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RESEARCH PAPER

The Impact of Money Laundering on Pakistan's Economic Growth: A Critical Analysis

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ABSTRACT

This paper examins the impact of Money laundering on economic growth of Pakistan and the role of the Financial Action Task Force (FATF) on financial expansion of Pakistan. The processes of money laundering are endangering the economic stability of an economic system by ruining the trust of the potential investor and facilitating a way of transferring money illegally by using non-banking fiscal institutions and transfer of properties and goods. Consequently, the qualitative approach was employed in this research, and the findings were made up of the information gathered with the help of various resources such as journals, internet resources, books, and research papers, all of which also served as secondary sources. The effects that money laundering has had on the economy of Pakistan are not limited to foreign capital, reduced tax revenue, increased degree of corruption as well as the decline of trust and confidence of people on the financial base but the research underlines the significance of fiscal transparency as a motivating factor to legitimate investments in appropriate trade. Some of the recommendations that were formulated during this study were to strengthen anti-money laundering (AML) legislation that runs artificial intelligence, create a due diligence system on client, establish special courts that run anti-money laundering, and sensitization that complies with the requirements of FATF to effected implementation.

KEYWORDS Anti-Money Laundering, Financial Action Task Force, Restricted Foreign Capital, Operating Artificial Intelligence, Money Laundering Threaten

Introduction

The money laundering is the act of concealing or covering the root of acquired the funds unlawfully and it also transforming that illicitly capital into legitimate money as if it were lawful. The unlawful capital or funds result from number of different illegal acts, such as but it is not limited smuggling, contract killing, corruption, bribes, weapon trafficking, human trafficking, fraud, and drug smuggling etc. Additionally, money laundering authorizes people to transfer massive wealth figure across borders without having settle taxes and in turn, creates monetary discrepancies, also make underground or black markets, corruption, and worldwide economic unsteadiness. The criminal activities often take opportunities from these methods such as drug and weapon trafficking, extortion, terrorism to disguise their illegitimate monetary revenue as lawful.

The problem is a major worry in the financial system, generating trust concerns, promoting corruption, and harming foreign investments. The Money Laundering makes trust issues in public about financial system working, increase corruption in every field and badly affects foreign investments. For developing countries like Pakistan, the impact of money laundering is particularly severe due to weak regulatory frameworks, widespread corruption, and a large informal economy. People might be involves in terrorism, drugs, trafficking, human trafficking, piracy, kickbacks and other illegal activities to fulfill their needs. Pakistan struggling money laundering to achieve their ideal life style which is very difficult with legal way. Over time, money laundering link other activities in tax evasion, smuggling and terrorist financing. This kind of activities damage badly in country's financial system and make difficulties to grow legal businesses.

To understand this issue is necessary for making policies to stop illegal money transfer and protect businesses from financial fraud, make action to stop misusing of banking channels for illegal activities and recommended better economic policies to finding the solution. The role of Pakistan in addressing this issue is discussed, as well as worldwide development and control mechanisms. The document also analyses obstacles and loopholes in the implementation of anti-money laundering rules, as well as recommendations for more effective systems. If this trend continues, it might inflict major economic harm and provide a huge barrier to Pakistan's financial progress. FATF monitors financial crimes throughout the world and has placed Pakistan on its grey list, signifying a high risk of money laundering and financial fraud. This has brought to light a clear demand for more stringent initiatives associated or linked with (AML). All forms of unlawful or forbidden activities that linked with money laundering in Pakistan and jeopardize the financial security of Pakistan.

Literature Review

Money laundering is one of the greatest concerns of scientists and professionals due to its effects on financial institutions. It involves the conversion of illegal proceeds to apparently legitimate money with hiding the actual ownership and source, hence adding to inflation, economic instability, and currency volatility. Money laundering is done by criminals to hide their dirty fortune and convert it into lawful assets to ensure that the government does not seize it. This is a never ending battle that compels criminals to keep on adapting their ways so that they are not identified. Money laundering is said to have been coined in 1970s, but the practice has its roots in the 1930s Chicago, where criminals were laundering their illicit income, which links it to organized crime (Georgieva, 2020).

Money laundering and terrorist funding constitute a major challenge to both developed and developing nations as governments are willing to spend a lot on budget in fighting these menace. The national economies are undermined by these financial crimes which affect the neighboring nations and aggravated by financial globalization through which capital can be transferred illegally. After 9/11, terrorism has been more connected with financial crimes that require joint efforts on a global scale to ensure that economies are not impacted by such crimes (Kutubi, 2011). Money laundering undermines the efficiency of financial market because it introduces illegal money into the market which may lead to misallocation of resources and reduction of economic growth. These effects are compounded by loose regulatory regimes, large scope of corruption and a large informal economy in Pakistan. The informal sector, the sector that operates outside the boundaries of the legal authority, is an ideal place to launder money, and it is quite hard to identify the activity and prevent the practice (Unger and Van der Linde, 2013).

The political and economic stability in governments is greatly affected by money laundering. It has brought forward national and international concern causing international and national reactions to the threat. The lax regulation and implementation have led to an increase in the susceptibility of underdeveloped nations to its abuses in the past decade. These nations have served as a haven to money launderers and other economic and financial criminals. The exact effect of money laundering on the economic and political systems of developing countries, and the effectiveness of the legislation to fight the vice. It also examines the effectiveness of such strategies (Aluko & Bagheri, 2012).

Money laundering is a significant social problem, which transcends beyond economic problems, and impacts people, causes poverty, and promotes corruption. Many developing countries such as Pakistan have financial crimes which weaken their economy and hinder human development. The movement of illegal funds disrupts the economies and lowers the level of tax revenues which affect the provision of services to the masses including health services and education negatively (Tanzi, 1996). Money laundering refers to the art of hiding illegal profits using tricks like transfer of currency, setting up of businesses and underground banking systems. Although it cannot be seen that these tactics are directly connected to crime rates, since the 1980s governments have made world-wide efforts to combat these illegal flows. Anti-money laundering (AML) system attempts to identify and penalize offenders and also assist in recovering assets albeit the money recovered is not significant compared to the huge amount of criminal money. The battle against money laundering is being fought by different institutions such as the international monetary fund and the World Bank (Levi and Reuter, 2006).

The current banking framework and the growing competition should be changed towards electronic banking. This can be associated with client structure alteration and technological innovation. Some of the benefits of electronic banking include the ability to process transactions quickly and reduce waiting time. Nevertheless, some questions do exist, including the fact that it is easy to use electronic payment systems to launder illegal funds. It can focus on using electronic payment systems, online betting, and crypto currencies to launder money, and it aims to identify how the mentioned systems can be used to launder money (Matejic and Curcic, 2022). Money laundering is an acute problem all over the world whereby criminals transfer illegal cash to legal income which may reach 2-5% of the global GDP according to the IMF. This practice undermines the international financial institutions and threatens the national economies by hiding the illegally acquired finances, which damages the financial systems and economic systems. Ways through which the financial system aids money laundering include computerized payment systems, wire transfers and off shore institutions. The solution to this problem requires cooperation between countries and strict enforcement of the law (Sarigul, 2013).

Money laundering is committed in three phases which includes placement, layering and integration and it negatively affects economies of countries as it pollutes financial institutions and promotes illegal activities. The rise of the economy in cities like Karachi, Lahore and Islamabad occasionally conceals the illegal activities which is worsened by the relaxation of regulations and a large informal sector. The corruption and terrorism worsen the situation in Pakistan making the regulation more difficult and revealing the weaknesses of the current policy against money laundering. The solution to these challenges requires integrative strategy involving change in legislation, capacity building, and worldwide collaboration (Butt & Hadi, 2025).

A panel-data model covering 1976-2022 shows that foreign direct investment (FDI) as well as trade intensity impacts positively on credit availability in South Asia. With the reforms that were introduced in China in 1980s, FDI developed a significant contribution to the growth of global economies receiving over 100 billion by the year 2014. The market size and regulatory structures are yet another factor that should be considered, and FDI encourages technological advancements in Sub-Saharan Africa, albeit with environmental problems. Growth and sustainability should be pursued by policymakers with an effective trade policy to increase FDI to emerging BRICS members (Anwar, Asif, Akhtar, and Javeid, 2024)

Material and Methods

In this research "The Impact of Money Laundering on Pakistan's Economic Growth: A Critical Analysis" a qualitative methodology is utilized in which the researcher has been used on historical, descriptive, and analytical approaches to gather data and also analysis. It is based on secondary source materials including articles, books, scholarly journals, research thesis and the internet research thesis.

Results and Discussion

Money Laundering

Money laundering engaged the three techniques of placement, layering, and integration combined with the camouflage of illegal currency. It is an aspect of different area of offense like drug trafficking, and fiscal terrorism etc. Money laundering make threatens for worldwide international monetary systems by legitimizing illegal cash into lawful businesses and make a big obstacles or difficulties about the banking system of the integrity and transparency. Especially when the banking system has been broke by criminal groups. “The definition given by the Larousse dictates that money laundering means to do so through several actions similar to these models where lifelong operations are integrated relating to money laundering”(Krsteski, 2020). Through the money laundering’s process, international money networks like banks and other are encouraged to unlawful plans whereby unlawful operations hidden, and taxes are avoided; therefore, many different multinational banks utilize foreign bank accounts without identifying markings and also manifest lawful investments to facilitate money laundering and reinclude the unlawful cash into the financial system and they avoid the confiscation of their possession by the government (Krsteski, 2020).

Historical Background of Money Laundering

Money laundering which has a long history of being connected with US for a long time, it mentions to the act of mixing unlawful capital with lawful income to mask its origin. It frees black money from its organization with crime and brings it into the realm of white money and helps to facilitate the crime in world at extensive. Money laundering began about 2000 years ago when merchants in China were hiding their illegal profits. Organized crime used legal businesses to wash their illegal profits during the Prohibition in the 1930s. The passage of stricter laws in the 1980s, due to the War on Drugs, allowed law enforcement agencies to seize assets from individuals without having to prove any wrongdoing or criminal activity. First time the term "money laundering" was used in 1973 in connection with the Watergate scandal and described the process of turning illegal proceeds into legitimate income (Financial Crime Academy, 2024).

Money Laundering’s Sources

In Pakistan, money laundering related with illegal drug trade, bribery, corruption, smuggling and tax fraud, endangers people as well as companies, underscoring the need for more stringent laws to combat financial crimes.

Tax Evasion

Pakistan wastes about $10 billion per year via money laundering and tax fraud, which results in an unacceptable price-to-GDP rate and every day losses of 7 billion rupees, compounded by smuggling. To address these issues, the government requires legislative, administrative, and judicial changes. It is also on the Financial Action Task Force's "grey list" for weak anti-money laundering measures (Khan & Akhtar, 2021).

Bribery and Corruption

Money laundering poses notable threats to the different companies, and the banking sector that work with the public institutions. The lack of regulatory framework forms investigations very difficult and necessitates change by creating a larger awareness of the need for these investigations (Bartulovic, Aljinovic, & Piplica, 2023).

Contract Killing

In Pakistan, contract killing increases violence, legitimizes illicit funds, and aids criminal organizations in money laundering. This damages political institutions and market processes, impairs the financial system, inhibits anti-crime initiatives, encourages corruption, and is especially detrimental to developing countries that oppose immoral behavior (van Gestel, 2023).

Kickbacks

The detrimental impact of money laundering on tax revenues, stability, investor confidence, and foreign investment in Pakistan's economic institutions and economic growth. Some proposals include using artificial intelligence to improve anti-money laundering laws, creating specialized courts, implementing consumer due diligence, and following Financial Action Task Force (FATF) rules (Da Ros & Taylor, 2022).

Methods of Money Laundering

Money launderers and importers use various undercover methods that require serious research to tell how these weaknesses are systemic.

The Jewelry Industry's Money Laundering

Jewelry industry is prone to money laundering due to material and method competency dependence of success. Due to the less cost of the cash and second hand jewelry to the launderers, proper pricing is essential in countering the danger of counterfeits. The liquidity of jewelers allows converting cash at a faster rate than real estate and digital currency (Munawar, 2023).

Hundi

Hundi is a popular transfer of cash process in Pakistan and India that allows for international family money transfers without requiring actual financial movement. Although illegal in Pakistan, independent dealers continue to utilize it, allegedly contributing to about $15 billion in money laundering (Iqbal, 2015).

Using real estate as a means of money laundering

Criminals and terrorist groups in Pakistan employ real estate and corporate fraud to launder money, with 7.5 billion Dirham invested in Dubai real estate in 2014. Approximately PKR 7 trillion in illicit money entered the local economy, accounting for 20.6% of GDP ($300 billion) (Zia, Abbas, & Arshed, 2022).

The Transfer of Cryptocurrency Funds

Cryptocurrency is a digital, encrypted currency that exists on a public ledger. Its illicit connections are emphasized by the Liberty Reserve case, in which $6 billion was laundered, prompting massive Justice Department action (Munawar, 2023).

NGOs (non-governmental organizations)

Due to a shortage of legislation that permits tax-deductible grants, foreign donations to NGOs may aid money laundering. As demonstrated by Pakistan's prohibition on NGOs following a student attack, which resulted in the closure of educational trusts, instances have connected NGOs to terrorism or resistance to the government.

Cash Smuggling

Smuggling is the criminal transfer of money across borders to evade taxes by tricking airport workers and border guards. Money launderers might take advantage of the inadequate anti-money laundering rules in nations with low financial regulations (Gordon & Morriss, 2014).

Stages of Money Laundering

Three Stages of Money laundering do help to take understanding. Their three stages are Placement, layering, and integration. These three stages were main used in money laundering. Which are here described as below:

Placement

Money laundering includes unlawfully integrating monies into the Economic system to evade Currency Transaction Reports (CTRs). Small cash deposits, money mules for transfers, luxury item purchases, and currency swaps all hide the source of illegal funds, making future tracking more difficult (Bin Zul Kepli & Nasir, 2016).

Layering

Criminals launder unlawful funds using electronic transactions and jurisdictional advantages, including over and under invoicing, bogus products, and back-to-back loans. Furthermore, financial derivatives and swaps are manipulated through offshore entities, with offshore laundering operations valued at $10-12 billion USD and expanding at a 15% annual pace (Schneider & Windischbauer, 2008).

Integration

The integration phase of money laundering involves using illegal funds to purchase pricey items like real estate and automobiles before reintegrating them into the legal economy. Criminals frequently engage in legal firms to conceal the source of their cash, allowing for luxury purchases and revenue production, so completing the money laundering process (Bin Zul Kepli & Nasir, 2016). Money laundering in foreign nations involves three interrelated procedures. Transferring sizable taxable amounts to overseas banks without first withdrawing, integrating, or alerting local authorities may still be seen as money laundering, nevertheless, if local authorities are not notified or taxes are not paid (Alam, Sajid, & Hussain, 2022).

Figure 1: Stages of Money Laundering.

The Causes behind money laundering

Financial organizations can improve AML regulations by spotting illicit activity and warning signs by comprehending the motivations and tactics of money laundering.

Bank's Inability to Identify Launded Money

Due to limited monitoring and reporting of suspicious activity, money launderers are frequently able to move substantial amounts to overseas institutions without sufficient source verification. Minimal operational risk for banks is a result of high expenses and inefficient digitization (Li, 2023).

Lack of Cooperation among Nations

Money laundering problem in Pakistan is an issue that is faced due to lack of international co-ordination, administrative constraints, and geopolitical factors. To fight the global challenges such as terrorism and pandemics we need to enhance cooperation in the field of finance, health and security. The concept of multilateralism and multi-sector cooperation is a must in enhancing world development and social justice (Pierre, Lambert, and Milner, 2024)

Geo-strategic position

The strategic location of Pakistan has rendered the country a high drug trafficking route with approximately 43 percent of the total Afghan drugs estimated to be worth 27 billion or 30 billion passing through the country. The condition, as well as the instability in the region, is a threat to the fight against money laundering and terrorist financing in Pakistan (Zia, Abbas, and Arshed, 2022).

The Border's Nature

Money laundering is done through cash smuggling and internet transactions, particularly in those regions that have loosely applied anti-trafficking legislation. Technology and corruption are some of the ways through which drug cartels finance extremist operations. With the increasing global migration, the smuggling industry will be centralized, where the recruitment and logistic procedures will be concentrated on major transfer points on different scales of operation.

Money laundering and financing of terrorists

The arrest of Kulbhushan Yadav confirms the international activity in terrorism, a connection between money laundering and illicit business like drugs trafficking. The claims against organizations such as Blackwater, RAW, and CIA suggest that the organizations contribute to the jihadist factions in Pakistan, endangering the regional security in Quetta and Karachi (Jan, 2021).

Important cases of money laundering

Money laundering has been observed to have occurred through some of the best examples across Pakistan in the last ten years

Khanani and Kalia Foreign Exchange Company.

Khanani and Kalia Company of Pakistan was accused of money laundering through an amount of about 10 billion US Dollars. Javed Khanani and Munaf Kalia were convicted and had to be taken to custody by the Federal Investigation Agency (FIA). Although they were prosecuted by the US authorities, they were found not guilty due to the absence of evidence, and the Sindh High Court supported their fact after refusing to accept the appeal of the FIA (Khan, 2018)

Ayyan Ali's smuggling of cash

Ayyan Ali is a Pakistani model that was apprehended at the Islamabad Airport after transporting $506,000, which was more than the $10,000 foreign travel limit. She has already bailed around 50.5 million Pakistani rupees on breaching anti-money laundering laws and is now on an exit control list, meaning that she cannot leave the country (Khan, 2018).

Poor operations in Bank of Punjab

The scam of the Bank of Punjab as reported by journalist Ansar Abbasi, includes approximately 13 billion in fraud and reflects on the inefficacies of the banking system. The State Bank of Pakistan admitted internal audit mistakes, regulatory breaches, and poor compliance of client verification. This led to an audit recommending the freezing of the transactions with the interested parties, which led to low levels of public trust and a tainted image of the bank (Ahmed, Siddiqui, and Choudhry, 2013).

Benami dealings and bogus accounts

South Asia is especially affected by money laundering concerns with regard to the Informal economy and cash crimes especially in Bangladesh, India, and Pakistan. An FBI inquiry in Khyber Pakhtunkhwa found numerous financial statements of approximately billion with even more new financial statements uncovered later that precipitated act by an action team of Joint Investigation and the Supreme Court (Ullah, Manan, and Jamal, 2025).

Money laundering's impact on Pakistan's economic growth

The effects of money laundering on various activities in Pakistan such as finance and social welfare are immense resulting in corruption and a decline in government revenue. There is a new law that has been embraced to punish property processing and conversion of assets to illegal purposes. Money laundering in Pakistan cannot easily be measured in economic terms, but it poses a serious problem to the economy of the country (Sanction Scanner, 2024).

Relationship between Money Laundering and Economic growth

Money laundering influences the integrity of finances because it conceals illegitimate cash, damages reputations of institutions, and misrepresentation of economic data. It may lead to penalties imposed by governments, including the FATF, that affect the global business and is also connected to serious offenses such as drug trafficking and terrorism that threaten the security and hinder economic growth (Sanction Scanner, 2024).

Impact on Tax Income

Tax evasion refers to the unlawful effort of individuals or business entities to evade paying their taxes by falsifying financial reports, reporting low incomes, or claiming inflated deductions. It is often associated with the informal economy (Hanlon, Maydew, & Thornock, 2015). Tax evasion involves unreported income and tax avoidance involves legal tax avoidance through tax reduction. They both are signs of tax noncompliance, but the legality of tax avoidance complicates the classification (Safdari et al., 2015).

Effects on the Distribution of Incomes

Black money destroys financial institutions and the society by making disparity in incomes, promoting crime, making corporations less competitive, and burdening legitimate businesses with more taxes. These issues are important to deal with to advance the distribution of income and wellbeing (Sanction Scanner, 2024).

Rationale for Understanding Financial Consequences

Money laundering negatively affected the economy of a country by influencing the lawmakers and the manipulation of the financial institutions. It introduces illegal funds into untraceable assets, misapplies resource distribution, overprices assets, and complicates lending internationally. Consequently, it supports away real investors and diminishes remittances, which threatens financial stability and slows economic development (Sanction Scanner, 2024).

Foreign Direct Investment (FDI) Reduction

The Economic growth of Pakistan is driven by Foreign Direct Investment (FDI), and an increment of 1 percent is related to a growth of 0.015 percent of the GDP over 45 years. Long-term growth is inhibited by inflation and military spending and promoted by gross fixed capital formation and participation of labor. Military expenditure and involvement in labor are beneficial in short term in improving the economy, but inflation presents a challenge. Emerging economies have a critical reliance on FDI, but they experience some issues like money laundering (Jehangir, Lee, and Park, 2020). Foreign direct investment (FDI) is promoted by economic development and openness to trade, yet macroeconomic stability must be established in order to mitigate the high rate of inflation and fluctuation in exchange rates. Other structural variables that could indirectly affect the investment are unemployment and the government debt (Ahmed et al., 2025).

The damage that money laundering inflicts on the banking sector of the country

The financial institutions, which are the banks and non-bank lenders, are very important to the development of the economy, yet the money laundering has significant risks, such as fraud, loss of money, and damage to the brand name. The fight against money laundering is a crucial part of keeping the financial system and economic stability at a high level.

Financing of the terrorists and lack of international co-ordination

Tracking international currency transfers is complicated due to varying state regulations. Detecting terrorist funding is more difficult than money laundering, as proven by US banks overlooking suspicious transactions associated with the 9/11 and 2004 Madrid attacks (Zia, Abbas, & Arshed, 2022).

Money Laundering Implications

Money laundering is a massive threat to the economy and the society of Pakistan because it compromises the policies of the government, reduces the levels of credibility of financial institutions, and deters investment. It increases taxes on the honest taxpayers, increases unemployment, and corrupts the economy endangering economic stability and aggravating social hardship, given that Pakistan is still on the grey list of FATF.

The Impact on the Economies

Money laundering weakens the economic control of governments, increases risks to banks and businesses, and block economic efforts, and the global effects of this practice can be destabilizing currencies and economies (Khan, 2018).

Social Implications

Viewed in terms of financial institutions, money laundering incurs enormous socioeconomic expenses and damages the global image of a country, especially the financial institutions. It eases the smuggling and drug trafficking, and it helps criminals hide profits and promotes more organized crime and terrorist actions worldwide (Khan, 2018).

The basis of combating money laundering

In the UN treaties, countries are to criminalize money laundering. Banks have to adhere to the rules of the Basel Committee and pursue Know Your Customer (KYC) policies and reporting suspicious activity. Such problems as as informal economies and benami accounts hamper successful implementation in South Asia, despite national laws in the UK and India.

Anti-Money Laundering

Anti-money laundering (AML) policies, which are implemented by governments and financial institutions in compliance with the United Nations Convention against Transnational Organized Crime, are aimed at the prevention of financial crimes and protection of the integrity of financial systems. These laws and regulations are facilitated by know your customer techniques and technology, such as as AI, to detect criminal activities, and the Anti-money laundering Act of 2010 in Pakistan confirms these (Imran, Murtiza, and Akbar, 2024).

History of Anti-Money Laundering

The anti-money laundering efforts of the United States were spurred by the Bank Secrecy Act of 1970 and led to the creation of FinCEN. In 1989, the FATF was established, enhanced in 9/11, and enhanced AML laws around the world. IMF highlighted the harmful effect of money laundering on monetary stability. Since 1990 the AML Directive of the EU has been adjusted periodically and the Proceeds of Crime Act 2002 of the UK will follow the

FATF recommendations after Brexit. The US Office of Foreign Assets Control implements FATF-compliant regulations in the protection of national interests (Sanction Scanner, 2019).

AML Laws: Meaning and Importance: A Short Description.

AML laws are legislation that require financial institutions to identify and report suspicious transactions in order to prevent financial crimes, notably money laundering. These rules are critical for ensuring the integrity of global financial systems, protecting economies from illegal financial activity, and countering organised crime and terrorism financing (Ozioko, 2024).

A brief history of significant federal anti-money laundering law.

The existing AML laws, rules, and regulations, according to over fifty years of precedent, form a summary of the most critical federal AML law.

The 1970 Bank Secrecy Act

Bank Secrecy act of 1970 was aimed at combating fraud and international accounting as well as safeguarding financial privacy. In 1972, amendments were made to make banks reveal their cash transactions. The case of Stark Carnally did not declare the Act illegal, but instead some domestic reporting requirements were invalid due to the case, leading to the introduction of new financial reporting practices founded on the Miller case, involving document hiding and the Fourth Amendment (White, 2016).

Money Laundering Control Act of 1984

The study of organized crime by the President commission of organized Crime in 1984 had an impact on the 1986 Money laundering Control Act (MLCA) which required financial institutions to track international transactions and attach money laundering to gambling, loan sharking and drug trafficking. The MLCA criminalizes the evasive transaction structure, allows law enforcement to confiscate related monies, and creates standards of compliance in the financial institutions (White, 2016).

The 1992 Annunzio-Wylie Anti-Money Laundering Act

Money laundering by a global bank sparked the Annunzio-Wylie Anti-Money Laundering Act of 1992, which revoked bank licenses, enhanced fines, and established Suspicious Activity Reports. It replaced Criminal Referral Forms, required wire transfer verification and record-keeping, and formed the Bank Secrecy Act Advisory Group (BSAAG) to assist the Treasury on BSA-related issues (White, 2016).

The 1998 Money Laundering and Financial Crimes Strategy Act

Treasury and other agencies were instructed by the Money Laundering and Financial Crimes Strategy Act of 1998 to develop a National Money Laundering Strategy and provide AML training to examiners. The High-Intensity Money Laundering and Related Financial Crime Task Force designated high-risk industries for law enforcement action (White, 2016).

The USA Patriot Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) (2001)

Following the September 11 attacks, the USA Patriot Act of 2001 boosted counter-terrorism measures by strengthening the Bureau of Security and Analysis' jurisdiction and requiring firms to adopt anti-money laundering systems. The Intelligence Reform and Terrorism Prevention Act of 2004 updated it by requiring the notification of specified cross-border electronic transfers in order to combat money laundering and terrorist funding (White, 2016).

The main Principles of AML/CFT

There have many principles in AML/CFT some important principles write in it:

Know Your Customer (KYC)

In order to terminate money laundering and elevate or enrich the banking services by comprehending financial activities. It is a procedure that also confirms the identity of customers and promoting transparency in transactions. They additionally improve identification of suspicious process, and rick management, particularly online. Effective KYC applications demand strong processes, innovation, and worldwide collaboration. Privacy issues must also be addressed (Chattaraj, 2025).

The risk based Approach

A worldwide standard for AML establishes risk-based frameworks which focus on client attributes, transaction data and the characteristics of products. The availability of AI and deep learning can enhance the ability of financial institutions to identify suspicious activity (as supported by FATF). Nevertheless, numerous issues regarding the quality of data and the emergence of digital currencies require the continuous review of legislative and rigorous management of AML to identify and combat new forms of money laundering (Chattaraj, 2025).

Customer Due Diligence (CDD)

Customer Due Diligence (CDD) is a vital element for regulation of Anti- Money laundering and also Know Your Customer (KYC). It do fight for stopping money laundering since it check individual's identities and keeps an eye on transactions. Although fraudulent activity type adapts over a period, new technology has altered the way people conduct business, and should be monitored closely. International cooperation between countries and a common legislative approach to CDD is crucial for CDD system's success. To improve the ability of regulators to investigate and discover the financial crime, and legal reforms also needed to the financial crime technology sector to help develop financial crime detection, increase the regulatory bodies' capabilities (Chattaraj, 2025).

Reports on financial transactions

In the fight against international money laundering, suspicious transactions (STR), should follow the guidelines established by the FATF. Analysis of an expanding digital currency market has created a need for enhanced detection capabilities which use machine learning and natural language processing, in conjunction with human being supervision. In Addition, to successfully combat cyber-enabled financial crimes, International Coordination, and Legal Reform will be required (Chattaraj, 2025).

Important AML/CFT Laws in Pakistan

Anti-Money Laundering Act 2010

Money Laundering is having a very big impact on developing countries such as Pakistan, where since 2000 the Anti-Money Laundering law has been weakly enforced. The current AML Act does not comply with international standards, and there is no indication that Pakistan has addressed many of the predicate offences required by the Financial Action Task Force (FATF). As well, the conflicting legal framework will prevent Pakistan from establishing specialised Financial Tribunals that will hinder the ability of the Government to combat Money Laundering and the Financing of Terrorism (Ali, 2018). In Pakistan, the AMLCFT Act of 2010 creates a structure to address money laundering and terrorism financing by defining crimes, prescribing penalties and authorising seizure of property. The 2018 AML Regulation imposes additional due diligence obligations on financial institutions with respect to high -risk customers and has more stringent oversight requirements for NGOs and charitable organisations. Additionally, the 2018 Foreign Asset (Declaration and Repatriation) Act encourages taxpayers to declare their foreign wealth for tax purposes (Imran, Murtiza, & Akbar, 2024).

There are several areas of Pakistan's law or legislation where violations can act as "predicate" offences under Anti-Money Laundering (AML) legislation Act of 2010, which Act has been modified up to 2020. The most common areas of Pakistani Law where predicate offences may be found are:

List of AML legislation

1. Pakistan Penal Code (1860).
2. Arms Act (1878).
3. Foreigners Act (1946).
4. Prevention of Corruption Act (1947).
5. Foreign Exchange Regulation Act (1947).
6. Copyright Ordinance (1962).
7. Pakistan Arms Ordinance (1965).
8. Customs Act (1969).
9. Emigration Ordinance (1979).
10. Sales Tax Act (1990).
11. Control of Narcotics Act (1997).
12. Anti-Terrorism Act (1997).
13. Pakistan Environmental Protection Act (1997).
14. National Accountability Ordinance (1999).
15. Registered Designs Ordinance (2000).
16. Trademarks Ordinance (2001).
17. Income Tax Ordinance (2001).
18. Prevention & Control of Human Trafficking Ordinance (2002).
19. Federal Excise Act (2005).
20. Securities Act (2015).

Source: (Hassan, 2024).

Role of FATF

The Financial Action Task Force (FATF) makes recommendations about money laundering and terrorism funding. Pakistan has been on the FATF's grey list since 2012 due to noncompliance with UN Resolution 1267 on Al Qaeda. In response, it modified the Anti-Terrorism Act in 2013. Although Pakistan was removed off the grey list in 2015 and 2018, the US was critical of its anti-money laundering measures and implementation of the Anti-Terrorism Act (Abbas & Butt, 2021).

On the FATF Grey List, Pakistan

Since 2000, the monitoring committee of the Task Force has declared the non-compliant countries with the FATF laws as the so called Grey List. The FATF encourages the enhancement of the compliance in Pakistan, especially due to the accusations of money laundering by the opposition parties, which were brought to the fore by the Prime Minister Imran Khan. Despite the slow pace of institutional reforms, measures such as tax reform, more data collection, and high financial transaction can be used to prevent money laundering (Abbas and Butt, 2021).

Pakistan and Financial Action Task Force

Since the year 2008, FATF has conducted an analysis of the anti-money laundering and counter-terrorism funding systems in Pakistan, indicating the areas which should be enhanced. In July 2009, a two-way assessment identified some aspects of the strategy that needed improvement, leading to an action plan in October 2010. In February 2015, Pakistan was taken off surveillance, and this is a significant progress. Reports based on compliance issues were identified in September 2020 and June 2021 and a technical compliance report was found in August 2022 (Butt & Hadi, 2025)

Pakistan Reacts to the statements of the FATF

In the hope of successfully addressing the problem of money laundering (ML) and terrorism financing (TF), Pakistan reforms its legislative frameworks, and it is taken off the FATF grey list in October 2022. The state met the compliance requirements of 2018 and 2021 Action Plan, which led to the FATF recognition of its enhanced anti-money laundering and counter-terrorist financing (AML/CFT) framework, as well as the active involvement in the international cooperation of these spheres (Butt and Hadi, 2025).

The Role of the institution to prevent the Money Laundering in Pakistan

FMU Division of Financial Controls

The Pakistan Financial Monitoring Unit (FMU) created and governed by the AML Ordinance 2007, examines Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) based on the Know Your Customer (KYC) and Customer Due Diligence (CDD) requirements. The FMU has been working in line with the AML Act 2010, aiming at dealing with money laundering and funding of terrorism, thus safeguarding the Pakistani financial system against crime (Hassan, 2024).

The National Accountability Bureau (NAB)

The NAB of Pakistan has also formed a new section in collaboration with UNCAC to enhance its anti-corruption program and the policy of accountability to all as it endeavors to create awareness and introduce the policy in action. This was praised by the Transparency International. CPEC relations with China and youth education are among the key projects. The NAB has amassed a total of Rs.814 billion including 323 billion in the year 2020 and 66% conviction rate on 1273 pending cases (Imran, Murtiza, and Akbar, 2024).

The Federal Board of Revenue (FBR)

In a period between July 2018 and April 2019, the Directorate General of the FBR has heightened anti-money laundering measures by 200 percent where Rs. 450 million has been seized and more than 30 people have been arrested. The Currency Declaration System found out about the existence of $20 million in early 2019, and Customs improved information exchange by creating a National Targeting Centre to address the issue of smuggling and financial crimes (Imran, Murtiza, and Akbar, 2024).

The State Bank of Pakistan (SBP)

The subsidiaries of the state bank of Pakistan (SBP) control monetary and credit systems of the country, anti-money laundering, counter-terrorist financing and counter-proliferation financing.

The poor implementation of anti-money laundering regulations in Pakistan is a major setback towards confidence in its financial systems dishearten international investment. Criminal organizations encourage corruption, damage legal businesses, and suppress economic growth. Two other significant ones are informal financial activity and trade-based laundering. Moreover, the state of grey list on FATF does decrease access to international markets and makes prosecution difficult.

Conclusion

Money laundering is a major challenge in Pakistan where the global image and financial stability of Pakistan is at stake. It promotes illegal cash payments, decreases tax revenues, undermines investor confidence and creates turbulence in the financial markets. Poor coordination and ineffective legal provisions are some of the problems faced by the Federal Investigation Agency, Financial Monitoring Unit and State Bank. The global response, which encompasses the Patriot Act, has led to more of companies that are involved in illegal activities coming under scrutiny. Companies are required to screen customers on lists of sanctions and comply with anti-money laundering laws. Law enforcement should be efficient and AML regulations are dealing with manipulation of the market, and corruption. Border security needs to be enhanced and suspicious wire transfers kept a check on in order to fight currency smuggling.

Recommendations

- The artificial intelligence, modern technology, and data analytics should enable them to identify money laundering and other suspicious financial transactions.
- They must successfully deal with Money Laundering issues, it must also be suggested that professional AML courts be put in place and trained judicial personnel be employed.
- They ought to carry out awareness campaigns to create awareness to the commercial and the general society on money laundering. They are supposed to promote coordination on the use of anti-money laundering laws especially in the international financial transactions.
- They are obliged to implement Customer Due Diligence (CDD) Policies and are also strict in implementing the Policies of the Know Your Customer (KYC).
- They should enforce Customer Due Diligence (CDD) Policies and also strictly enforce the Polices of the Know Your Customer (KYC).
- They should be effective battle against money laundering necessitates allocating resources for staff training, recruiting globally skilled trainers, and consistently enforcing anti-money laundering legislation.
- Pakistan's Anti-Money Laundering (AML) Process should focus on improving and strictly implementing anti-money laundering procedures.

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