```
gdpcap~a |  -1.34e-07      .00001   -0.03   0.980  -.000011   .00001   11403.8
fordep~a |   2.25e-07      .00000    1.06   0.289  -1.9e-07  6.4e-07    423892
d0tdummy*|  -.4640011      .07904   -5.87   0.000  -.618913  -.30909   .592308
commwe~h*|  -.1094256      .09404   -1.16   0.245   -.29375  .074899   .276923
------------------------------------------------------------------------------
(*) dy/dx is for discrete change of dummy variable from 0 to 1
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It's quite evident that the regression have not explanatory power. The only exception is represented by the Terrorism and Organised Crime Index: We can say that the probability that a country became an Offshore centre tend to be higher :

* as the degree of terrorism and organised crime risks decrease (significance at 0%).

In general, therefore, we can reject the hyphotesis that the causes of LFR decisions and of Offshore activities are the same.

7. CONCLUSIONS

The lax financial regulation problem, favouring the money laundering phenomena, can increase world-wide the risks of terrorism and of organised crime. In this paper we have explored theoretically and empirically the issue.

Theoretically, the degree of financial laxity can be an endogenous variable, determined by the policy maker cost -benefits analysis, depending then on economic and institutional country variables, as the growth level, the role of the financial industry, the reputation sensibility, the absence of terrorism and/or of organised crime, the institutional attractiveness.

Empirically, the empirical analysis does not repudiate the theoretical assumption that countries, that because of scant resources, foreign dependence in the offering of financial services, and absence of terrorism and/or organised crime risks, and perhaps insensitivity to the international community judgement, can derive net expected national benefits from offering laundering services for illicit foreign capital, and therefore can be or become LFR countries.

The empirical relationships developed are probably interesting but not definitive or conclusive. This prompts at least three reflections. In terms of results, we must stress that the potential LFR country display uniform economic and institutional elements, bolstering the significance of the FATF action, but also marked dissimilarities among them. This suggests two indications for designing international policies of prevention and combat. On the one hand, that by modifying their formal rules they do not automatically cease to be LFR countries, since the incentives for laxity in combating the laundering of illicit capital may be very deep-rooted. On the other hand, that the international community can have an impact on those roots through stick-and-carrot policies tailored to each country, precisely because the degree of laxity and its motivations may not be identical in each case.

On a battlefield where reputation is one of the main weapons, policy makers engaged in the fight against international money laundering schemes should be very cautious in taking initiatives that may affect the reputation of the actors involved. A pure "name and shame" approach may even prove counterproductive. Tampering with reputational mechanisms might, at the same time, not only miss the target but also reach the wrong target. First, there is a high risk of false negatives, i.e. of including in a hypothetical list of countries that supply money laundering services countries that are merely engaged in the offer of financial services of superior quality. The costs of such an error appear great. To put it with the Financial Stability Forum, "not all [Off-shore centres] are the same. Some are well supervised and prepared to share information with other centres, and co-operate with international initiatives to improve supervisory practices. But the Survey carried out by the [Financial Stability Forum] indicated that there are serious concerns by onshore supervisors about the quality of supervision in, and degree of co-operation provided by, some [Off-shore centres]."[60]

Reputation is the basic tool of the trade also for countries that are not involved in money laundering schemes but are merely aiming at attracting capitals from abroad thorough the offer of superior quality financial services. From this perspective, a mistake by the international community that includes the wrong country in the list might cause serious distortions in the competition among jurisdictions. These countries, like victims of friendly fire, will find their reputation in the financial community seriously hampered, to the detriment of their role in the market. In the long run, such types of mistake appear also capable of curbing innovation in the financial sector. Regulatory arbitrage is a powerful force in driving innovation, and the international community should recognise that tinkering with the reputation of the actors involved is a dangerous game.

But even assuming that the international community is capable of effectively singling out LFR country that are indeed involved in money laundering schemes, a cautious approach is still deemed necessary. When the international community points the finger at a given country as a leading supplier of money laundering financial services, it may also be certifying, to the benefit of the country itself, that that country is indeed specialised in that business.

The signalling effect embedded in the "name and shame approach" should not be underestimated. The main difficulty for a LFR country is solving credibly the commitment problem: Then, what's best for the LFR country than having the international community, not exactly its closest friends, solving that problem with a public statement? Listing should also be regarded as a sort of third party bonding, which is likely to generate two intertwined effects. First, it is capable of cementing the commitment by the LFR country. Secondly, naming increases the transaction specific character of investments in reputation. The inclusion in a list increases the value of the (sunk) investments in reputation. A state that is engaged in money laundering and that finds itself blacklisted will find it even more difficult to switch course and decide to exit the market, thus being encouraged to compete aggressively in the market. The final result does not change much. They still need to move forward.

This is not to say that the international community should not endeavour in listing countries that are involved in the market for money laundering services. Quite to the contrary; what this paper argues, is that a *per se* "name and shame" approach, separated from other initiatives, equals to a third party seal on the reputation of LFR countries. Names should be named, but only if blacklisting goes hand in hand with other measures that are capable of outweighing the positive effects experienced by the off-shore centre as a result of the inclusion in the list.

Appropriate countermeasures should be grounded on the premise that even the most efficient LFR country will still need, in a globalised world, to be integrated in world financial markets. This implies that no matter how many layers of transactions cover the predicate offence, terrorism or criminal organisations will still need to place that money within the lawful financial sector. This step is necessary, at a minimum, in order to exploit in lawful uses the capitals, once they have been laundered. Money laundering is by definition instrumental to a later use.

With this regard, it should be noted that there is a fundamental feature of the initiative taken by the FATF that appears to be pivotal for its success. The FATF has not limited its initiative to a mere recognition of "non co-operative countries and territories." FATF member states have

[60] FINANCIAL STABILITY FORUM, (2000) Executive Summary, at 2.

also applied "Recommendation 21"[61] to the countries included in the list. "Recommendation 21" requires a higher scrutiny by financial intermediaries in evaluating the possible suspect nature of transactions with counterparts, including legal persons, based in a country listed as non-co-operative. As a result of the FATF initiative, many countries included in the list have already taken initiatives aimed at overcoming the serious deficiencies observed by the FATF.[62]

These initiatives need to be evaluated in the medium to the long run, because, for example, some of the enacted laws will need secondary regulations to be put in place to become effective, or, more generally, the initiatives taken at the legislative level will need to be followed by concrete actions. However, it can be argued that the threat of being crowded out by the international community has played a great role in spurring the adoption of the above mentioned initiatives.

The second conclusion that can be reached on the basis of the empirical evidence we have examined, is that we must not exclude the possibility that there are LFR countries not presently included in the FATF monitoring action, perhaps because they are highly effective in bringing their formal rules in line with international precepts, while in their deeds they remain lax in the fight against money laundering. This implies a constant effort on the part of international organisations, particularly the FATF, in updating the criteria and monitoring the countries.

[61] See Fatf, (1990). (2000)
[62] See Fatf press communiqué of October 5th, 2000.