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Original paper

Modelling Comparative Money Laundering Potential: Public Governance and Cultural Dynamics as Critical Factors

Muhammad Alfarizi[1*], Zela Zalika[2]
[1] Department of Management, Universitas Bina Nusantara, Indonesia
[2] Faculty of Law, Social and Political Sciences, Universitas Terbuka, Indonesia

Corresponding author: muhammad.alfarizi@binus.ac.id

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Abstract

Corruption and money laundering remain pressing global issues due to their substantial economic consequences, particularly in Asia and Europe. Prior research into financial crime factors has explored a variety of perspectives, including behavioral, social, and cultural aspects. This study examines the interplay between national cultural dimensions, public governance, and money laundering potential in Asia and Europe using a quantitative methodology. Secondary data from the 2023 Anti-Money Laundering Index (AML-Index) is analyzed through Structural Equation Modelling-Partial Least Square (SEM-PLS) with maximum likelihood estimation. The findings reveal that cultural dynamics significantly and positively impact public governance, although their influence on money laundering potential, alongside public governance, is not statistically significant. Mediation analysis highlights public governance as a mediating factor between cultural dynamics and money laundering potential across both regions. Additionally, Multigroup Analysis (MGA) identifies significant regional differences, with Asia and Europe exhibiting distinct impacts of public governance on money laundering potential. These findings underscore the need for an integrated approach to combat global money laundering, encompassing enhanced governance, public education, technological innovation, and international collaboration. The Financial Action Task Force (FATF) is urged to focus on cross-border cooperation and strengthening public governance as essential strategies to prevent and mitigate money laundering worldwide.

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Introduction

Malevolence and human existence represent enduring facets that persist across the continuum of human history. Traditional criminals typically commit crimes due to economic pressure and a lack of education. However, only individuals with high intelligence and favorable economic conditions can commit certain forms of crime. The criminal act of

corruption is one part of the special criminal law (*iussingulare*, *iusspeciale*, or *bijzonderstrafrecht*) and positive law provisions (*iusconstitutum*) of Indonesia, which is regulated in Law Number 31 of 1999 as amended by Law Number 20 of 2001 concerning the Eradication of Corruption.[1] Corruption has not only become a fear for Indonesians but has even been considered a common enemy by the community and international institutions/organizations.[2] Money laundering is a white-collar crime and a serious and transnational crime.[3] The recent phenomenon of money laundering has attracted global attention due to the amount of funds involved and the impact it can have on the economy. Starting in the 1930s and 1940s, money laundering was previously classified as a white-collar crime because it was defined as acts committed by respectable individuals with high social status.[4] However, over time and involving funds from various illegal activities such as terrorism, tax evasion, prostitution, bribery, corruption, and others, researchers and academics now classify it as a financial crime.[5] Rusanov et al. (2021) even argue that money laundering has become a central role in the structure of modern crime.[6] As a result, fighting money laundering is considered the most effective measure to suppress other criminal activities that are systematically connected to such money laundering practices.

The Asian region has become one of the most vulnerable to money laundering. Based on data from the Financial Action Task Force (FATF), in 2022, the Asian region accounted for around 25% of the total money laundering cases in the world.[7] Money laundering crimes in Indonesia in 2023 will significantly increase, as the data published by the Indonesian Center for Financial Transaction Reporting and Analysis reveals. This figure recorded an increase of 38.2% compared to the previous year.[8] This money laundering practice involves a variety of tactics, including the transfer of funds and the utilization of diverse mechanisms to conceal the origin of money, such as the opening of fake bank accounts, investments in financial instruments, and the use of fictitious businesses.[9] This process often involves scattered transactions passing through multiple intermediaries. Combining these mechanisms forms a very complex action, making it a crime difficult to detect.

Research on the factors influencing the rate of financial crime and white-collar crime in society has been undertaken, especially within the framework of behavioral, social, and cultural

[1] Redentor Goncalinho Antonio Obe and Florianus Aloysius Nay, "Model Pemidanaan Terhadap Pelaku Tindak Pidana Korupsi Yang Dibarengi Dengan Tindak Pidana Pencucian Uang Melalui Platform Digital," *Saraq Opat: Jurnal Administrasi Publik* 4, no. 2 (2022): 125–32.

[2] Sutrisno Sutrisno, Fenty Puluhulawa, and Lusiana Margareth Tijow, "Penerapan Asas Keadilan, Kepastian Hukum Dan Kemanfaatan Dalam Putusan Hakim Tindak Pidana Korupsi," *Gorontalo Law Review* 3, no. 2 (2020): 168–87.

[3] Nikolas Hamonangan Siahaan, "Keberadaan Kerah Putih Dibalik Kasus Pencucian Uang," Pusat Pelaporan dan Analisis Transaksi Keuangan, 2019, https://www.ppatk.go.id/siaran_pers/read/970/keberadaan-kerah-putih-dibalik-kasus-pencucian-uang.html.

[4] Ibid.

[5] M W Calafos and G Dimitoglou, "Cyber Laundering: Money Laundering from Fiat Money to Cryptocurrency," in *Principles and Practice of Blockchains*, 2022, 271–300, https://doi.org/10.1007/978-3-031-10507-4_12.

[6] Georgy Rusanov and Yury Pudovochkin, "Money Laundering in the Modern Crime System," *Journal of Money Laundering Control* 24, no. 4 (January 1, 2021): 860–68, https://doi.org/10.1108/JMLC-08-2020-0085.

[7] S Zolkaflil, S N F Syed Mustapha Nazri, and N Omar, "Asset Recovery Practices in Combating Money Laundering: Evidence from FATF Mutual Evaluation Report of FATF Member Countries of Asia Pacific Region," *Journal of Money Laundering Control* 26, no. 1 (2023): 24–34, https://doi.org/10.1108/JMLC-11-2021-0127.

[8] Mahendra et al., "pemberantasan tindak pidana pencucian uang berdasarkan undang-undang nomor 8 tahun 2010 tentang pencegahan dan pemberantasan tindak pidana pencucian uang," Jurnal Darma Agung 30, no. 3 (2023): 1444–55.

[9] Isma Nurillah and Nashriana, "Gatekeeper Dalam Skema Korupsi Dan Praktik Pencucian Uang," Simbur Cahaya 26, no. 2 (2020): 207–29.

theories.[10] The behavioral perspective examines financial crime from a psychological point of view, highlighting that the behavior of criminals is influenced by considering the financial benefits that may result from criminal financial acts and the punitive consequences they may receive if caught by the authorities.[11] With these considerations in mind, researchers have also explored the role of governance variables, such as sanctions and penalties, reflecting the rule of law, government power, regulatory quality, and other factors.[12] Social and cultural theory focuses on research into the impact of institutions, norms, and values on financial crime in general, including money laundering as a form. Numerous studies have described the influence of cultural dimensions on financial crime. For example, Gotttschalk (2013) presents substantial statistical evidence regarding gender differences in financial crime in Norway.[13] Holtfreter (2015) reviews gender roles in financial crime, showing that gender aspects that are evident in other crimes, such as violent crime, do not seem to apply to financial crime fully.[14] Mihret (2014) examined the influence of national cultural dimensions on fraud risk, finding significant linkages between the two dimensions: Power Range and Long-Term Orientation.[15] Sanyal (2005) explores the impact of economic and cultural factors on bribery in society, asserting that the level of bribery is related to the distance of power and masculinity in society.[16] In a broader context, Yamen et al. (2019) investigated the influence of national culture on financial crime in 78 countries.[17] The results showed that countries with cultural profiles that characterize low uncertainty avoidance, intense individualism, high masculinity, and low long-term orientation have high rates of financial crime. In contrast, countries with positive cultural profiles of individualism or collectivism, uncertainty avoidance, and long-term orientation tend to have low financial crime rates.

However, the study creates a gap with the unexamined Asian national culture identified by the Global Leadership and Organizational-Behavior-Effectiveness (GLOBE) Study on the potential for money laundering. In addition, public governance factors have never been further investigated, with a focus on Asian countries with strong Eastern cultures. Thus, this study aims to analyze the impact of the national cultural dimension of Asian countries on mediation, public governance, and the potential for money laundering crimes compared to comparative European countries. The study is the first comparative modelling of potential money laundering between Asian and European countries as an east-west cultural representation with a secondary database. The study contributes to an in-depth understanding of the relationship between dimensions of

[10] H Saeidi, "Impacts of Psychological Behaviors of Managers on Money Laundering: Evidence from Iran Stock Exchange," *Journal of Money Laundering Control* 25, no. 1 (2022): 206–23, https://doi.org/10.1108/JMLC-01-2021-0001; J.-A. Kramer et al., "Money Laundering as a Service: Investigating Business-like Behavior in Money Laundering Networks in the Netherlands," *Trends in Organized Crime*, 2023, https://doi.org/10.1007/s12117-022-09475-w.

[11] M Nazzari, "Lost in the Maze: Disentangling the Behavioral Variety of Money Laundering," *European Journal on Criminal Policy and Research*, 2023, https://doi.org/10.1007/s10610-023-09572-8.

[12] Anas AlQudah et al., "The Effects of Public Governance and National Culture on Money Laundering: A Structured Equation Modeling Approach," *Journal of Public Affairs* 22 (2022): e2796.

[13] Petter Gottschalk and Lars Glasø, "Corporate Crime Does Pay! The Relationship between Financial Crime and Imprisonment in White-Collar Crime," *International Letters of Social and Humanistic Sciences* 5 (2013): 63–78.

[14] Kristy Holtfreter, "General Theory, Gender-Specific Theory, and White-Collar Crime," *Journal of Financial Crime* 22, no. 4 (2015): 422–31.

[15] Dessalegn Getie Mihret, "National Culture and Fraud Risk: Exploratory Evidence," Journal of Financial Repo Mihret (2014) examined the influence of national cultural dimensions rting and Accounting 12, no. 2 (2014): 161–76.

[16] Rajib Sanyal, "Determinants of Bribery in International Business: The Cultural and Economic Factors," Journal of Business Ethics 59 (2005): 139–45. Yamen et al. (2019) investigated the influence of national culture

[17] Ahmed Yamen et al., "The Impact of National Culture on Financial Crime," *Journal of Money Laundering Control* 22, no. 2 (2019): 373–87.

Asian national culture, public governance, and money laundering potential. The results can be the basis for relevant policies to improve public governance and mitigate money laundering risks in Europe-Asian countries, especially Indonesia.

Methodology

The study chose a quantitative approach to analyzing the relationship between dimensions of Asian-Europe national culture, public governance, and money laundering potential. Figure 1 is a research model with four proposed research hypotheses based on literature analysis.[18]

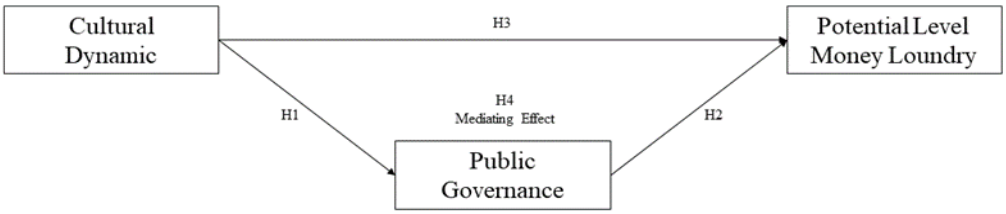

Figure 1. Research Model

Source: Adopted from Mihret (2014), Sanyal (2005), Yamen et al. (2019)

H1 : The dynamics of national culture have a significant positive effect on public governance.
H2 : Public governance has a significant positive effect on the level of potential money laundering.
H3 : The dynamics of national culture have a significant positive effect on the level of potential money laundering.
H4 : Public governance mediates the relationship between national cultural dynamics and potential levels of money laundering.

AML consists of 14 indicators covering five key domains. Public governance data are obtained from the World Governance Indicators, while Hofstede's theory measures the cultural dimension. Potential level money laundry defined level risk money laundering/financing terrorism (ML/TF) in countries worldwide. Risk is interpreted in a way wide as prone to or not a country towards ML/TF and the extent of its capabilities for dealing with it.[19] The 2023 Anti-Money Laundering Index (AML) is used as an indicator to evaluate predicted levels of money laundering in 49 countries in the Asian region and 47 countries in Europe. The AML Index consists of 14 indicators integrating five main domains: AML Quality / AML Enforcement Against Foreign Terrorism Framework, Bribery and Corruption Cases, Level of Transparency and Financial Standards, Public Openness and Accountability, and Legal and Political Risks.[20] Public governance refers to the systems, processes, and structures through which public

[18] AlQudah et al., "The Effects of Public Governance and National Culture on Money Laundering: A Structured Equation Modeling Approach"; Z M Sanusi et al., "Investigations and Charges of Money Laundering Cases under AMLATFA: Enforcement of Malaysia Central Bank," *International Journal of Economics and Management* 10, no. Specialissue2 (2016): 541–55, https://www.scopus.com/inward/record.uri?eid=2-s2.0-85017379275&partnerID=40&md5=4e4a6a4357a95daa74eee79946f7e7d7; C D'Avino, "Money Laundering and AML Regulatory and Judicial System Regimes: Investigation of FinCEN Files," *European Journal of Law and Economics* 55, no. 2 (2023): 195–223, https://doi.org/10.1007/s10657-022-09756-3.

[19] I H Jaffery and R A L Mughal, "Money-Laundering Risk and Preventive Measures in Pakistan," *Journal of Money Laundering Control* 23, no. 3 (2020): 699–714, https://doi.org/10.1108/JMLC-02-2020-0016; L Wong, "Money-Laundering in Southeast Asia: Liberalism and Governmentality at Work," *Contemporary Politics* 19, no. 2 (2013): 221–33, https://doi.org/10.1080/13569775.2013.785832.

[20] Basel Institute on Governance, "Basel AML Index - Assessing Money Laundering Risks around the World," 2023, https://index.baselgovernance.org/.

authorities conduct their affairs, manage resources, and exercise power in the public interest. It encompasses principles of transparency, accountability, participation, and efficiency in decision-making and public service delivery.[21] Data on public governance measures are obtained from the World Governance Indicators (WGI) in the World Bank database.[22] Public governance has six dimensions, namely Rule of Law (PGI1), government effectiveness (PGI 2), Control Corruption (PGI 3), Quality Regulations (PGI 4), Voice and Accountability (PGI 5), Political Stability (PGI 6). According to Hofstede's theory, cultural dynamics refers to the ongoing changes, interactions, and adaptations within cultures influenced by values, beliefs, and behaviors. It highlights the evolving nature of cultural dimensions such as power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance, and long-term orientation.[23] Meanwhile, cultural aspects are measured using cultural dimensions according to Hofstede's theory.[24] Cultural dynamics have six dimensions, namely Indulgence (CD1), Long-Term Orientation (CD2), Masculinity (CD3), Uncertainty Avoidance (CD4), Individualism (CD5), Power Distance (CD6).

The Structural Equation Modelling-Partial Least Square (SEM-PLS) analysis technique with a maximum likelihood estimation approach was used in this study to test the model and validate cultural and governance indicators. This study presents an MGA (Multigroup Analysis) analysis, which allows for a direct comparison between two groups, in this case, Asia and Europe. This analysis update was added to PLS-SEM analysis techniques to identify whether there are significant differences in money laundering potential between the two regions based on governance and cultural factors.

Fit Estimated Model

The SEM PLS (Partial Least Squares) fit test is used to assess the fit of the structural model of the equation with the data.[25] *Standardized Root Mean square Residual* (SRMR) measures the difference between observed and predicted correlations, with values below 0.08 indicating good model fit.[26] d_ULS measures the difference in the correlation matrix, with a value below 0.10 indicating a good model fit.[27] d_G measures overall fit, with a value above 0.50 indicating a

[21] D W P Ruiter, "Is Transaction Cost Economics Applicable to Public Governance?," *European Journal of Law and Economics* 20, no. 3 (2005): 287–303, https://doi.org/10.1007/s10657-005-4197-5; G Feng, S Hao, and X Li, "Project Sustainability and Public-Private Partnership: The Role of Government Relation Orientation and Project Governance," *Sustainability (Switzerland)* 14, no. 8 (2022), https://doi.org/10.3390/su14084724.

[22] The World Bank, "World Governance Indicator," 2023, https://databank.worldbank.org/.

[23] Geert Hofstede, "Dimensionalizing Cultures: The Hofstede Model in Context," *Online Readings in Psychology and Culture* 2, no. 1 (2011): 8; Geert Hofstede, "What Did GLOBE Really Measure? Researchers' Minds versus Respondents' Minds," *Journal of International Business Studies* 37 (2006): 882–96.

[24] Hofstede, "Dimensionalizing Cultures: The Hofstede Model in Context"; Hofstede, "What Did GLOBE Really Measure? Researchers' Minds versus Respondents' Minds."

[25] Marko Sarstedt et al., "Latent Class Analysis in PLS-SEM: A Review and Recommendations for Future Applications," *Journal of Business Research* 138 (January 2022): 398–407, https://doi.org/10.1016/j.jbusres.2021.08.051.

[26] Daniel Russo and Klaas-Jan Stol, "PLS-SEM for Software Engineering Research," *ACM Computing Surveys* 54, no. 4 (2021): 1–38, https://doi.org/10.1145/3447580.

[27] Marko Sarstedt et al., "Structural Model Robustness Checks in PLS-SEM," *Tourism Economics* 26, no. 4 (2020): 531–54, https://doi.org/10.1177/1354816618823921.

good model fit.[28] In addition, other metrics such as NFI and CFI are also used, with values above 0.90 indicating a good model fit.[29]

Using several metrics, the model fit test results (Table 2) compare the Saturated Model with the Estimated Model. SRMR, d_ULS, and d_G show similar values between the two models, indicating a good fit. Chi-Square has a fixed value, indicating a mismatch, but is not an ideal metric for SEM PLS. NFI showed an excellent match, with a value of 0.970 for both models. These results suggest that the Estimated Model matches the data measured by several evaluation metrics, validating its reliability and validity in forecasting relationships between variables.

Table 2. SEM PLS Fit Test Results

	Saturated Model	Estimated Model	Information
SRMR	0.096	0.096	Compliant model
d_ULS	0.839	0.839	Suitable Model
d_G	0.809	0.803	All Models Compatible
Chi-Square	104,587	104,587	
NFI	0,970	0,970	Suitable Model

Hypothesis Test

The hypothesis testing procedure involves the analysis of latent pathways and variables to identify causality relationships. SEM-PLS also allows researchers to evaluate and validate conceptual models. In its steps, SEM-PLS involves principal component calculations and bootstrap path analysis to measure statistical significance.[30] Figure 2 is the bootstrap procedure output via the SmartPLS Version 3 application.

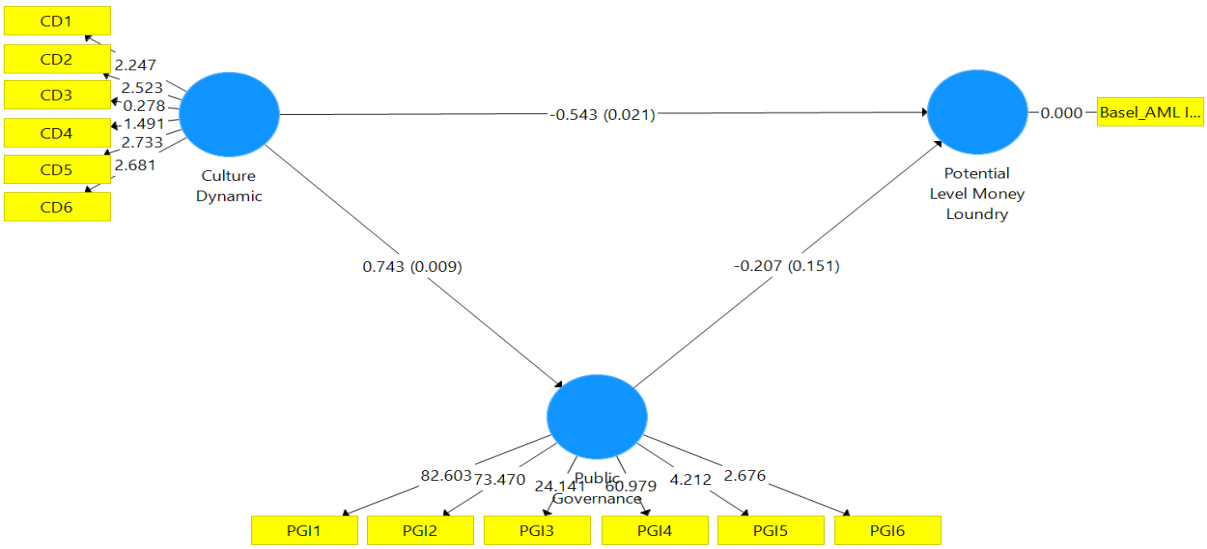

Figure 2. Bootstrapping Test Results

[28] Sandra Schubring et al., "The PLS Agent: Predictive Modeling with PLS-SEM and Agent-Based Simulation," *Journal of Business Research* 69, no. 10 (October 2016): 4604–12, https://doi.org/10.1016/j.jbusres.2016.03.052.

[29] Asyraf Afthanorhan, Zainudin Awang, and Nazim Aimran, "An Extensive Comparison of Cb-Sem and Pls-Sem for Reliability and Validity," *International Journal of Data and Network Science* 4, no. 4 (2020): 357–64, https://doi.org/10.5267/j.ijdns.2020.9.003.

[30] Sandra Streukens and Sara Leroi-Werelds, "Bootstrapping and PLS-SEM: A Step-by-Step Guide to Get More out of Your Bootstrap Results," *European Management Journal* 34, no. 6 (2016): 618–32, https://doi.org/10.1016/j.emj.2016.06.003.

Consideration of accepted hypotheses in PLS-SEM involves the evaluation of Path Coefficient and P-value values. The Path Coefficient value indicates the direction of the relationship between variables, whereas a positive value indicates a strong relationship. Meanwhile, the P-value shows the statistical significance of the relationship. The hypothesis is accepted if the statistically positive significant Path Coefficient with a P-value is less than the specified significance level (0.05).[31]

The results of hypothesis testing in Table 3 show that cultural dynamics significantly and positively affect Asian and European public governance. However, public governance does not significantly impact the potential level of money laundering in Asian and European countries. Dynamic culture has a significant and negative impact on the potential level of money laundering. Examination of the results of mediation hypothesis testing shows that public governance can mediate the relationship between culture dynamics and potential levels of money laundry in Asian and European countries.

R-squared testing is a crucial step in the evaluation of PLS-SEM models. The R-squared value indicates the extent to which the variability of the latent variable can be explained by its indicator variable. The quality criteria of the R-Square model include classifying values as Strong (> 0.67), Medium (0.33-0.67), or Weak (< 0.33).[32] The results of testing the research model hypothesis showed a very substantial model strength, which interpreted the potential level of money laundering at 78.2%. At the same time, other variables outside the study influenced the rest.

Table 3. Results of Hypothesis Testing (Path Coefficient)

Hypothesis	Description of Path	Basic Model (koef.)	Mediation Model (koef.)	P-Value	Results (Accepted/Rejected)
H1	Dynamics Culture →Public governance	0.743		0.000	Accepted
H2	Public governance →Potency level money laundering	-0.207		0.172	Rejected
H3	Dynamics Culture →Potency level money laundering	-0.543		0.021	Rejected
H4	Dynamics Culture →Public governance → Potency level money laundering		0.378	0.000	Accepted
	R2	0.782			

[31] Ned Kock, "Should Bootstrapping Be Used in Pls-Sem? Toward Stable p-Value Calculation Methods," *Journal of Applied Structural Equation Modeling* 2, no. 1 (2018): 1–12, https://doi.org/10.47263/JASEM.2(1)02.

[32] Joe F Hair et al., "The Results of PLS-SEM Article Information," *European Business Review* 31, no. 1 (2018): 2–24.

Multigroup Analysis Testing

In this study, the MGA test was conducted to check the differences between Asian and European countries regarding the rejected second hypothesis. The test criteria for the rejected hypothesis are the same as the general hypothesis regarding the positive on Path Coefficient value and the P-value with a maximum value of 0.05.[33] The results of the MGA test in Table 4 show that the difference in Path Coefficients between Asia and Europe related to Public Governance and Potential Level Money Laundering is statistically significant (p-value = 0.003). This indicates a difference in the influence of Public Governance on Potential Money Laundering Levels between the two regions.

Table 4. MGA Test Results

	Path Coefficients-diff (Asia - Europe)	**p-Value new (Asia vs Eropa)**
Public governance -> Potential level money laundry	0.205	0.003

The Influence of Cultural Dynamics on Public Governance

The cultural dynamics of Asian-European countries have a significant positive relationship with public governance in the context of the study of money laundering potential. These results are in line with studies by Evan et al. (2023), Meuleman (2010) and Zhang et al. (2023), which show countries with strong cultural dynamics, such as the UK and Region China, that encourage transparency, trust and active participation of citizens tend to have stronger public governance as well as the results of research by Awaah et al. (2023), which assesses the role of the organizational culture of Ghanaian state-owned enterprises in reducing the chances of harmful corrupt practices and white-collar crime.[34] These findings show how crucial public governance tools are in addressing the cultural impact of money laundering. Therefore, the government must firmly establish norms and regulations emphasizing the importance of public governance to counter the influence of culture-based behavior that can increase the risk of money laundering crimes.

A country's culture can influence how public governance is organized and implemented, impacting money laundering potential. Asian and European countries have diverse cultures that reflect people's values, norms, and ways of interacting. Asian and European countries generally have a high culture of compliance and integrity. A transparent culture, high trust in institutions,

[33] Lucy Matthews, "Applying Multigroup Analysis in PLS-SEM: A Step-by-Step Process," in *Partial Least Squares Path Modeling* (Cham: Springer International Publishing, 2017), 219–43, https://doi.org/10.1007/978-3-319-64069-3_10; G Lamberti, "Hybrid Multigroup Partial Least Squares Structural Equation Modelling: An Application to Bank Employee Satisfaction and Loyalty," *Quality and Quantity*, 2021, https://doi.org/10.1007/s11135-021-01096-9.

[34] Fred Awaah and Morounkeji Olanrewaju, "Indigenous Cultures and Employee Efficiency: The Moderating Effect of Cronyism in State-Owned Enterprises in Ghana," *Public Administration and Policy* 26, no. 3 (November 13, 2023): 345–59, https://doi.org/10.1108/PAP-08-2022-0096; Tomáš Evan and Vladimír Holý, "Cultural Diversity and Its Impact on Governance," *Socio-Economic Planning Sciences* 89 (October 2023): 101681, https://doi.org/10.1016/j.seps.2023.101681; Louis Meuleman, "The Cultural Dimension of Metagovernance: Why Governance Doctrines May Fail," *Public Organization Review* 10, no. 1 (March 13, 2010): 49–70, https://doi.org/10.1007/s11115-009-0088-5; Xiaojuan Zhang et al., "Exploring the Impact of National Culture on the Development of Open Government Data: A Cross-Cultural Analysis," *Big Data & Society* 10, no. 2 (July 25, 2023), https://doi.org/10.1177/20539517231206809.

and encourages active public participation in decision-making processes tend to support good public governance. That way, effective public governance can help prevent and address money laundering practices.

The positive relationship between cultural dynamics and public governance can be reflected in public compliance with established rules and norms to prevent money laundering. A culture that rejects corruption and supports transparency can strengthen money laundering prevention efforts. Countries with strong public governance tend to have stricter regulations and enforcement related to money laundering. Transparent and accountable government institutions can create an environment where money laundering practices have difficulty thriving. In addition, cooperation between countries can improve public governance's effectiveness in preventing money laundering.

Public Governance in Shaping the Level of Money Laundering Potential

Public governance and potential levels of money laundering have a complex relationship in which both can influence each other despite an insignificant negative relationship. Although theoretically, existing public governance should be able to reduce potential levels of money laundering by increasing transparency, accountability, and efficiency in managing public policies,[35] the relationship between the two is often not statistically significant. This is very reasonable because there are imperfections in policy implementation, weaknesses in supervision, or non-optimal governance. Despite efforts to improve public governance, money laundering can still occur due to loopholes or flaws in the system. For example, a lack of transparency in public financial management or weak law enforcement can allow money laundering practices to flourish. Public governance includes policies, practices, and mechanisms that govern resource management and decisions at the government level. In Asian and European countries, poor public governance can provide loopholes for corrupt practices and abuses of power, increasing the potential for money laundering. However, this relationship is not always significant because weak public governance does not always result in high levels of money laundering.

Other factors, such as the sustainability of the legal system, anti-money laundering policies, and international cooperation, also play an important role in determining a country's potential level of money laundering. Some countries may have poor public governance but have effective legal systems and strong anti-money laundering policies. Meanwhile, countries with good public governance are also not always spared from potential money laundering, especially if legal systems and law enforcement are inadequate. Therefore, the negative relationship between public governance and potential levels of money laundering is more contextual and not necessarily significant in every situation.

Nevertheless, it is important to note that an insignificant negative relationship does not mean that public governance has no impact on money laundering. Improving public governance is still considered a positive step in reducing the potential for money laundering. Therefore, improvements in public governance can potentially reduce loopholes that money launderers can exploit. In the face of the complexity of this relationship, coordination between government agencies, supervisory authorities, and the private sector is needed to strengthen efforts to

[35] Habib Zafarullah and Halima Haque, "Policies, Instrumentalities, Compliance and Control: Combatting Money Laundering in Bangladesh," *Journal of Money Laundering Control* 26, no. 1 (January 2, 2023): 189–204, https://doi.org/10.1108/JMLC-10-2021-0109; Yaseen Ghulam and Blandina Szalay, "Investigating the Determinants of Money Laundering Risk," *Journal of Money Laundering Control* 27, no. 1 (January 2, 2024): 139–57, https://doi.org/10.1108/JMLC-01-2023-0001; Sadia Nazar, Abdul Raheman, and Muhammad Anwar ul Haq, "The Magnitude and Consequences of Money Laundering," *Journal of Money Laundering Control*, January 11, 2023, https://doi.org/10.1108/JMLC-09-2022-0139.

prevent money laundering. Concrete steps to improve public governance and strict law enforcement can be key measures to reduce potential levels of money laundering.

The results of the MGA found significant differences in interaction in forming the Level of Money Laundering Potential in terms of public governance of Asian and European countries. World Bank data shows European governance is much better than most Asian countries. This factor can trigger significant differences, as good public governance tends to reduce opportunities for corruption and abuse of power. Conversely, Asian countries may face resource management and governance decision-making challenges, increasing the risk of money laundering. Levi (2020) stated that the problem is a lack of ethics and legal loopholes in the Asian rion that are too possible to facilitate money laundering.[36] Politics in Asia are also more vulnerable to oligarchic influence and vested interests, which can undermine governance and facilitate money laundering. Europe has a stricter and more transparent political system and public governance. On the other hand, Asian economic factors that are below Europe trigger the desire for stronger money laundering. This condition must be immediately addressed at the Asian-level International Forums such as ASEAN, EAS, KAA and APC.

Cultural Dynamics and Potential Levels of Money Laundering

The results of hypothesis testing indicate that the national culture dynamics of Asian and European countries significantly negatively influence the potential level of money laundering. These findings contradict Tsakumis' (2007) research investigating how national cultural dimensions affect tax compliance rates in 50 countries. Yamen et al.'s (2019) study also supports the results of testing this hypothesis, emphasizing the impact of national cultural dimensions on financial crime in 78 countries.[37] Hofstede's concept of cultural dynamics states that aspects such as individualism, uncertainty avoidance, indulgence, and long-term versus short-term orientation can differentiate national cultures.

With these findings, we assume that countries with cultures that tend to be more collectivist or have low uncertainty avoidance may have higher levels of money laundering. This could be due to several factors. For example, in more collectivist cultures, individuals may be more inclined to engage in money laundering practices as part of social networks or for group interests. On the other hand, in cultures with low uncertainty avoidance, trust in financial institutions and regulations may be weaker, allowing money laundering to occur more easily without much hindrance. This analysis also implies the importance of understanding culture in designing effective anti-money laundering policies. Successful prevention and law enforcement measures must take into account these cultural factors, which may require different approaches in various countries. Additionally, these findings highlight the importance of international cooperation in addressing money laundering, as this issue is closely related to cultural differences worldwide.

Interaction of Cultural Dynamics, Public Governance, and Potential Levels of Money Laundering

Researchers examined the indirect relationship between national culture and money laundering using the role of public governance as a mediator. Here, the test results show the significant influence of national culture on governance indicators (the rule of law, government

[36] Michael Levi, "Evaluating the Control of Money Laundering and Its Underlying Offences: The Search for Meaningful Data," *Asian Journal of Criminology* 15, no. 4 (December 20, 2020): 301–20, https://doi.org/10.1007/s11417-020-09319-y.

[37] Ahmed Yamen et al., "The Impact of National Culture on Financial Crime," *Journal of Money Laundering Control* 22, no. 2 (May 7, 2019): 373–87, https://doi.org/10.1108/JMLC-01-2018-0004.

effectiveness, corruption control, regulatory quality, voting and accountability, and political stability) that affect the level of money laundering. Still, the direct relationship between national culture and money laundering is entirely mediated by public governance. Public governance has a significant mediator role in linking national cultural dynamics and potential levels of money laundering. As a mediator, public governance acts as a regulator and custodian of cultural values in the context of government and business. This creates a foundation for policies that align with the community's values. Thus, accepting the public governance mediation hypothesis supports the previous literature.[38]

Strong public governance has a major impact on the prevention of money laundering. Through effective regulation and enforcement, public governance creates disincentives for money launderers, increasing the risk of being detected. Transparency and accountability enhanced by good public governance help prevent money laundering through corruption and fraud schemes. In addition, effective public governance builds integrity and trust in public and private institutions, fosters a culture of compliance, and reports suspicious activities related to money laundering. Enhanced coordination and capacity among law enforcement agencies and relevant sectors enables a more effective and integrated response to money laundering. Public governance that focuses on awareness and education also helps the public recognise and report suspicious activities. Correspondingly, effective public governance can bridge national cultural gaps, such as individualism and uncertainty avoidance, to minimise the risk of money laundering within a country.

The importance of public governance in combating money laundering is further clarified through cross-border cooperation between countries. By building strong public governance systems, countries can improve coordination to confront money laundering challenges together. As a mediator, public governance helps create harmony between local cultural norms and joint efforts in countering international financial crime.

Conclusion

Cultural dynamics has a positive and significant influence on public governance. Countries with a culture of compliance, transparency, and active community participation tend to have strong public governance. Public Governance has a negative and insignificant effect on potential money laundering. While public governance is supposed to reduce the potential for money laundering, the relationship between the two is not always significant, as suboptimal policy implementation and weaknesses in oversight can lead to loopholes in money laundering practices. In addition, other factors such as the legal system, anti-money laundering policies, and international cooperation also play a role in determining a country's potential level of money laundering. The national culture dynamics of Asian and European countries have a significant negative influence on the potential level of money laundering. With these findings, we can assume that countries with cultures that tend to be more collectivist or have low uncertainty avoidance may have higher levels of money laundering. Research has also shown that national culture directly influences the level of potential money laundering, and public governance acts as a significant mediator. By strengthening public governance, countries can minimize money laundering risks and improve cross-border coordination in countering international financial crime. The MGA test proves differences in interactions in forming the Potential Money Laundering Level regarding public governance in Asian and European countries.

[38] AlQudah et al., "The Effects of Public Governance and National Culture on Money Laundering: A Structured Equation Modeling Approach"; D V Blanco, "Anti-Money Laundering Governance in the Philippines: Legal Foundations, Institutional Dynamics and Policy Challenges," *Asia Pacific Journal of Public Administration* 39, no. 1 (2017): 51–62, https://doi.org/10.1080/23276665.2017.1290901.

Recommendations for Asian and Europe countries regarding cultural dynamics, public governance, and the level of potential money laundering can be directed at concrete measures that support the prevention and handling of money laundering practices. First, Asian and Europe countries must increase cooperation with relevant government agencies, supervisory authorities, and the private sector. Close coordination between agencies can strengthen money laundering prevention efforts. The move also involves a more effective exchange of information, especially in the face of the complex relationship between cultural dynamics, public governance, and potential money laundering. Second, Asian and Europe countries needs to intensify public education about the risks of money laundering and the importance of reporting suspicious activities. In a culture that encourages compliance, this approach can strengthen people's active participation in countering money laundering practices. Third, Asian and Europe countries can work with the government to design and implement regulations that strengthen public governance. This regulation should emphasize transparency, accountability, and efficiency in the management of public policies. In line with research findings, strong public governance can effectively prevent and tackle money laundering. Fourth, Asian and European countries must strengthen the system for reporting suspicious financial transactions. Through advanced technology and data analysis, Asian and Europe countries can more effectively detect suspicious transaction patterns, especially in countries with high levels of individualism that may be vulnerable to money laundering practices. Fifth, Asian and European countries can build regional and international cooperation to increase capacity and coordination. Forums such as FATF, ASEAN, EAS, KAA, and APC can be platforms for sharing knowledge and experience in joint efforts against money laundering.

Recommendations for the Financial Action Task Force (FATF) on mitigating the prevention of global money laundering can focus on cross-country collaboration and improved public governance. Mitigating global money laundering prevention requires a multi-faceted effort involving multiple actors, including governments, the private sector, and international organizations. The FATF should encourage its member states to improve government transparency, accountability, and effectiveness. This can be done by developing international guidelines and standards that support good public governance. The FATF can also assist its member states in building capacity and infrastructure to improve their public governance. Furthermore, to raise cultural awareness, the FATF needs to develop education and training programs that help member countries understand and address the risks of money laundering related to their culture. This could include the development of anti-money laundering policies that are sensitive to local culture. The FATF can also strengthen international cooperation by encouraging the exchange of information and best practices among member states and helping to establish regional and global cooperation mechanisms in combating money laundering. In addition, the FATF should encourage stronger law enforcement against money laundering by developing international guidelines and standards and supporting building capacity and infrastructure for effective law enforcement. Finally, the FATF should encourage the private sector to actively combat money laundering by developing international guidelines and standards and supporting the necessary capacity and infrastructure. This creates a robust and holistic global framework for preventing money laundering.

The limitations of this research include focusing solely on the influence of culture and public governance on money laundering without considering other potential factors. The analysis did not incorporate economic variables that could affect money laundering practices. Future research could expand on this study by delving deeper into economic factors, anti-money laundering regulations, and international cooperation. Further studies could also explore the impact of concrete actions to strengthen public governance and how they may affect money laundering practices on a global scale.

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