

Abstract

Several attempts have been made in the economics literature to measure money laundering. However, the adequacy of these models is difficult to assess, as money laundering takes place secretly and, hence, goes unobserved. An exception is trade-based money laundering (TBML), a special form of trade abuse that has been discovered only recently. TBML refers to criminal proceeds that are transferred around the world using fake invoices that under- or overvalue imports and exports. This article is a first attempt to test well-known prototype models proposed by Walker and Unger to predict illicit money laundering flows and to apply traditional gravity models borrowed from international trade theory. To do so, we use a dataset of Zdanowicz of TBML flows from the US to 199 countries. Our test rejects the specifications of the Walker and Unger prototype models, at least for TBML. The traditional gravity model that we present here can indeed explain TBML flows worldwide in a plausible manner. An important determinant is licit trade, the mass in which TBML is hidden. Furthermore, our results suggest that criminals use TBML in order to escape the stricter anti money laundering regulations of financial markets.