



The Impact of Money Laundering on Economic Growth in Sultanate of Oman

Arwa Al Ismaili¹ and Karima Sayari²

¹Teacher-Mathematics-LC, Muscat College. E-mail: arwa@muscatcollege.edu.om

²Assistant Professor, Al Zahra College for Women. E-mail karima@zcu.edu.om

Article History

Received : 22 August 2022; Revised : 29 September 2022; Accepted : 15 November 2022;

Published : 06 February 2023

Abstract: The main purpose of this research is to explore the impact of money laundering phenomenon (proxy by governance indicators) on economic growth level, focusing Sultanate of Oman's economic growth. To achieve this objective, multiple linear regression technique was used. Data was obtained from Oman's National center of Statistics and Information and the World bank for the period 1996 – 2019. This research provides results about measure of effect of money laundering on economic growth and the objective is to provide reasonable evidence that money laundering empirically impacts the economic growth in Oman. When compare with past literature, similar results are found about negative effect of money laundering on economic growth. Through this paper, it is concluded that reductions in annual growth rates were associated with increases of variables related with money laundering. The key contribution of the research is that it provides clear results about the effect of this phenomenon on economic growth which is very important for academics, researchers and universities. Moreover, the study is original and unique because puts Sultanate of Oman to the center which is not studied in the past. As conclusion, through this research is proved the hypothesis that money laundering has a significant effect on economic growth and this effect is negative.

Keywords: Money laundering, Gross domestic product, worldwide governance indicators

1. INTODUCATION

The term “money laundering” refers to criminal proceeds and disguising illegal sources in order to use funds to perform legal or illegal activities. Put

To cite this paper:

Arwa Al Ismaili & Karima Sayari (2023). The Impact of Money Laundering on Economic Growth in Sultanate of Oman. *Asian Journal of Economics and Business*. 4(1), 63-70. [https://DOI: 10.47509/AJEB.2023.v04i01.04](https://DOI:10.47509/AJEB.2023.v04i01.04)

differently, money laundering is a process whereby making dirty money appears to be clean (Pitchman, T. & Walker, J.R., 2011). Since long time, Money laundering had produced a major issue for governments because of its illicit source and this type of money is the result of illicit activities (drug, crime of all its types, human organ traffics and others). Global reports estimates that in 2009, criminal revenues amounted to 3.6% of global GDP, with 2.7% (or \$ 1.6 trillion) laundered. Sultanate of Oman is committed to international initiatives in combating money laundering and financing of terrorism. Besides being early party to UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 and UN Convention against Transnational Organization Crime, 2000 and member in FATF through GCC forum, it has updated itself in legal, institutional and procedural requirements over the period. Money Laundering, constituted with high-level representatives from concerned Ministries, Regulators and Law Enforcement Authorities, spear-heads AML/CFT regime in the Sultanate (Oman Central Bank, 2014).

2. LITERATURE REVIEW

2.1. Background of Money Laundering

A study conducted in Kosovo named by the Consequences of Money Laundering on Economic Growth – The Case of Kosovo and its Trade Partners by Alban Hetemi, Safet Merovci, and Ozan Gulhan. The main purpose of the paper is to explore the impact of money laundering phenomenon on economic growth level, respectively focusing on Republic of Kosovo and its trade partners' economic growth. In order to achieve this objective, the authors used a dynamic panel generalized methods of moments (GMM) technique. The findings of the study showed that money laundering has a negative impact on economic growth.

In 2002, Bartlett and his research of “The negative effects of money laundering on economic development” stated that money laundering has a significant impact on economic growth. Since through money laundering activities the funds have been re-directed from the sound and no risky projects to those of high risks, from productive to nonproductive investments and crime and corruption are alleviated, then economic growth can be affected.

A study conducted by Quirk in 1996 which is performed for 18 developed countries for the period of 1983-90, and resulted in reductions in annual economic growth rates linked to increase of money laundering activities. He used a model developed initially by Barro (1991) for the effect of human capital

on economic growth, but Quirk (1996) had included a variable for money laundering instead of human capital. Moreover, Quirk (1996) expanded Barro's model and replaced human capital with a money laundering variable, respectively the level of crime and found out that major differences between regressions was when he excluded government expenditure. Based on this study and results when he excluded government expenditure the effect became negative and significant and money laundering was closely and positively related with the level of government expenditure.

Based on Ferwerda and Bosma (2005), who measured the amount of money laundering in Netherlands, they have taken Quirk (1997) and Walker (1992-1999) models in order to issue the conclusion about the effect of money laundering on the economic growth of Netherlands. Based on their research and the above-mentioned variables, they have concluded that the overall effect of money laundering on growth is positive, while on the other hand the effect of the crime is negative, since the effect of the crime increases money laundering.

The danger of money laundering on the economy is not that directly it affects macroeconomic variables such as output, employment, or growth. The danger lies in the fact that money laundering increases crime and crime has negative effects on the economy. (Unger *et al.*, 2006)

2.2. Money Laundering in Oman

According to Caputo (2018), Oman ensures emphasis on the possibilities to set legal system and make sure there is effectiveness in terms of AML/CFT system regarding the institutional law enforcement practices engage with the general lack of the effectiveness within the preventive area and emphasis is on Oman which show perfect-criminalization regarding ML convictions that have been obtained as per reported statistics.

According to the National Center for Financial Information (NCFI) in Sultanate of Oman 2018's Annual Report the **suspicious transaction report (STR) declined from the period 2016 – 2018, 623 STR in 2016 to only 381 in 2018 as shown table 2.1, due to the national effort of the center like** receiving, analyzing and requesting reports and information, suspected of being related or linked to money laundering or terrorism financing activities.

Table 2.1: Overall total of STR received by NCFI (2018) – Sultanate of Oman

Year	2016	2017	2018
Number of STRs	623	468	381

3. METHODOLOGY

This research aims to find the impact of social media on the academic performance of the younger generation in

Egypt. Questionnaires were distributed through the social media platform, Facebook and emails, amongst a sample of students aged 12-19.

This research aims to find the impact of social media on the academic performance of the younger generation in

Egypt. Questionnaires were distributed through the social media platform, Facebook and emails, amongst a sample of students aged 12-19.

The research aims to find the impact of Money laundry on Gross Domestic Product (GDP) of Oman. Secondary data was used from National Center of Statistics and Information, and World bank of the period 1996-2019.

The explanatory variable – Money laundering – was proxy by worldwide governance indicators which has 6 dimensions: Voice and Accountability, Rule of Law, Regulatory Quality, Control of Corruption, Political Stability, and government effectiveness which ranges from -2.5 (weak) to 2.5 (strong).

The data obtained was analyzed via Multiple linear regression, multiple linear regression applied to investigate the relationship is as follows:

$$GDP = B_0 + VA\beta_1 + PV\beta_2 + GE\beta_3 + RQ\beta_4 + RL\beta_5 + CC\beta_6 + e$$

Where,

GDP = Gross Domestic Product of Sultanate of Oman

VA = Voice and Accountability of Sultanate of Oman

PV = Political Stability and Absence of Violence/Terrorism of Sultanate of Oman

GE = Government Effectiveness of Sultanate of Oman

RQ = Regulatory Quality of Sultanate of Oman

RL = Rule of Law of Sultanate of Oman

CC = Control of Corruption of Sultanate of Oman

4. FINDINGS AND DISCUSSION

The research sample consists of 21 observations. The dependent variable – log(GDP) - ranged from 1.006 to 1.037 (\$ in billion) with mean 1.037 and standard deviation 0.010. Voice and accountability has the mean of -0.976 and standard deviation of 0.145, compared to other counties Oman has the average rank of 26 among world countries and it is in the third place of ranking among

gulf counties. Control of corruption has the mean of 0.417 and standard deviation of 0.218, its average rank among counties is 69. Rule of law has the mean of 0.473 and standard deviation of 0.081, Oman on average is in 65th place compared with other countries. political stability has the mean of 0.792 and standard deviation of 0.080, governance effectiveness has the mean of 0.316 and standard deviation of 0.111 and Regulatory Quality has the mean of 0.461 and standard deviation of 0.226.

Table 4.1: Descriptive statistics of variables (1996-2019)

	<i>N</i>	<i>Range</i>	<i>Mini- mum</i>	<i>Maxi- mum</i>	<i>Mean</i>	<i>Std. Devia- tion</i>	<i>Vari- ance</i>
log (GDP)	21	.03137	1.00641	1.03778	1.0266919	.01079227	.000
Voice and ac- countability	21	.50	-1.16	-.66	-.9762	.14576	.021
Political stability	21	.69	.43	1.12	.7929	.20506	.042
Government effectiveness	21	.42	.08	.50	.3162	.11106	.012
Regulatory quality	21	.75	-.03	.72	.4610	.22658	.051
Rule of law	21	.30	.29	.59	.4733	.08052	.006
Control of cor- ruption	21	.79	.14	.93	.4176	.21836	.048

The table below provides the R , R^2 , adjusted R^2 , and the standard error of the estimate, which can be used to determine how well a regression model fits the data.

Table 4.2: Adjusted R Square summary

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.971 ^a	.942	.918	.00309409

Table 4.2 shows that 91.8% (Adjusted R Square) of the variance in GDP can be predicted from the variables (Control of Corruption, Rule of Law, Government Effectiveness, Regulatory Law, Political Stability and voice and accountability). And the Adjusted R Square value indicates that GDP strongly predict the independent variables.

4.3. Multiple linear regression summary

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.996	.012		85.076	.000	.971	1.021
Voice & accountability	-.026	.007	-.352	-3.520	.003	-.042	-.010
Political stability	-.005	.006	-.092	-.801	.437	-.018	.008
Government effectiveness	-.043	.009	-.447	-4.720	.000	-.063	-.024
Regulatory of quality	.014	.003	.285	3.974	.001	.006	.021
Rule of law	.045	.010	.338	4.428	.001	.023	.067
Control of corruption	-.012	.005	-.247	-2.256	.041	-.024	-.001

Recalling the research hypothesis, from table 4.3 we can decide whether to reject or fail to reject our hypothesis. The logarithm of the dependent variable –GDP- was taken to harmonize the dependent variable along with the independent variable. Starting from Voice and accountability, log GDP is expected to decrease by 0.026 billion US dollars when voice and accountability increases by one, holding all the other independent variables constant. This relationship is significant since ($p\text{-value} = 0.03 > 0.05$), so we reject the null hypothesis.

On the other hand, log GDP is expected to decrease by 0.005 billion US dollars when political stability increases by one, holding all the other independent variables constant. There is no significant relationship between log GDP and political stability since ($p\text{-value} = 0.437 < 0.05$), so we fail to reject the null hypothesis.

There is a significant relationship between GDP and government effectiveness since ($p\text{-value} = 0.000 < 0.05$), so we reject the null hypothesis. And log GDP is expected to decrease by 0.043 billion US dollars when political stability increases by one, holding all the other independent variables constant.

Log GDP is expected to increase by 0.014 billion US dollars when Regulatory Law increases by one, holding all the other independent variables

constant. There is significant relationship between log GDP and Regulatory Law since ($p\text{-value} = 0.001 < 0.05$), so we reject the null hypothesis.

Log GDP is also expected to decrease by 0.045 billion US dollars when control of corruption increases by one, holding all the other independent variables constant. There is significant relationship between GDP and control of corruption since ($p\text{-value} = 0.001 < 0.05$), so we reject the null hypothesis.

Table 4.4 also shows that there is a significant relationship between log GDP and rule of law since ($p\text{-value} = 0.041 < 0.05$), so we reject the null hypothesis. And log GDP is expected to decrease by 0.12 billion US dollars when political stability increases by one, holding all the other independent variables constant.

5. CONCLUSION

This research sets out to determine the effect of money laundering (proxy by governance indicators) on Oman's economy (decomposed into gross domestic product). Quantitative research design was adopted. Secondary data were used in this study from Oman's National Center for Statistics and Information and World Bank. The co-efficient of regression was used to determine the significance of the relationship and direction of the variables used in the study. The result revealed that money laundering has a negative significant relationship with the Oman's economy at 5% level of significance (Proxy by voice and accountability, government effectiveness, and control of corruption) and money laundering has a positive significant relationship with the Oman's economy at 5% level of significance (proxy by Regulatory Law and rule of law). The study recommends that possible review of the laws on corruption and money laundering be carried out with a view to harmonize the laws and increase the punishment for economic crimes to deter future culprits.

The main conclusion of this research is that countries should implement policies, laws, regulations and guidelines aimed at improving mechanism to combat and prevent money laundering in order to impact also economic growth.

6. STATEMENTS AND DECLARATIONS

Conflict of Interest. The authors have no relevant financial or non-financial interests to disclose.

References

Bartlett, B., (2002). The negative effects of money laundering on economic development. *Platypus Magazine*, 77.

- Barone, R., and Masciandaro, D., (2011). Organized crime, money laundering and legal economy: theory and simulations. *European journal of law and economics*, 32(1), 115-142.
- Caputo, A., (2018). Sultanate of Oman: Resistant to Violent Extremism. 4-16.
- Central Bank of Oman statistics, Central Bank of Oman, <https://www.cbo.gov.om> ,(accessed September 19, 2020).
- Ferwerda, J., (2012). The Multidisciplinary Economics of Money Laundering, Koopmans Dissertation Series USE 007. 8-12.
- Monetary Fund, No. 96/55, May 1996. Tanzi, V. (1997). Macroeconomic Implications of Money Laundering, 91-104.
- Quirk, P., (1996). Macroeconomic Implications of Money Laundering. International Monetary Fund. 7-13.
- Tanzi, V., (2006). Money Laundering and the International Financial System. IMF Working Paper, International
- Unger, B., (2004). The Scale and Impacts of Money Laundering. United Kingdom: Edward Elgar Publishing Inc. 9-11.
- World Bank statistics, World Bank, <https://www.worldbank.org> ,(accessed May 11, 2020).