

# Singapore's battle against illicit financial flows

**John Langdale, Macquarie University**

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## IN BRIEF

Singapore's fifty-year economic miracle as a regional and global hub faces growing threats from illicit financial activities. Despite efforts to control money laundering, the city-state struggles with spillover effects from Southeast Asia's rising transnational crime, vulnerabilities in free trade zones and corruption in commodity trading. Singapore's challenge lies in maintaining its economic openness while effectively combating illicit financial flows that exploit the same systems that drive its success.

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Singapore has enjoyed remarkable economic success over the past 50 years by attracting high-growth manufacturing and service industries. A significant component of this success stems from its role as a regional hub for Southeast Asia and a global hub for commodity trading, particularly oil and gas.

Global and regional hubs facilitate high growth, add significant value and employ highly skilled business and financial intermediaries. These same characteristics make such hubs attractive for illicit transactions. While some hubs like Dubai make little effort to prevent illicit activity, Singapore attempts to control it but suffers from being in a region with high levels of corruption and growing transnational crime rates.

Singapore has traditionally functioned as an entrepot for Southeast Asia. It has prospered through this trade, but rising transnational crime in the region is having negative spillover effects for Singapore. Transnational crime is particularly problematic in the Mekong region of Myanmar, Cambodia and Laos. Concerns exist over the rise of online gambling and scamming centres in these countries, adding to existing illegal drug production and other illicit activities.

The impact of regional transnational crime on Singapore was illustrated by a major money laundering case in 2022–2023 in which Singaporean authorities estimate that criminals laundered US\$2.2 billion in the city-state. The criminals, originally from Fujian province in China, had established illegal online gambling and scamming operations in Cambodia and the Philippines. They laundered some of their profits to Singapore primarily using cryptocurrencies.

It is likely that this case is ‘the tip of the iceberg’ and other criminal groups are laundering their profits into safe havens. Singapore’s many large banks and financial institutions, with the deepest liquidity in regional financial markets, are able to handle large sums of money.

Singapore’s global hub strategy also exposes it to risks from illicit financial flows (IFFs). All global hub cities face these threats given their exposure to trade, investment and financing deals involving many countries and actors. The Singaporean government is aware of this threat, given that it is an international financial centre and an international trading, transport and transshipment hub. Transnational criminals inevitably use Singapore’s global and regional hub role to ship products to their intended markets.

Singapore’s free trade zones are particularly vulnerable. They are used as transit locations for illicit wildlife trafficking, such as pangolin scales moving through global supply chains connecting supply regions like Nigeria with destinations like China. Free trade zones help disguise the nature and origin of illegal wildlife products. Similarly, Singapore’s port functions as a key transit point for counterfeit goods trafficked from China to Europe.

Several financial institutions in Singapore were fined for poor anti-money laundering policies during Malaysia’s 1Malaysia Development Berhad scandal. The German company Wirecard, which collapsed due to financial fraud, booked half of its global sales through fictitious clients in Asia. Wirecard’s Singapore office was central to the fraud, with many key figures based in the city. Four Singapore-based banks were fined for following inadequate money laundering procedures in this case.

Singapore’s offshore financial markets have also attracted corrupt businessmen from Indonesia seeking to transfer IFFs to international markets. While it is impossible to estimate precisely, one report suggested US\$250 billion was illicitly taken out of Indonesia in 2014, of which US\$200 billion was deposited in Singapore. Global transnational crime groups, such as Ireland’s Kinahan Cartel, have used Singapore’s and Indonesia’s financial markets to launder the proceeds of crime.

IFFs plague the commodity trading system, particularly given that Singapore is the third-largest global oil trading hub. Singapore has experienced scandals involving the collapse of various domestic commodity trading firms, such as oil trader Hin Leong. Trafigura, the world’s largest private metals and second-largest oil trader, is incorporated in Singapore. Trafigura has been under investigation in multiple countries for corruption. The company is also involved in court cases related to its nickel trading, where waste products were substituted for nickel, though the company may be subject to fraud from other parties.

Illicit behaviour may take place anywhere in the commodity trading chain. Hub cities suffer from IFFs flowing among participants in the system. Fraud methods include document forgery, overvaluing goods and obtaining loans with fake collateral. Singaporean authorities may have little or no ability to regulate corrupt behaviour of many participants in the commodity trading system.

Singapore has tightened its anti-money laundering regulations following the major 2022–2023 money laundering case. But the government recognises that it has to balance regulation with freedom for financial firms to operate — a difficult balance for a globally and regionally exposed trading city.

Singapore has thrived with its global and regional hub strategy over the past fifty years. But challenges from IFFs increase as Southeast Asia faces growing problems from transnational crime. Singapore's free trade zones create ongoing issues in illicit wildlife and counterfeit goods trafficking. Global commodity trade remains rife with corruption and endemic IFFs. The central challenge for Singapore is balancing its hugely successful global and regional hub strategy with the looming challenges arising from transnational crime in Southeast Asia.

*John V Langdale is Honorary Research Fellow at the School of International Studies, Macquarie University.*