

# "Broken Link" Southeast Asian Money Laundering Channel, Strengthening AML Compliance Management

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**Abstract:** From the "reform and opening up" to the "Belt and Road", China has achieved economic and technological leaps, and also encountered unprecedented opportunities and challenges. With the profound changes in social tools and payment methods, the "dark chain" China's Southeast Asian money laundering channels are increasingly exposed to the public. The black industry chain driven by domestic and foreign money laundering has gradually become a danger to China and other Southeast Asian countries' society and people's property security. Tumor. At the same time, due to the complexity of money laundering channels, the difficulty of obtaining evidence abroad, and the obstruction of the umbrella forces of Southeast Asian countries, it is also facing difficulties in conducting international anti-money laundering cooperation. Therefore, in the short term, Southeast Asian money laundering and overseas black production cannot be eradicated. Through the core link of the "broken chain" money laundering channel, the underground money bank effectively squeezed the criminals' living space, consumed their living power and shortened their life. Therefore, it is imperative to comprehensively strengthen AML(Anti Money Laundering) compliance management and crack down on domestic and overseas money laundering crimes.

## 1. Introduction

Money laundering refers to processing the proceeds of crime and concealing their illegal sources, and using the proceeds of crime for legal or illegal activities. In short, money laundering is the process of turning illegal income into law. Southeast Asian countries as the hardest hit area of global money laundering have severely affected the global financial security system. The black industrial chain outside of China relies on the local protection forces in Southeast Asia, and continuously obtains illegal income from mainland China and neighboring countries, and uses convenience in Southeast Asia and legal status. Through illegal channels inside and outside China and illegal money laundering, the illegal income has caused a large amount of funds to flow out of mainland China. At the same time, vicious crimes such as shootings and abductions due to money laundering have seriously affected local security and China's international image[1].

## 2. Organization of the Text

The best way to hide a grain of sand is to put it in a sand pile. Money laundering itself is not complicated, but often involves a series of complex transactions that are difficult to distinguish. The usual procedure can be divided into three stages: the first stage is the disposal stage, and the actual Deal with the proceeds of crime and invest them in the financial system. Money launderers will inject funds into local international financial institutions, casinos, shopping malls and legal enterprises in Southeast Asia, and inject illegal funds into the financial system through cash splitting or even repayment of loans and opening credit cards across the country; the second stage is the isolation stage[2]. The state regulatory mechanism is lax, and money launderers use layers of financial transactions to transform into other forms and create other complex financial transactions to conceal and separate real sources of funds, such as after transferring funds from one country to another through electronic fund transfer Invest in stocks or futures, or invest funds directly into

local intensive industries, government infrastructure, public facilities, or invest in shell companies to conceal the ultimate beneficial owner; the third stage is the integration stage, and money launderers use the form of seemingly normal business or transactions. Funds that cover up the source are reinvested into economic activities, giving illegal property legal appearances, such as buying high-end luxury goods and creating investment plans. The following are the common channels for money laundering in underground money houses in Southeast Asia:

## 2.1. Electronic payment

Electronic payment as a popular payment method. With the globalization of the economy, more and more tourists, students, and workers use international bank credit cards, UnionPay Visa credit cards, and wire transfer agents for overseas consumption, entertainment, and shopping opportunity. For example, a money launderer may advance cash from credit cards of multiple accounts with unknown directions, and put the proposed funds in a bank account of an international bank or other country that is used to receive the transfer, so that the bank will automatically debit the main account. Funds are repaid to credit cards, and funds for illegal transactions are included in the financial system. Due to international banks and transnational reasons, it is difficult to monitor the true source and destination of funds. Later, money launderers used the stolen funds to buy goods in major malls and sell them to provide cash to criminals. Cross-border wire transfers are wire transfers where the remittance bank and the beneficiary bank are located in different countries. It is difficult for the remittance bank, transit bank, and beneficiary system in the bill of a country to obtain the real information of the sender and the real purpose of the remittance from the cross-border wire transfer.



Figure 1. Analysis of Proportion of Money Laundering Channels in Southeast Asia

## 2.2. Offshore companies

Offshore companies are companies that operate outside the place of registration, enjoy preferential tax policies at the place of registration, and are not subject to foreign exchange control, with high confidentiality. As the leading money laundering method in Southeast Asia, offshore companies not only bring ill-gotten wealth to money launderers but also bring huge profits to local governments. At the same time, Southeast Asian places provide protective umbrellas to cover legal laundering for money laundering-licenses and business permits. From 2015 to 2016, Southeast Asian countries successively issued a large number of online gambling licenses to attract foreign investment. In order to evade judicial supervision in mainland China, criminals set up company registrations in countries far away from mainland China or even outside of places of operation. These countries often have loose Tax policy and legal environment. Afterwards, the operators of offshore companies established and established a large number of workplaces with the help of legal betting licenses issued by the governments of the Philippines, Cambodia and other countries, and used the characteristics of offshore companies without foreign exchange controls to attract online gambling from mainland China and other countries. Illegal funds, and other illegal industries such

as prostitution, guns, drugs, etc. also rely on offshore gaming companies to pay or collect money. So far, a black industrial chain surrounding Southeast Asian money laundering has been formed. At the same time, the inflow of black money made offshore foreign trade companies gradually develop into transnational money laundering transfer stations, using their own legal clothes to export goods to money laundering companies and collecting illegal funds paid by money laundering companies, and these stolen money through the import transactions of companies in other countries. The introduction of other countries or the international financial system has caused difficulties in judicial supervision and investigation and evidence collection in various countries[3].

### **2.3. Shell company**

Shell companies were first used to sign contracts or conduct other business and needed urgent registration. The shell company itself has no actual funds, and only companies that have signed a contract with the parties and determined the use of the funds are legalized. Money laundering criminals often establish or purchase multiple shell companies in China, Hong Kong, or Southeast Asian countries in advance and decorate their facades to create a strong economic image. They are actually used to receive illegal RMB or local currencies. A large amount of unknown amount flowed into the company, creating legal illusions. At the same time, the shareholders of the shell company transferred the capital contribution to the company's account for verification and then transferred it out, transferred its capital out through a fictitious creditor-debt relationship, made false financial accounting statements to increase profits, and distributed the capital. And others have withdrawn their capital without legal procedures to disguise the true source of their funds. Later, the shell company transferred the illegal overseas funds to the recipient for receiving through the domestic transfer or payment channels. After the funds fled, the funds were reinvested in the shell company abroad[4].

### **2.4. Currency exchange service**

Currency exchange and laundering have become an important part of underground money houses. Due to the restrictions on the amount of RMB that tourists can carry out of the Mainland, criminals register individual business licenses in China, apply for mobile payment transfer machines from banks, bind multiple non-person accounts, and purchase POS decoders through gray channels. It was later leased to a number of small shops around yellow drug gambling establishments overseas to openly provide cross-border capital exchange for illegal traders. The exchanger only needs to provide a personal bank debit card to swipe the card, and after deducting a certain percentage of the commission from the transaction amount, it can be exchanged at the exchange rate of foreign currency and RMB on that day. Conversely, foreign currency can be exchanged into RMB in the same way and transferred to a bank account in the Mainland. From the perspective of bank flow, domestic RMB and foreign currency are cyclically rotating independently, which is difficult to trigger bank risk control and obtain relevant evidence[5].

In addition, personal cash exchange for money laundering is also often used for money laundering. Because cash has no transaction records, it is extremely difficult for the regulatory department to find the source and true purpose of the funds. Criminals find exchange exchange targets through unregulated anonymous chat tools (Telegram, Skype, Facebook, etc.), and money laundering groups turn to zero for offline exchanges through offline transactions, and through bank private transfers, WeChat Alipay, etc. Paying to the other party's account, this method is difficult to find the risk in the bank flow and the cash party holding it cannot leave any traces. At the same time, U.S. dollars are also favored by local criminal groups as a money laundering medium in Southeast Asia. Criminals hire agents to purchase large amounts of U.S. dollars in overseas black markets, smuggle them into Southeast Asia in the manner of Havana, and exchange them with illegally obtained Renminbi. The acquired US dollars are then exchanged for cash with local currencies, and then used for shopping or savings, thereby skipping the supervision of mainland China and Southeast Asian authorities, and this batch of US dollars will also be circulated on the black market in Southeast Asia for cleaning from China. Black money from the mainland[6].

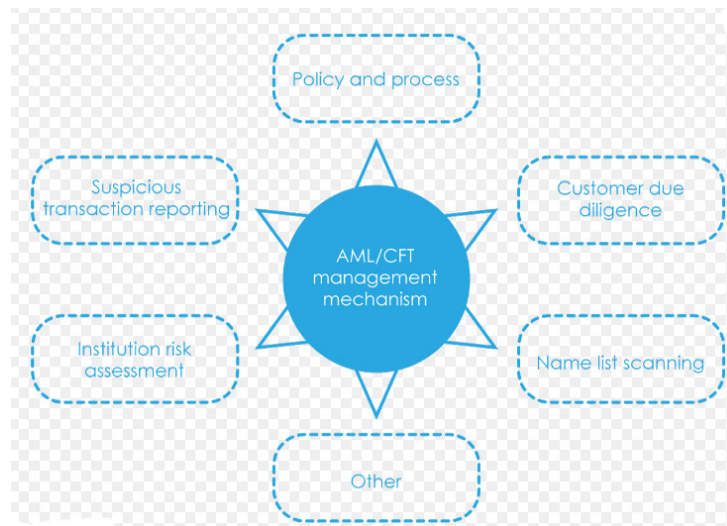


Figure 2. Significance of strengthening anti-money laundering compliance management

## 2.5. Physical casino

Brick and mortar casinos are one of the oldest and most cash-producing industries. Especially in Southeast Asian countries where the law permits operations and lax regulations, the combination of various factors such as gamblers, huge profits and credit financing promotes a large amount of cash flow between physical casinos and gamblers. There are two golden rules for Philippine casinos when receiving rich gamblers: first, always ask to see each other's banknotes; second, never ask where the money comes from. This loophole ultimately led to the largest cyber robbery in Bangladesh's central bank in 2016, with \$ 81 million flowing into the Philippines. According to the "Wall Street Journal" in the United States, in the VIP rooms of major casinos, gamblers from all over the Asia-based region input a large amount of black money. At the same time, the Philippines has the strictest bank secrecy laws in the world, and the casinos are protected by anti-money laundering laws, which brings huge obstacles to the supervision of relevant departments and international organizations. Once the black money from yellow gambling drugs enters the casino's bank account in the Philippines Tracking becomes extremely difficult.

Casino money laundering usually occurs at the disposal and isolation stage. Through the use of illegal funds to buy a large amount of chips, after a small symbolic gambling of money, the money launderer hopes that the casino will be able to convert the funds into local currency and obtain a casino issuance. Check and withdraw cash, the money is washed and remitted to your account. Or use credit to inject funds into the casino, and money launderers apply for a casino credit line after symbolically making small bets, and then use illegal funds for repayment.

## 2.6. Real estate

Investing illegal funds in real estate is one of the traditional methods of money laundering. However, the legalization of offshore gambling industry in Southeast Asian countries and the increase in the number of migrant workers in recent years have stimulated the development of the real estate industry in Southeast Asian countries. Commercial giants are constantly vying for land to invest in illegal funds, which has turned into a large number of commercial office buildings and high-end hotels. In order to launder money, criminals in Southeast Asia entrust agents to pay directly from escrow accounts to virtual individuals or shell companies for the construction or purchase of real estate, hold it for a certain period of time and then sell it, in turn forging a legitimate capital chain in order to cover up The true source of funds. Money laundering criminals may also directly find real estate dealers or "intermediary companies" willing to cooperate with them, and sales agree to sell assets to money laundering criminals at prices significantly lower than the actual local house prices in Southeast Asian countries, and then privately use the difference for other reasons Transfer the secret to the other party.

## **2.7. Third party payment and fourth party payment**

The third-party payment platform is an e-commerce model with profit potential. As an independent institution that plays a guarantee role, it is fundamentally different from traditional banks. Due to the strong credit guarantee of Chinese payment giants and the high degree of confidentiality of business data, coupled with the convenience of micropayments in daily life, it has brought great pressure on banks and financial regulators. First, the third-party payment platform shielded the bank from monitoring the flow of funds. Second, the third-party payment platform had difficulty verifying the authenticity of the transaction, and anyone could apply for an account on the platform through the network. Third, third-party payment institutions were handling cross-border. During the business, the process of currency exchange and cross-border transfers is omitted. Buyers and sellers can entrust a third-party payment institution instead of transacting foreign exchange business through a bank, which hides huge risks. Early online shopping platforms were easy to become money laundering tools for criminals. First, criminals used false information to open accounts on the platform. There were no product descriptions and notes, and the stores were extremely rude.

After that, the "buyer" negotiated the price with the criminals and took the same amount of merchandise. The drug money will enter the drug dealer's pre-opened account on the platform in the name of the commodity money. Then, criminals only need to withdraw funds in the platform account to different bank accounts and carry out a large number of transactions and cash transfers. This method of collecting toxic funds is difficult for both banks and public security agencies to detect. The appearance of "run points" in May 2019 involved independent third-party payment companies in the Southeast Asian money laundering case. Some users made money by renting their own WeChat and Alipay QR codes to become money laundering tools for online gambling groups. In this money laundering channel, illegal gambling platforms issue the recharged user's stolen money to rented QR codes through intermediaries and agents. The tenants return the funds to the intermediary after deducting the commission, and the intermediary returns the money to the online gambling after deducting the commission. platform. In this way, online gambling has been reduced to zero with trillions of illegal funds hidden in private transfers that are difficult to identify. The methods are concealed and distributed in batches, which makes it difficult for the regulatory authorities to obtain evidence.

In recent years, due to strict risk control of these third-party platforms such as Alipay, payment for illegal transactions is often interrupted. Many "fourth party payment" platforms without official permission act as intermediaries between gamblers and pornographic gambling websites, becoming websites Financial settlement center. The "fourth party payment" platform is also known as aggregate payment. It aggregates interfaces of third-party payment platforms, online banking, and cross-border payment service providers to illegally provide comprehensive payment settlement services. The main way is to provide online gambling groups through shell companies Dimension codes, online banking transfers, etc. are used to recharge and redeem gambling funds, and finally remitted to the relevant accounts of the online gambling group.

## **2.8. Digital currency and dark web**

Blockchain has always been a utopia in the minds of liberals. Among them, various cryptographic-based settings serve as a transaction medium to maximize the protection of user privacy. Its decentralized concept runs counter to banks and financial institutions. The early emergence of encrypted digital currencies such as Bitcoin and the way to earn the difference by investing in stock futures are not much different. Although air coins and MLM coins can be used for money laundering, they also have problems. However, the application of the dark web gives encrypted digital currency the largest application. The digital currency and the dark web can be called a "dark version of Taobao", in which users can buy and sell almost everything, including drugs, illegal drugs, guns and weapons, forged passports, hackers Software and hazardous chemicals. The reason why Bitcoin has become a dark web dollar is largely due to the high degree of anonymity between the two. The dark web provides an anonymous information exchange

platform, while Bitcoin provides an anonymous way of asset flow, and greedy desire increases. Going outside the law makes it difficult to remove money laundering.



Figure 3. Specific measures to strengthen anti-money laundering compliance management in Southeast Asia

With the rapid development of the Internet and the rise of artificial intelligence, the "dark chain" of China's Southeast Asian money laundering industry is increasingly exposed to the public. Due to the complicated international relations, all money laundering criminals cannot be brought to justice for the time being, but through effective "broken chains", they can be hidden in our country and overseas money laundering channels and underground money houses to squeeze the living space of criminals. Improving the AML management and supervision mechanism can effectively curb the spread of money laundering. The following are my suggestions for China's anti-money laundering measures:

(1) *The government can learn from the mature anti-money laundering experience of European and American countries*, and set up an overseas asset control office similar to the OFAC of the United States according to its actual situation. The Overseas Control Office has the right to freeze illegal assets deemed to be jeopardizing China's financial security; has the right to investigate the qualification licenses and business information of foreign trade companies that conduct financial transactions with China; has the right to formulate corporate AML based on the integrity index of Southeast Asian countries and regions List of compliance sanctions; the right to issue offshore assets control compliance licenses to offshore companies in China while monitoring their financial transactions with Southeast Asia while the financial market is open.

(2) *At the same time as financial liberalization*, major banks should strengthen their awareness of anti-money laundering and stipulate that they regularly organize anti-money laundering and anti-money laundering training, and improve the customer due diligence compliance process. A sound customer due diligence process is one of the best ways to prevent money laundering and other financial criminal activities. Its purpose is to help banks or financial institutions more accurately predict the types of transactions that customers may participate in. In other words, the more the bank understands customers, the greater the chance of intercepting money laundering channels. The domestic CDD Analyst includes the following seven elements: customer identification, transaction activity profile, customer acceptance criteria, customer risk rating, risk transaction monitoring, abnormal activity investigation, and action record archiving. At the same time, strengthen the monitoring and control of overseas customers, especially IP customers in Southeast Asia; for customers with operations in Southeast Asia and far from deposit banks, require them to make reasonable explanations and monitor non- Southeast Asian residents and legal persons and institutions that make money in Southeast Asia Companies with anonymous shareholders; focus on monitoring cash-intensive domestic and foreign companies that open accounts in Chinese banks, cross-border black industries often have huge daily flows, and can focus on auditing once risk control is triggered; for private business, anonymous transactions, non-face to face The transaction should review the payee and payer and investigate the source of funds.

(3) *Strengthen the control of domestic shell companies*. As a container for foreign criminals to exchange funds with mainland China, their legal coats are difficult to be identified by regulatory



authorities. Therefore, local governments with frequent money laundering should increase the application difficulty and registration threshold of shell companies, increase the initial capital contribution of shareholders of shell companies (was 20%), and relevant departments should verify the assets paid by shell companies. And property rights work, the actual amount must be consistent with the company's articles of association. At the same time, strengthen supervision to prevent fictional contracts or virtual transactions from fleeing illegal funds to Southeast Asian countries and regions, forcing money launderers to replace containers and fund pools of illegal funds in China.

(4) *Strengthen the real-name management of bank accounts and crack down on the sale of four-piece bank cards (ID cards, bank cards, mobile phone cards, U-shaped shields).* The four-piece bank card embezzlement of other people's identity information to transfer money to support the operation of the entire Southeast Asian money-laundering network is also the source of black money entering financial institutions. Card vendors stole Chinese citizens who were in remote areas due to accidental disclosure of personal information from domestic gray channels, and even tricked elderly people in rural China to disclose their identity information. The judicial department should increase publicity and investigate and deal with the gray industry chain. Starting from the investigation of small private institutions such as Internet cafes and photocopy shops that are most likely to collect Chinese citizen identity documents, it will make it more difficult for criminals to obtain channels. The supply of four-piece sets of black market bank cards has reduced prices soaring, thereby curbing the flow of illegal funds into the financial system.

(5) *Continuously establish and improve the AML compliance supervision mechanism for the exchange of RMB in Southeast Asia and overseas,* and set up the China Exchange Agency Supervision Office, which is directly linked to the central bank and the People's Bank of China. Chinese citizens or institutions that exchange in the name of individuals or private entities must obtain the central bank. And the People's Bank of China authorized and obtained the corresponding qualification certificate. Set up branches or subordinate offices overseas, and designate direct exchange agencies with a guarantor and commission system. The designated institution must have its own KYC team and report to the affiliates of the central bank and the People's Bank at regular intervals. Prepare and undergo assessments to reduce and control exchanges and money laundering in private names. At the same time, the due diligence investigation of exchange rate customers has been increased. For customers who exchange more than a certain amount, they should provide their passports, identity information and address information to the exchange institution, and the KYC of the exchange institution will first verify the identity, and then provide it by the customer. Lease or purchase contracts that have been in residence for more than six months and a certificate of exchange use issued by the unit or guarantor. If necessary, the exchange institution can make telephone consultations with customers.

(6) *Third-party payment and social chat software should fully implement face recognition and real-name system management.* In recent years, the popularity of Alipay and WeChat has become an important part of paperless payment and one-click communication, and has also spawned a large number of illegal and criminal acts. Therefore, it is very effective to interfere with the communication channels of criminals from social sources. For example, for a large number of registered WeChat or dual-open accounts on the same mobile phone or IP to restrict login or ban, the newly registered account must require real-name authentication and binding to a bank card, and face recognition while binding. Crack down on WeChat account sales and account maintenance, investigate and punish real-name WeChat sales, protect personal information and credit security; crack down on renting QR codes, if you find personal WeChat or Alipay QR codes in different places or IP Frequent collections should be taken to restrict logins and conduct investigations to intercept criminal money laundering containers from within the country. At the same time, strengthen the negotiation or investment of foreign chat tool software (such as Telegram) and hold equity, monitor and manage anonymous chat tools, ban speech and advertising related to money laundering, and block criminals' channels for upstream crimes.

(7) *In terms of judicial cooperation, China should maintain close contact and communication with Southeast Asian countries.* On the one hand, the judicial department cooperated to carry out

joint law enforcement to clean up and arrest criminal gangs that were trapped abroad. However, due to the complicated procedures, the government of Southeast Asian countries must rely on the assistance of the local government to revoke the legal status of local money launderers. Arrest. With the joint efforts of both parties, on August 18, 2019, Cambodian Prime Minister Hun Sen issued a decree to stop issuing online gambling licenses and prohibit online gambling in Cambodia. All online gambling licenses in Cambodia will expire on December 31 and will no longer be renewed. On the other hand, through the repatriation of network fugitives hiding in Southeast Asia through consultations, the Ministry of Public Security should increase inspection statistics, conduct visits and investigations on detained migrant workers, and persuade returnees of money laundering suspects. The customs department has stepped up inspections. Preventing money launderers abroad from absconding into high-risk money laundering countries.

(8) *Digital assets provide a new way of thinking about value for the world today, and digital currencies have gained legal status in some Southeast Asian countries.* Due to the immature nature of multi-currency transactions and the inconsistency of regulatory regulations in various countries, upstream crimes can be exploited. But crime should not be at the expense of payment methods. From a certain point of view, KYC and AML will not destroy the "decentralized" characteristics of the blockchain. Instead, they will stimulate greater confidence in the network and encourage new participants in blockchain technology and enable more decentralization. Governments of Southeast Asian countries should apply for a license at the initial stage of the platform. The KYC mechanism will be subject to the key inspection and sorting out by the regulatory authorities. Transaction monitoring will be strengthened during the operation phase. Association with the "black wallet" address flowing through specific customers can be used as a risk. An important indicator in this transaction monitoring. At the same time, the supervisory agencies of various countries should continue to improve the corresponding regulatory policies and rules to gradually reduce the current situation of good and bad. The negative impression that digital currencies are money laundering tools can certainly be improved.

### **3. Conclusion**

There is always sin scattered in the neglected corner and slowly growing, once it is not cut off, it will disappoint the kind and upright people. The "dark chain" of China's Southeast Asian money laundering channels cannot be uprooted in the short term. The fight against money laundering and anti-money laundering still has a long way to go. While finance is more open, AML compliance management will be strengthened. Learn from and draw on advanced international anti-money laundering experience, "go global" to receive overseas training, and master the legislation, operation mode of financial intelligence centers, information system development and construction, analysis of financial transaction report information, and cross-border abnormal funds in mature anti-money laundering countries Knowledge and experience in mobile monitoring and analysis techniques are used to improve China's regulatory rules and risk control skills. At the same time, this is also a battle of wisdom and patience. With criminals as the teacher and risk as the basis, they constantly reform the anti-money laundering knowledge system and fight the money laundering criminals for a long time.

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