A Sober Look at the FATF

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There was substantial hope in Pakistan that the recent plenary of the Financial Action Task Force (FATF) would finally remove the country from the grey list, and Pakistan's Foreign Minister had earlier correctly stated that there was no reasonable justification for keeping Pakistan on the grey list any longer. This was because the country had made substantial improvements to its financial monitoring regime, including through: substantial legislative changes, tougher enforcement practices, harsher penalties, inter-institutional coordination, and heavy prioritization of anti-money laundering (AML/CFT) activities. In fact, various statements from the FATF leading up to the June plenary indicated a recognition of Pakistan's efforts on all fronts.

With this in mind, it was reasonable to expect a return to the white list and to a sense of normalcy for the economy, which had not just shown material improvements but also exhibited resilience during the Covid-19 pandemic. Yet, on June 25th, the FATF issued its verdict: Pakistan would continue to remain on the grey list, and sighs of frustration about the puzzling judgement abounded in Islamabad. After all of this genuine progress made by a developing country on a complex subject such as AML/CFT, why wouldn't the FATF give Pakistan some reprieve? As I have written here, here, here, here, here, here, and here; there is much more to the FATF grey list than meets the eye, and many of the points made in these articles are now acknowledged in political, mediatic, and public discourse in Pakistan, and thankfully so, because the insidious role of the FATF and its failure to behave as a professional and neutral body augur poorly for global capitalism and for the praxis of AML.

Many of the main arguments made in the pieces warrant a summary mention, and all remain as true today as when they were written. To begin, the FATF can be (and indeed is) used as a vehicle for engaging in hybrid warfare that is drawn into the realm of economics & finance, and it does not act as a neutral body over AML/CFT issues, which is a grave and urgent global problem. It is manipulated by world capitals that seek to exert undue pressure on Pakistan, such as Washington and Paris, and its Asian affiliate body (the APG) is also wantonly abused by the vicious nature of Delhi's rabid establishment, which froths at the mouth and mobilizes the FATF/APG to attack Pakistan's economy circuitously.

To have India judging Pakistan on AML/CFT is to have the fox guarding the henhouse, but it is also the pot calling the kettle black. India's black economy is incomparably larger than that of Pakistan, both in absolute *and* relative terms. Its black economy amounts to more than half a *trillion* dollars, which would make it an outstanding candidate for blacklisting alongside Iran and North Korea. According to the Global Financial Integrity (GFI) think tank, India's black money flows were the fourth-highest in the world, at $510 billion over the period 2004-2013, or $51 billion *annually*, and the numbers have ballooned since then due to Indian government policies such as the demonetization fiasco.

According to the FinCEN leaks, India's flagged suspicious transactions were 400 *times* larger than that of Pakistan's. For a country with such a dismal track record of a black economy as India trying to use high finance as a domain to challenge Pakistan borders on the absurd. Looking towards our western neighbor, one must ask if the FATF were serious about terrorist financing, wouldn't Afghanistan be a more obvious candidate for CFT? Not to mention for AML and the curbing the black economy, since Afghanistan's ad-hoc economic life is a 100% black economy.

The scope of money laundering is tiny in Pakistan compared to that of its eastern neighbor, but India's dirty money is also dwarfed by the amount of illicit funding that passes through many mainstream banks of the Western world. The fairly recent *Russian Laundromat* scheme of funnelling wealth from former Soviet nations shows just how Deutsche Bank, supposedly the most pristine financial institution and the largest one in Germany, was complicit in funneling a riot of black money into the developed world. But the FATF has been imbalanced in its targeting of jurisdictions since 9/11, with a disproportionate focus on the countries that the US sought to pressurize in the Middle East and South Asia, even though Russia is the second-largest source of black money flows (at least $100 billion per year since 2013, according to GFI), and many Eastern European countries are prime sources for siphoning illegal wealth. This also has very much to do with how the definition of "terrorist" has changed in the Western psyche since 9/11.

However, the worst offenders of money laundering in the world, as defined by transacting jurisdictions, are hiding in plain sight of the holier-than-thou Western capitals: Jersey, Guernsey, Delaware, Miami, Frankfurt, the US Virgin Islands, the Cayman Islands, the British Virgin Islands, and of course, London. Many of these locations also act as tax havens, and are the biggest players in the game. If the FATF were serious about money laundering, it would seal these places shut, because they ooze with financial corruption on a monumental scale. The Panama Papers, FinCEN Leaks, and countless other revelations give us just a fleeting glimpse of how bad global money laundering is, and Pakistan is nothing but a minor footnote, if ever mentioned at all, on those revelatory lists.

The Pakistani public, its politicians, and its technical experts have all now converged on the point that the FATF is really at fault. It harps on like a broken record by asking incessantly for Pakistan to "do more." In the process, the FATF has compromised its own legitimacy. Although it does considerable damage, it hasn't managed to forestall the Pakistani economy, which is composed of largely young people trudging along against the odds. Pakistan's steps to improve its AML/CFT protocols and praxis should not be seen as a means to satisfying an external body like the FATF: they should be seen as a means of making Pakistan's financial system more open, transparent and effective; thus doing justice to a young population that is beginning to come of age.

In other words, combating money laundering and stopping terrorist financing are good things in and of themselves, and should not be done to appease anyone abroad but rather to strengthen Pakistan itself. But the rebuke that the FATF has increasingly received in Pakistan is justified: anti-money laundering activities in modern global capitalism cannot and will not be addressed by punishing Pakistan. Indeed, perhaps no international body has been as bad at doing its job as the FATF: money-laundering and the illicit flows of funds are higher than ever and rising by the day, particularly as newer technologies (cryptocurrencies, ransomware, etc.) make it even more elusive a task.

It is estimated by the firm Market Research Reports (MRR) that global money laundering will exhibit a compound annual growth rate (CAGR) of 15% for each year in the period 2019-2027, which is an astounding rate of growth for any economic activity, let alone that of an illegal sort. How will the FATF face this challenge when it has been captured for political motives?

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