  
March 2003