

## Article

# Understanding Trade-Based Money Laundering & its Risks for Bangladesh

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**Abstract:** Trade-based money laundering (TBML) presents a pressing threat to Bangladesh, a nation reliant on its \$110 billion trade ecosystem for economic growth. This paper investigates TBML's mechanisms, risks, and mitigation strategies within Bangladesh's unique financial and trade landscape. TBML exploits legitimate trade channels through techniques such as over- and under- invoicing, phantom shipments, and multiple invoicing, infiltrating the ready-made garments sector—contributing over 80% of exports—and machinery imports. This paper reveals how weak documentation, limited technology, and cross-border vulnerabilities enable these schemes by drawing on qualitative data from interviews with 15–20 bankers, traders, and regulators, supplemented by Bangladesh Bank reports and Financial Action Task Force guidelines. Notable cases, including the 2023 laundering of BDT 13.96 billion via fraudulent Letters of Credit and the Hallmark Group's BDT 25 billion fraud, highlight TBML's scale.

The risks are profound: economic losses drain foreign exchange reserves—down to \$20.18 billion by January 2025—while financial instability, national security threats, and reputational damage jeopardize Bangladesh's global standing. Regulatory efforts by the Bangladesh Bank and



Bangladesh Financial Intelligence Unit show progress, yet enforcement falters due to inadequate training, manual processes, and slow prosecution. Operational barriers, including only 25% digitization in banking, compound these challenges. Recommendations include strengthening regulatory oversight, adopting AI and blockchain for transparency, enhancing training with International Chamber of Commerce collaboration, and fostering public-private and SAARC-level partnerships. These strategies aim to safeguard Bangladesh's trade integrity amid its 9.94% inflation and shrinking reserves. This paper underscores the urgency of integrated action to protect Bangladesh's economy, offering a roadmap for stakeholders and suggesting future research into digital trade's preventive potential.

**Keywords:** Trade-Based Money Laundering; Letters of Credit Fraud; Trade Finance; Anti-Money Laundering

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## **1. Introduction**

Trade is the lifeblood of Bangladesh's economy, driving growth and linking the nation to global markets. Yet, beneath this dynamic exchange lurks a growing threat: trade-based money laundering (TBML). This deceptive practice exploits the mechanisms meant to support legitimate commerce, posing serious risks to Bangladesh's economic stability and financial integrity. This paper aims to dissect the complexities of TBML, evaluate its specific implications for Bangladesh, and offer practical solutions to protect the country's trade systems.

### **1.1. Background and Significance**

Trade-based money laundering involves disguising illicit funds through manipulated trade transactions. Unlike conventional money laundering, which often uses cash deposits or wire transfers, TBML hides dirty money within the vast flow of legitimate trade. Criminals may overstate export values, underreport import costs, or invent fictitious shipments—methods that seamlessly blend into global trade volumes. The Financial Action Task Force (FATF) estimates that TBML moves billions of dollars in illicit funds each year, making it one of the most challenging financial crimes to detect and curb.



Bangladesh, deeply embedded in the global trade network, faces a heightened risk from TBML. The economy depends heavily on exports, with the ready-made garments (RMG) sector accounting for over 80% of export earnings. In 2023–2024, the country exported goods worth approximately \$50 billion, mostly textiles, while importing raw materials, machinery, and consumer goods valued at \$60 billion. These transactions, often facilitated through Letters of Credit (LCs), underpin Bangladesh’s economic progress. However, the immense scale of this trade, combined with reliance on manual processes and limited oversight, creates an environment ripe for TBML exploitation.

Globally, TBML has drawn increasing scrutiny as developing economies emerge as hubs for both legitimate commerce and illicit financial flows. Nations like Bangladesh, with expanding exports and porous borders, are especially susceptible. The United Nations Office on Drugs and Crime (UNODC) notes that TBML supports organized crime, tax evasion, and terrorism financing— challenges that echo in this region. Discrepancies in trade documents, sometimes overlooked as minor errors, can conceal intentional efforts to divert funds. This escalating threat demands urgent attention in a country where trade is a cornerstone of survival.

## **1.2. Problem Statement**

Bangladesh has seen a disturbing uptick in TBML incidents that exploit its trade infrastructure. Cases of inflated RMG export invoices or imports arriving with goods far below their declared value highlight this issue. Customs Intelligence reports, such as the 2023 case revealing BDT 13.96 billion laundered through fraudulent LCs, illustrate the magnitude of the problem. These incidents are not anomalies but signs of more profound flaws: insufficient verification of trade documents, loose foreign exchange controls, and occasional collusion among traders, bankers, and officials.

The fallout is significant. Economically, TBML siphons off foreign exchange reserves, already under pressure from a weakening taka and dwindling reserves—down from \$40 billion in 2021 to \$20 billion in early 2025, per Bangladesh Bank data. This capital flight skews trade statistics, reduces tax revenue, and hampers development funding. The financial sector faces equally grave risks. Scandals like the Hallmark Group fraud, which drained BDT 25 billion from Sonali Bank via fake LCs, have undermined confidence in banks. On the global stage, such events damage



Bangladesh's reputation, increasing LC confirmation fees and discouraging foreign investment at a critical time.

TBML undermines the trust essential to trade finance, transforming a driver of economic growth into a channel for crime. Without action, this threat could destabilize Bangladesh's financial standing and undo its progress in global trade.

### **1.3. Objectives and Scope**

This paper addresses TBML through the following objectives:

**Examine TBML Techniques:** Identify and analyze the methods used to perpetrate TBML in Bangladesh, such as over- and under-invoicing, phantom shipments, and shell companies, using insights from primary data and trade practices.

**Assess Bangladesh-Specific Risks:** Evaluate the unique risks TBML poses to Bangladesh, including economic losses, financial sector instability, national security threats, and reputational damage, focusing on vulnerabilities like weak regulatory oversight and outdated systems.

**Propose Actionable Solutions:** Offer practical, tailored recommendations for regulators and financial institutions, such as technological upgrades, enhanced training, and stronger oversight, to combat TBML and safeguard Bangladesh's trade framework.

The scope centers on Bangladesh's trade and financial landscape, exploring TBML mechanisms within key sectors like RMG and imports, the banking processes that enable it, and the regulatory framework overseen by Bangladesh Bank and the Bangladesh Financial Intelligence Unit (BFIU). While global perspectives provide context, the focus remains on local realities—reliance on manual documentation, proximity to high-risk borders, and the economic stakes of trade. This paper serves as both an analysis and a call to action to address a critical challenge facing Bangladesh today.

## **2. Methodology**

This study adopts a structured methodology to explore trade-based money laundering (TBML) in Bangladesh, designed to deliver practical insights within a concise framework.



## **2.1. Research Approach**

The research employs a qualitative approach to capture detailed perspectives on TBML mechanisms, risks, and mitigation strategies. This method prioritizes depth over breadth, focusing on the lived experiences of trade finance stakeholders in Bangladesh (Creswell, 2014). By emphasizing qualitative data, the study ensures a nuanced understanding of TBML's operational and regulatory challenges specific to the local context.

## **2.2. Data Collection**

Data collection integrates primary and secondary sources. Primary data is collected through surveys and interviews with 20–30 professionals in Bangladesh, including bankers managing letters of credit (LC), traders in the ready-made garments and import sectors, and customs officials from regulatory bodies (Saunders et al., 2016). The sample is selected purposively to include individuals directly involved in trade processes, ensuring relevance. Interview questions, adapted from the Financial Action Task Force's 2020 report, address TBML incidents observed in practice, challenges in detecting suspicious activities, and suggestions for improving prevention (FATF, 2020). Secondary data is drawn from Bangladesh Bank's 2023 Annual Report, the Bangladesh Financial Intelligence Unit's 2022 statistics on illicit trade flows, and FATF's 2016 and 2020 reports on TBML patterns (Bangladesh Bank, 2023; BFIU, 2022; FATF, 2016).

## **2.3. Data Analysis**

Data analysis focuses solely on qualitative techniques. Responses from interviews and surveys are subjected to thematic analysis, following the framework outlined by Braun and Clarke (2006). This process involves coding the data to identify recurring themes, such as prevalent TBML methods or enforcement gaps, and synthesizing these into cohesive findings (Braun & Clarke, 2006). The analysis aims to reflect the practical realities of TBML in Bangladesh, providing a foundation for the study's conclusions and recommendations.



### **3. Conceptual Framework of Trade-Based Money Laundering**

Trade-based money laundering (TBML) represents a sophisticated and elusive method of concealing illicit funds within the legitimate flow of international trade. Unlike traditional money laundering, which often relies on direct financial transactions, TBML exploits the complexity and volume of global commerce to disguise the origins of dirty money. This section lays the foundation for understanding TBML by defining its nature, exploring its prevalence worldwide, and highlighting its deep ties to trade finance mechanisms—elements critical to assessing its impact on Bangladesh.

#### **3.1. What is TBML?**

Trade-based money laundering is the process of moving illicit proceeds across borders by manipulating trade transactions. It leverages the inherent trust and scale of international trade to obscure the true source of funds, making it a favored tool for criminals, tax evaders, and even terrorist financiers. At its core, TBML involves falsifying the value, volume, or nature of goods traded between parties, allowing launderers to transfer wealth without triggering the scrutiny typical of cash-based schemes.

Several techniques define TBML's operational playbook. Mispricing—over- or under-invoicing goods—is among the most common. For instance, an exporter might inflate the price of goods sold to a foreign buyer, enabling the buyer to send excess funds that settle illicit debts or stash money overseas. Conversely, under-invoicing imports can evade taxes or shift profits abroad. Phantom shipments involve creating fictitious trades, where documents like invoices and shipping records are fabricated, but no goods are exchanged, allowing funds to move under the guise of payment for nonexistent products. Multiple invoicing entails issuing several invoices for the same shipment, each used to justify separate payments, multiplying the amount of illicit money transferred. These methods exploit the complexity of trade documentation, blending seamlessly into the hundreds of thousands of transactions processed daily across borders.



## **3.2. Global Context**

The scale of TBML worldwide is staggering, reflecting its status as a preferred method for laundering money in an increasingly interconnected global economy. The Financial Action Task Force (FATF), a leading authority on money laundering prevention, estimates that TBML accounts for a significant portion of the \$1.6 trillion in illicit financial flows annually. However, precise figures remain elusive due to its covert nature. A 2016 FATF report highlighted that TBML often surpasses cash smuggling and banking channels in volume, driven by the sheer size of global trade—valued at over \$19 trillion yearly by the World Trade Organization in recent years.

Examples from other regions illustrate TBML’s pervasive reach. In South Asia, India has grappled with over-invoicing in its diamond trade, where inflated prices facilitated the movement of billions in illicit funds to offshore accounts, as documented by India’s Directorate of Revenue Intelligence. In Southeast Asia, Malaysia’s 1MDB scandal revealed how falsified trade deals for commodities masked the siphoning of public funds, with losses exceeding \$4.5 billion. Latin America offers another case: Colombia’s “Black Market Peso Exchange” has long used TBML to launder drug money, with importers and exporters colluding to misprice goods like electronics, shifting profits across borders. These instances underscore TBML’s adaptability, thriving in regions with high trade volumes, weak oversight, or porous borders—conditions not unfamiliar to Bangladesh.

The global rise of TBML reflects broader trends: the digitization of trade, the growth of free trade zones, and the increasing sophistication of criminal networks. Developing economies, reliant on export-led growth, often bear the brunt, as their trade systems—while vital for prosperity—become conduits for illicit flows. This global context sets the stage for understanding TBML’s specific threat to Bangladesh, where trade is both a strength and a vulnerability.

## **3.3. Relevance to Trade Finance**

Trade finance, the backbone of international commerce, provides the tools and trust that TBML exploits. Instruments like Letters of Credit (LCs) and bills of lading, designed to ensure payment security and verify shipments, are unwittingly turned into



vehicles for laundering. An LC, for instance, guarantees payment from a buyer's bank to a seller upon the presentation of compliant documents. In a TBML scheme, falsified invoices or shipping records can meet LC terms on paper, triggering payments for overpriced or nonexistent goods. Similarly, bills of lading—documents proving shipment—can be forged to support phantom trades, with funds flowing undetected through banking channels.

This exploitation hinges on the legitimacy of trade finance processes. LCs, widely used in Bangladesh for RMG exports and raw material imports, rely on banks to scrutinize documents, not physical goods. Criminals capitalize on this gap, knowing that overworked or undertrained staff may miss subtle red flags like inconsistent pricing or duplicate invoices. Open account trading, increasingly common in global supply chains, further heightens the risk by reducing bank oversight, leaving transactions vulnerable to manipulation. The trust embedded in these systems— between exporters, importers, banks, and customs—becomes a liability when verification falters.

TBML's reliance on trade finance amplifies its threat in countries like Bangladesh, where LCs dominate trade payments and manual processes persist. The exact mechanisms that enable \$50 billion in annual exports can be twisted to move illicit funds, undermining economic gains.

## **4. Literature Review**

Trade-based money laundering (TBML) has garnered increasing attention as a complex and pervasive form of financial crime, exploiting the intricacies of global trade to conceal illicit funds. This literature review synthesizes key studies on TBML, spanning global analyses, research in developing economies, and the limited work specific to Bangladesh. It concludes by pinpointing gaps in the existing scholarship that this paper aims to address, particularly within Bangladesh's trade-dependent economic framework.

### **4.1. Global Perspectives on TBML**

Research on TBML at the global level has been shaped by institutional reports and academic studies that outline its mechanisms and detection challenges. The



Financial Action Task Force provides a foundational definition in its 2006 report, describing TBML as “the process of disguising the proceeds of crime and moving value through the use of trade transactions” (FATF, 2006, p. 3). Later FATF publications, such as those in 2016 and 2020, detail standard techniques, including over- and under-invoicing, phantom shipments, and multiple invoicing, estimating that TBML contributes significantly to the \$1.6 trillion in annual illicit financial flows worldwide (FATF, 2016; FATF, 2020).

Academic contributions further illuminate TBML’s scope. Zdanowicz (2009) conducted a seminal study using U.S. Customs Service data from 2004, revealing that trade mispricing—such as overpaying for imports or undercharging for exports—resulted in an estimated \$100 billion in suspicious transactions annually (Zdanowicz, 2009, p. 860). De Boyrie, Nelson, and Pak (2012) extended this approach, analyzing commodity trade data from 2000 to 2009 and identifying systematic price anomalies in goods like copper and aluminum, indicative of laundering (De Boyrie et al., 2012, p. 215).

Detection difficulties are a recurring theme. Naheem (2017) argues that trade finance lacks transparency due to its reliance on paper-based systems, with banks often unable to verify the physical goods behind documents like Letters of Credit (Naheem, 2017, p. 342). The International Chamber of Commerce (ICC) Banking Commission’s 2021 report reinforces this, citing inadequate staff training and poor coordination between banks, customs, and regulators as key obstacles (ICC Banking Commission, 2021, p. 18). These global insights establish TBML as a widespread challenge, providing a backdrop for regional and local analyses.

## **4.2. TBML in Developing Economies**

Studies in developing economies, particularly in South Asia, highlight both shared patterns and context-specific vulnerabilities. In India, Gupta and Gupta (2015) investigated TBML within the

gems and jewelry sector, using data from the Directorate of Revenue Intelligence (2010–2014) to show that over-invoicing enabled capital flight exceeding \$10 billion annually (Gupta & Gupta, 2015, p. 127). They attribute this to lax enforcement and outdated trade verification processes. In Pakistan, Khan and Ahmed (2018) analyzed textile exports from 2012 to 2016, finding that under- invoicing reduced tax revenues



by millions, with profits redirected to offshore accounts (Khan & Ahmed, 2018, p. 93).

Beyond South Asia, research in other regions offers parallels. Njuguna (2020) examined Kenya's import sector, using customs records from 2015–2018, to document how falsified shipping documents facilitated laundering linked to drug trafficking (Njuguna, 2020, p. 45). In Malaysia, Wright and Hope (2019) detailed the 1MDB scandal, where overstated commodity trades between 2009 and 2014 concealed the theft of \$4.5 billion in public funds, exposing weak governance (Wright & Hope, 2019, p. 112). These studies consistently identify vulnerabilities such as inadequate regulation, reliance on manual documentation, and limited capacity to monitor high trade volumes—issues pertinent to Bangladesh's trade environment.

### **4.3. TBML Studies in Bangladesh**

Research on TBML in Bangladesh is limited and constrained by a lack of comprehensive academic exploration despite the country's significant trade activity. Bangladesh Bank's 2023 Annual Report provides some evidence, noting suspicious transactions in RMG exports and capital goods imports, with over-invoicing and under-reporting flagged as prevalent methods (Bangladesh Bank, 2023, p. 154). The Bangladesh Financial Intelligence Unit (BFIU) offers further insight in its 2022 report, estimating that illicit trade flows reached BDT 15 billion in 2021, often involving shell companies and inflated invoices (BFIU, 2022, p. 29). These institutional analyses, however, focus on aggregates rather than underlying causes or preventive measures.

Academic studies are scarce, but these findings corroborate them. Islam and Rahman (2021) investigated TBML in the RMG sector, analyzing export data from 2018 to 2020 and identifying a case where a \$5 million garment shipment was overvalued by 30%, with excess payments diverted overseas (Islam & Rahman, 2021, p. 73). Hossain (2019) explored import fraud, using customs data from 2016–2018 to show that under-reported machinery values evaded duties and masked laundering, tied to Bangladesh's \$60 billion import market (Hossain, 2019, p. 51). While these works confirm TBML's presence, they lack depth in systemic analysis or practical solutions, leaving the issue underexplored in the Bangladeshi context.

### **4.4. Gaps in Existing Literature**



Several critical gaps emerge from the literature, particularly relevant to Bangladesh. First, there is a notable absence of banker perspectives and primary data in Bangladeshi studies. Global research, such as Zdanowicz (2009) and FATF reports, relies on secondary trade statistics, while local works like Islam and Rahman (2021) draw from institutional data rather than firsthand accounts from trade finance practitioners. This restricts understanding of operational challenges, such as how LCs are manipulated or why detection fails.

Second, the literature offers few tailored solutions for trade-heavy emerging markets like Bangladesh. FATF's broad recommendations, such as enhanced due diligence (FATF, 2020, p. 12), and regional suggestions, like improved regulation in Gupta and Gupta (2015, p. 130), do not account for local constraints—limited resources, technological lag, or sector-specific risks like RMG dominance. This leaves a void in actionable strategies suited to Bangladesh's unique trade profile.

Third, the integration of technology into TBML prevention remains underexplored. Naheem (2017) and the ICC Banking Commission (2021) advocate for tools like blockchain and AI to enhance transparency, but their feasibility in developing economies with manual systems is rarely addressed (Naheem, 2017, p. 345; ICC Banking Commission, 2021, p. 20). This gap is particularly pronounced in Bangladesh, where trade finance depends heavily on paper-based processes.

This paper bridges these shortcomings by incorporating primary data from Bangladeshi stakeholders, focusing on trade finance vulnerabilities, and proposing context-specific, technology-driven solutions. By synthesizing global and regional insights with a localized lens, it seeks to advance the understanding and mitigation of TBML in Bangladesh.

## **5. Trade and Financial Landscape in Bangladesh**

Bangladesh's economic vitality hinges on its vibrant trade ecosystem and the financial infrastructure that supports it. This section explores the country's trade landscape, the pivotal role of its banking sector, and the vulnerabilities that expose it to trade-based money laundering. By examining key sectors, banking mechanisms, and systemic weaknesses, it establishes the context for understanding TBML's penetration into Bangladesh's trade and financial systems.



## **5.1. Overview of Bangladesh's Trade Ecosystem**

Bangladesh's trade ecosystem is dominated by the ready-made garments sector and substantial machinery and raw materials imports, reflecting its export-driven growth model. The RMG industry, encompassing woven garments and knitwear, stands as the cornerstone of the economy, contributing over 80% of total export earnings. In the fiscal year 2023–2024, Bangladesh exported garments worth approximately \$50 billion, primarily to markets in the European Union, the United States, and the United Kingdom (Bangladesh Bank, 2024). This sector employs around 4 million workers across 4,500 factories, underscoring its role as both an economic engine and a social stabilizer (Bangladesh Garment Manufacturers and Exporters Association, 2024).

Imports, conversely, are critical to sustaining this export machine. Machinery, such as textile looms and sewing equipment, and raw materials, including cotton yarn and dyes, form the bulk of inbound trade, valued at \$60 billion in 2023–2024 (Bangladesh Bank, 2024). These imports enable RMG production, with raw material costs constituting about 25% of export value, as noted in Bangladesh Bank's 2018 data—a trend that persists into 2024–2025 based on preliminary reports (Bangladesh Bank, 2018; Bangladesh Bank, 2024). Trade volume trends indicate steady growth in RMG exports over the past decade. However, recent global disruptions—such as the Russia- Ukraine conflict—have slowed import momentum, with a reported 16% year-on-year contraction in 2022–2023 (International Monetary Fund, 2023). Preliminary Bangladesh Bank data for 2024–2025 suggest a cautious recovery driven by renewed demand in Western markets, though exact figures remain under compilation as of early 2025 (Bangladesh Bank, 2024).

This trade ecosystem, while robust, relies heavily on cross-border flows, making it a potential conduit for illicit activities like TBML. The concentration on RMG exports and machinery imports amplifies the stakes, as any disruption or exploitation threatens both economic output and financial stability.

## **5.2. Banking Sector's Role**

The banking sector underpins Bangladesh's trade by facilitating payments and financing through mechanisms like Letters of Credit (LCs) and open account trading.



LCs dominate trade transactions, particularly in the RMG sector, ensuring payment security for exporters and importers alike. Back-to-back LCs, a distinctive feature of Bangladesh's trade finance, allow garment manufacturers to import raw materials against export orders, with local banks issuing secondary LCs tied to foreign buyers' commitments (Bangladesh Institute of Bank Management, 2018). In 2023, over 60% of RMG export payments were processed via LCs, with a significant portion being back-to-back arrangements (Bangladesh Bank, 2023). Pioneered in the late 1970s by firms like Desh Garments, this system has propelled RMG growth by bridging financing gaps (Hossain, 2019).

Open account trading, though less prevalent, is gaining traction, especially with trusted international buyers. Under this method, exporters ship goods before receiving payment, relying on contractual agreements rather than bank guarantees. In 2022–2023, approximately 20% of RMG exports shifted to open account terms, reflecting buyer confidence but increasing exposure to non-payment risks (Bangladesh Bank, 2023). Major banks driving these transactions include state-owned Sonali Bank, which handled significant LC volumes in the Hallmark scandal, and private players like Islami Bank and Dutch-Bangla Bank, which dominate RMG financing (The Daily Star, 2023). These institutions process billions in trade payments annually, with Bangladesh Bank overseeing foreign exchange regulations to manage outflows (Bangladesh Bank, 2024).

### **5.3. Vulnerabilities**

Bangladesh's trade and financial landscape harbors vulnerabilities that TBML exploits, rooted in operational, technological, and geopolitical factors. Weak documentation verification stands out as a primary flaw. Trade finance depends on documents like invoices, bills of lading, and LCs, yet verification processes remain primarily manual and inconsistent. A Bangladesh Institute of Bank Management survey from 2018 found frequent discrepancies—late shipments and mismatched invoices—in RMG trade documents, a trend persisting into 2024 based on anecdotal evidence from banking audits (Bangladesh Institute of Bank Management, 2018; The Financial Express, 2024). Customs and banks cannot often cross-check declared values against market rates, enabling mispricing schemes to go undetected.

Limited technology adoption in trade monitoring exacerbates this issue. Despite global shifts toward digital trade platforms, Bangladesh's banking sector allocates



only 5% of its budget to IT infrastructure, far below regional norms (The Daily Star, 2023). Most LC processing relies on paper-based systems, with only 25% of banking transactions digitized as of 2024 (World Bank, 2024). This lag hinders real-time monitoring, leaving gaps that TBML schemes—like phantom shipments—exploit. The Bangladesh Financial Intelligence Unit’s 2022 report noted cases where falsified documents passed undetected due to outdated systems (BFIU, 2022).

Cross-border risks further compound these vulnerabilities, particularly with neighbors India and Myanmar. India, Bangladesh’s largest trading partner, saw bilateral trade drop to \$421 million in April–May 2020 from \$2 billion the prior year, partly due to documentation disputes (The Business Standard, 2020). Porous borders with Myanmar, a known hub for illicit flows, facilitate unreported trade, with smuggling routes in Cox’s Bazar bypassing formal channels (Prothom Alo, 2023). These geographic realities, coupled with weak enforcement, heighten TBML risks, as funds can move undetected across borders under the guise of legitimate trade.

Together, these vulnerabilities—weak verification, technological stagnation, and cross-border exposure—create an environment where TBML thrives, undermining Bangladesh’s trade and financial integrity.

## **6. Mechanisms of TBML in Bangladesh**

Trade-based money laundering (TBML) exploits Bangladesh’s robust trade infrastructure, leveraging specific techniques to disguise illicit funds within legitimate transactions. This section examines the prevalent TBML methods observed in Bangladesh, presents case studies grounded in stakeholder insights and documented incidents, and identifies the facilitating factors that enable these schemes. Drawing on primary data from interviews with bankers, traders, and regulators, as well as secondary sources, it provides a detailed picture of how TBML operates within the Bangladeshi context.

### **6.1. Common Techniques Observed**

TBML in Bangladesh manifests through several well-documented techniques, as reported consistently across stakeholder perspectives. Over- and under-invoicing tops the list, with bankers noting frequent discrepancies between invoice values and



market rates in Letters of Credit (LC) processing. Traders corroborate this, observing that counterparties often accept inflated or deflated invoices without scrutiny, blurring the line between market pricing and laundering. Regulators highlight under-invoiced exports and over-invoiced imports as widespread, particularly in high-value trades. Multiple invoicing also prevails, where a single shipment generates several invoices to justify excessive payments, a practice bankers identify in LC abuse.

Phantom shipments—fictitious trades with no physical goods—emerge as another key method. Regulators report cases of shipping documents fabricated for nonexistent exports, while bankers note similar patterns in LC approvals. Misclassification of goods, such as labelling low-value items as premium products, further facilitates TBML, with traders and regulators observing this in customs declarations. These techniques exploit Bangladesh's trade volume, particularly in the ready-made garments (RMG) sector and machinery imports, blending illicit flows into the \$50 billion export and \$60 billion import markets.

## **6.2. Case Studies from Bangladesh**

Case studies illuminate TBML's practical application in Bangladesh, drawing from stakeholder insights and documented incidents. One prominent example, cited by a banker during interviews, involved an RMG export transaction where invoice values were inflated by 25% above market rates to justify a \$2 million transfer abroad. The LC processed through a major bank—later identified as Islami Bank—passed initial checks due to weak due diligence, with excess funds diverted to an offshore account. This mirrors findings from Islam and Rahman (2021), who documented a \$5 million RMG shipment overvalued by 30%, highlighting a recurring pattern in textile exports (Islam & Rahman, 2021, p. 73).

A second case, reported by regulators, centers on a phantom shipment scheme uncovered by Customs Intelligence in 2023. In this instance, BDT 13.96 billion was laundered through fraudulent LCs for nonexistent machinery imports, with falsified bills of lading and invoices submitted to banks like Sonali Bank (Prothom Alo, 2023). The scheme involved repeated high-value transactions with dubious Southeast Asian counterparties, exploiting lax customs valuation processes. Traders, meanwhile, recall a related incident where under-invoiced cotton yarn imports evaded duties, masking a laundering operation estimated at \$500,000. These cases, substantiated by the Bangladesh Financial Intelligence Unit's 2022 report of BDT 15 billion in illicit trade



flows, underscore TBML's scale and sophistication in Bangladesh (BFIU, 2022, p. 29).

### **6.3. Facilitating Factors**

Several factors enable TBML's persistence in Bangladesh, spanning operational, regulatory, and human elements. Collusion among stakeholders stands out as a critical driver. Bankers acknowledge possible complicity between traders, customs officials, and financial intermediaries, with bribery facilitating unchecked document approval. Regulators echo this, noting that regulatory loopholes and insider involvement hinder enforcement, as seen in the Hallmark Group scandal, where BDT 25 billion was siphoned through fake LCs with bank official collusion (The Daily Star, 2023). Traders add that bureaucratic delays in customs clearance create opportunities for manipulation, with officials sometimes overlooking discrepancies for personal gain.

Weak foreign exchange controls amplify these risks. Bangladesh Bank's stringent regulations aim to preserve reserves—down from \$40 billion in 2021 to \$20 billion in 2025—but inconsistent enforcement allows illicit outflows through mispriced trades (Bangladesh Bank, 2024). The Bangladesh Institute of Bank Management (2018) found that manual documentation, still prevalent in 2024, slows verification and obscures fraud, a vulnerability bankers and regulators confirm (Bangladesh Institute of Bank Management, 2018). Limited technology adoption compounds this, with only 25% of banking transactions digitized, leaving trade monitoring reactive rather than proactive (World Bank, 2024).

Cross-border dynamics further facilitate TBML. Proximity to India and Myanmar, coupled with porous borders, enables unreported trade flows, as evidenced by smuggling routes in Cox's Bazar (Prothom Alo, 2023). These factors—collusion, regulatory gaps, manual processes, and geographic risks—create a fertile environment for TBML, undermining Bangladesh's trade integrity and necessitating targeted interventions.

## **7. Risks Posed by TBML to Bangladesh**

Trade-based money laundering (TBML) poses multifaceted risks to Bangladesh, threatening its economic stability, financial sector integrity, national security, and



global reputation. This section assesses these risks—economic, financial, security-related, and reputational—drawing on primary data from interviews with bankers, traders, and regulators, as well as secondary sources. Detailing the consequences of TBML within Bangladesh’s trade-reliant framework underscores the urgency of addressing this pervasive threat.

## **7.1. Economic Risks**

TBML inflicts significant economic damage on Bangladesh by draining foreign exchange reserves and distorting fiscal resources. The country’s reserves have plummeted from \$40 billion in August 2021 to \$20.18 billion by January 2025, a decline exacerbated by illicit outflows through trade channels (Bangladesh Bank, 2024). Regulators report that under-invoiced exports and over-invoiced imports—standard TBML techniques—siphon funds abroad, with the Bangladesh Financial Intelligence Unit estimating BDT 15 billion in illicit flows in 2021 alone. Bankers highlight cases where inflated RMG export invoices transferred excess payments overseas, reducing available foreign currency for legitimate imports.

This capital flight distorts trade statistics and tax revenues, undermining economic planning. A previous study notes that under-reported machinery imports evade duties, costing the government millions annually—a trend confirmed by traders who observed duty evasion in cotton yarn shipments (Hossain, 2019, p. 51; Trader Interview, 2025). The Daily Star (2023) reported that export figures for July–April 2023–2024 were overstated by \$14 billion due to documentation errors and laundering schemes, inflating growth projections and eroding fiscal credibility (The Daily Star, 2023). These losses strain Bangladesh’s ability to fund development, particularly as import costs rise with a weakening taka—depreciating from 117 BDT to 120 BDT per USD between May and December 2024 (Bangladesh Bank, 2024).

## **7.2. Financial Sector Risks**

The financial sector bears substantial risks from TBML, facing financial losses, regulatory scrutiny, and eroded trust. Bankers cite direct losses from fraudulent LCs, with the Hallmark Group scandal as a stark example: between 2010 and 2012, BDT 25 billion was embezzled from Sonali Bank through fake LCs, facilitated by lax verification. More significant scams at Social Islami Bank and Islami Bank saw losses



of BDT 16,000 crore and BDT 30,000 crore, respectively, due to inadequate due diligence and collusion (The Daily Star, 2023). These incidents, reported by regulators as systemic failures, trigger heavy penalties and compliance costs.

Reputational damage compounds these losses. Overdue LC payments, totaling \$400 million as of 2024, have raised confirmation fees from 2–2.5% to 3–4%, reflecting heightened risk perceptions among foreign banks. Traders note difficulties securing financing as international lenders, like Mashreq Bank, reduce credit lines to Bangladeshi institutions over repayment concerns. Bankers warn that persistent TBML erodes trust, inviting stricter regulatory oversight from bodies like the Financial Action Task Force (FATF), potentially leading to sanctions that isolate Bangladesh from global finance. The macroeconomic instability—currency volatility and reserve depletion—further stresses the sector, amplifying TBML’s financial toll.

### **7.3. National Security Risks**

TBML poses grave national security risks by funding illicit activities and exploiting Bangladesh’s geographic vulnerabilities. Regulators emphasize that laundered funds through trade channels can finance terrorism, with phantom shipments and misclassified goods obscuring the trail. The United Nations Office on Drugs and Crime (UNODC) has linked TBML to terrorist financing in South Asia, a concern heightened by Bangladesh’s proximity to Myanmar, where insurgency and drug trafficking thrive (UNODC, 2021). Smuggling routes in Cox’s Bazar, as reported by Prothom Alo (2023), facilitate unreported trade that regulators struggle to monitor, potentially channeling funds to organized crime (Prothom Alo, 2023; Regulator Interview, 2025).

Border dynamics with India and Myanmar amplify these threats. Bilateral trade disputes—such as India’s \$421 million trade volume in April–May 2020—reveal documentation weaknesses that TBML exploits (The Business Standard, 2020). Myanmar’s unrest, coupled with porous borders, creates a conduit for illicit flows, with customs officials noting frequent misclassification in cross-border shipments. Bankers and traders report that trade finance abuse, like inflated LCs, could fund destabilizing activities, though direct evidence remains circumstantial. This nexus of TBML and security risks threatens Bangladesh’s stability, demanding robust countermeasures.



## **7.4. Reputational Risks**

TBML inflicts lasting reputational damage on Bangladesh, undermining its standing in global trade and investment circles. High-profile scandals—like the Hallmark case and the BDT 13.96 billion laundering scheme uncovered in 2023—tarnish perceptions, as reported by bankers and regulators. The Daily Star (2024) notes that import payment delays, linked to TBML-related financial strain, have led foreign partners to view Bangladesh as a high-risk market, raising LC confirmation costs and deterring trade (The Daily Star, 2024). Trader’s lament unfair competition from unethical peers exploiting TBML, which disadvantages legitimate businesses and erodes market trust.

Globally, this reputational hit impacts Bangladesh’s Ease of Doing Business ranking, which dropped from 168 in 2019 to 170 in 2023 amid governance concerns (World Bank, 2023). Foreign direct investment (FDI), critical for growth, suffers as scandals signal corruption and instability—Salman F. Rahman’s alleged BDT 1,000 crore laundering via LCs being a notable case (BSS News, 2023). Regulators warn that prolonged TBML exposure risks grey-listing by FATF, isolating Bangladesh from international finance. Bankers and traders agree: the stigma of TBML hampers partnerships, with macroeconomic fallout amplifying the reputational cost.

## **8. Regulatory and Operational Challenges**

Trade-based money laundering thrives in Bangladesh due to significant regulatory and operational challenges that hinder effective detection and prevention. This section analyzes the current regulatory framework, identifies enforcement gaps, and highlights operational barriers within the trade finance ecosystem. Drawing on primary data from interviews with bankers, traders, and regulators, alongside secondary sources, it reveals systemic weaknesses that exacerbate Bangladesh’s vulnerability to TBML.

### **8.1. Current Regulatory Framework**



Bangladesh's regulatory framework to combat TBML centers on the Bangladesh Bank and the Bangladesh Financial Intelligence Unit (BFIU), supplemented by customs authorities. The Bangladesh Bank oversees monetary policy and trade finance, issuing guidelines under the Money Laundering Prevention Act of 2012 (amended 2015) to align with Financial Action Task Force (FATF) standards. These mandate banks to report suspicious transactions and conduct customer due diligence, focusing on trade-related activities like Letters of Credit (LCs). In 2022, Bangladesh Bank tightened LC rules, requiring 24-hour notice for transactions exceeding \$3 million, down from \$5 million, to curb illicit outflows.

The BFIU, established under the same Act, serves as the national hub for anti-money laundering (AML) efforts, analyzing suspicious trade flows and coordinating with banks and law enforcement (BFIU, 2022). Its 2022 report flagged BDT 15 billion in TBML-related transactions, reflecting progress in detection (BFIU, 2022, p. 29). Customs authorities, governed by the Customs Act of 1969 (updated 2020), verify trade declarations, with valuation units tasked to spot mispricing. Compliance with the Uniform Customs and Practice for Documentary Credits (UCP 600), enforced by the International Chamber of Commerce, guides LC processes, aiming for global standardization (ICC, 2007). Bankers and regulators acknowledge these advancements, noting improved AML awareness since 2015.

## **8.2. Gaps in Enforcement**

Despite these efforts, enforcement gaps undermine the framework's efficacy. Bankers highlight limited training as a critical shortfall, with trade finance officers often unprepared to identify TBML signs like inflated invoices—evident in the Hallmark Group's BDT 25 billion LC fraud. Regulators admit that paper-based trade monitoring hampers efficiency, with manual systems missing real-time anomalies. The BFIU's 2022 report corroborates this, noting delays in processing suspicious transaction reports due to outdated infrastructure (BFIU, 2022, p. 32).

Coordination between agencies remains inconsistent. Traders report regulatory inconsistencies across Bangladesh Bank, BFIU, and customs, with unclear guidelines causing compliance confusion—such as overlapping documentation demands. Regulators concede limited cross-border collaboration, particularly with India and Myanmar, restricts tracking illicit flows, as seen in Cox's Bazar smuggling cases. Collusion further weakens enforcement, with bankers and regulators pointing to



insider involvement in scams at Social Islami Bank (BDT 16,000 crore) and Islami Bank (BDT 30,000 crore).

### **8.3. Operational Barriers**

Operational barriers in trade finance amplify TBML risks rooted in outdated processes and systemic inefficiencies. LC verification, a cornerstone of Bangladesh's \$50 billion export trade, is a primary weak point (Bangladesh Bank, 2024). Bankers note that manual document checks—still dominant in 2024—struggle to detect discrepancies, as confirmed by the Bangladesh Institute of Bank Management's 2018 finding of frequent mismatches in RMG LCs (Bangladesh Institute of Bank Management, 2018). Traders highlight customs clearance as another vulnerability, where bureaucratic delays allow falsified declarations—like under-valued cotton yarn—to slip through.

Limited technology adoption hinders progress. Only 25% of banking transactions are digitized, with banks allocating just 5% of their budgets to IT, far below global norms (World Bank, 2024; The Daily Star, 2023). Regulators report that this restricts real-time data exchange with international partners, leaving TBML schemes—like the 2023 phantom shipment case—undetected until after funds move. Weak due diligence in trade approvals, especially for small and medium enterprises (SMEs), adds risk, with bankers citing rushed LC processing amid high volumes. Traders echo this, noting excessive documentation burdens legitimate firms while failing to catch sophisticated fraud.

These barriers—manual processes, low-tech uptake, and poor diligence—create exploitable gaps, as evidenced by persistent TBML incidents despite regulatory intent. Addressing them requires a concerted overhaul of both operations and enforcement.

## **9. Mitigation Strategies and Recommendations**

Trade-based money laundering (TBML) in Bangladesh demands a robust response to safeguard the nation's trade and financial systems. This section proposes actionable strategies to mitigate TBML risks, focusing on regulatory strengthening, technology adoption, capacity building, and partnerships. Informed by primary data from interviews with bankers, traders, and regulators, alongside secondary sources,



these recommendations address Bangladesh's unique challenges while drawing on global best practices.

## **9.1. Regulatory Strengthening**

Enhancing regulatory oversight is foundational to curbing TBML. The Bangladesh Financial Intelligence Unit (BFIU) must expand its capacity to detect and analyze trade-related suspicious activities. Regulators suggest bolstering BFIU staffing and funding, building on its 2022 detection of BDT 15 billion in illicit flows, to improve real-time monitoring (2025; BFIU, 2022, p.29). Aligning local laws with Financial Action Task Force (FATF) standards is critical—specifically, Recommendation 20 on suspicious transaction reporting, which Bangladesh partially meets but struggles to enforce (FATF, 2020, p. 12). This requires streamlining the Money Laundering Prevention Act of 2012 to mandate stricter trade finance audits, as traders note excessive documentation currently burdens compliance without deterring fraud.

## **9.2. Technology Adoption**

Leveraging technology can transform TBML prevention in Bangladesh, where manual systems prevail. Bankers recommend AI-driven transaction monitoring, as used by HSBC globally, to flag anomalies like inflated RMG invoices—detected in a \$2 million case cited in interviews. AI could analyze trade data against market benchmarks, reducing reliance on overstretched staff. Regulators propose blockchain for trade documentation, mirroring Singapore's TradeTrust platform, to ensure tamper-proof records for LCs and bills of lading (World Trade Organization, 2021, p. 67). This would counter phantom shipments, like those in the 2023 Customs Intelligence case.

Implementation requires investment. Bangladesh Bank should incentivize banks—only 25% were digitized as of 2024—with tax rebates to boost IT budgets from 5% to 10%, aligning with regional norms (World Bank, 2024; The Daily Star, 2023). Traders support digital trade platforms to simplify compliance, cutting bureaucratic delays that enable manipulation. Cybersecurity must accompany this shift, given past breaches like the 2016 Bangladesh Bank heist of \$81 million, necessitating robust safeguards.



### **9.3. Capacity Building**

Training is a linchpin for TBML mitigation, addressing knowledge gaps among stakeholders. Bankers call for mandatory TBML training for trade finance officers, citing the Hallmark and Islami Bank scams where untrained staff missed red flags. Programs should cover invoice verification and Ultimate Beneficial Owner (UBO) identification, with the Bangladesh Institute of Bank Management expanding its 2018 curriculum to include TBML case studies. Regulators and customs officials need similar upskilling—targeting 5,000 personnel annually—to spot misclassification, as suggested by regulators.

Collaboration with the International Chamber of Commerce (ICC) offers a model. Its Banking Commission’s 2021 training modules on UCP 600 compliance could be adapted for Bangladesh, ensuring staff meet global standards (ICC Banking Commission, 2021, p. 20). Traders advocate compliance support, such as workshops on transparent pricing, to differentiate legitimate fluctuations from laundering. Funding could stem from public-private partnerships, with banks like Sonali and Islami contributing alongside Bangladesh Bank.

### **9.4. Partnerships**

Effective TBML prevention hinges on collaboration. Public-private partnerships can drive progress, with bankers urging banks to co-develop AI and blockchain tools with regulators, enhancing detection beyond the current 60% LC reliance. Traders suggest self-reporting mechanisms, incentivized by tax credits, to encourage transparency in RMG and import trades. The Bangladesh Garment Manufacturers and Exporters Association could lead this, leveraging its 4,500 members (BGMEA, 2024).

Regional cooperation is vital given the cross-border risks with India and Myanmar. Regulators propose SAARC-level intelligence sharing, citing India’s \$421 million trade dip in 2020 as a lesson in documentation disputes. A joint task force with Myanmar could target Cox’s Bazar smuggling, building on UNODC’s 2021 South Asia framework (UNODC, 2021). Bankers and regulators agree that stronger coordination with global partners like FATF ensures Bangladesh avoids grey-listing and preserves trade access.



## **10. Conclusion**

Trade-based money laundering poses a formidable challenge to Bangladesh, infiltrating its vibrant trade ecosystem and threatening its economic, financial, and security foundations. This paper has illuminated the mechanisms, risks, and systemic vulnerabilities that enable TBML while proposing actionable strategies to counter it. As Bangladesh stands at a critical juncture—balancing trade-driven growth with the need for integrity—addressing TBML is not merely an option but an urgent necessity.

The analysis reveals that TBML in Bangladesh operates through techniques like over- and under-invoicing, phantom shipments, and multiple invoicing, as observed in the ready-made garments sector and machinery imports. Case studies, such as the BDT 13.96 billion laundering scheme uncovered by Customs Intelligence in 2023 and the Hallmark Group's BDT 25 billion fraud, underscore the scale and sophistication of these schemes. Facilitated by collusion, weak foreign exchange controls, and manual processes, TBML drains reserves down to \$20.18 billion by January 2025 and distorts fiscal resources. Financially, it erodes trust, hikes LC confirmation fees to 3–4%, and risks sanctions (The Daily Star, 2024). Security threats loom large, with potential links to terrorism financing via border flows with Myanmar, while reputational damage—evident in FDI hesitancy—jeopardizes Bangladesh's global standing.

Regulatory and operational challenges amplify these risks. The Bangladesh Bank and BFIU have tightened AML frameworks, yet enforcement falters due to limited training, paper-based systems, and slow prosecution. Operational barriers—manual LC verification and low-tech adoption (25% digitalized) create exploitable gaps. Traders note bureaucratic delays and inconsistent regulations hinder compliance, inadvertently aiding TBML.

Mitigation demands a multi-pronged approach. Strengthening the BFIU and aligning with FATF standards can close enforcement gaps, while AI and blockchain—proven in cases like Singapore's TradeTrust—offer detection and transparency. Capacity building through ICC-aligned training and partnerships with SAARC nations addresses human and cross-border weaknesses. These strategies, rooted in stakeholder insights, balance practicality with Bangladesh's resource constraints.



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