Tariffs are a Money Launderer's Best Friend

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August 21, 2025

U.S. trade policy is now synonymous with tariff policy. President Trump's latest round of higher taxes on imports went into effect on Aug. 7, and the 40 countries that the U.S. runs a trade deficit with now face a 15 percent rate. Some will be hit with even steeper rates, such as Brazil, which faces a 50 percent total tariff.

While trade and tariffs have been a dominant economic policy issue since Trump took office in January, one related domain has been completely overlooked: the connection between high tariffs and trade-based money laundering, which disguises the proceeds of crime through the use of trade transactions in an attempt to legitimize their illicit origins.

Some sources estimate that trade-based money laundering could account for as much as $1.6 trillion of the total amount laundered globally each year. In a study cited by the Financial Action Task Force, trade misinvoicing accounted for roughly 80 percent of illicit financial flows in developing countries.

The relationship between tariffs and money laundering represents one of the most complex challenges facing global trade and financial systems today. As tariff rates increase, so too does the incentive for both legitimate businesses and criminal organizations to engage in customs fraud and trade-based money laundering. This symbiotic relationship creates a dual threat: higher tariffs directly incentivize evasion schemes, while these same schemes provide convenient vehicles for laundering illicit proceeds from other criminal activities.

Simply stated, the fundamental relationship between tariffs and financial crime is straightforward: high tariffs create high incentives to cheat.

The methods employed to evade tariffs often mirror traditional money laundering techniques, creating overlapping areas of criminal activity. These include over- and under-invoicing, whereby importers systematically misrepresent the value of goods to reduce duty payments. The difference between actual and declared values is often settled through informal channels, facilitating money laundering. Another is country-of-origin fraud, where products manufactured in high-tariff countries are falsely declared as originating from lower-tariff jurisdictions. This frequently involves forged certificates of origin and cooperation with overseas suppliers.

Transshipment schemes are another technique, as goods are routed through third-country intermediate ports with minor repackaging or processing to disguise their true origin. Chinese steel, aluminum and other products commonly transit through countries such as Oman, Thailand, the UAE and Vietnam before reaching U.S. markets.

Finally, false description schemes are employed as a method whereby high-value items are deliberately misclassified as lower-value goods to reduce scrutiny and tariff liability. For example, electronics might be declared as "plastic components" to avoid detection.

Drug trafficking organizations from Latin America are prone to use a type of money laundering scheme known as the Black Market Peso Exchange to launder funds. Such schemes involve merchants who — wittingly or not — accept payment in illicitly derived funds, often from third parties to a trade transaction, for exports of goods. In carrying out such schemes, criminal and terrorist organizations use various goods, including precious metals and automobiles.

As an example of tariff-based money laundering, in May 2023, a federal judge sentenced a co-owner of Woody Toys, Inc. to 14 months in custody for participating in a scheme that laundered approximately $3 million for Mexican and Colombian drug traffickers. The plot involved foreign toy retailers using Colombian and Mexican pesos to purchase discounted U.S. dollars from currency brokers, which were then used to buy merchandise from Woody Toys.

In terms of enhanced enforcement, the Department of Justice has significantly elevated tariff evasion and trade-based money laundering as priorities. In May, Justice Department Criminal Division head Matthew Galeotti identified "trade and customs fraud, including tariff evasion" as among the "most urgent" threats facing the country. At the same time, the federal government has increased its deployment of technologies such as blockchain and artificial intelligence in its money laundering prevention strategies.

Effectively fighting trade-based money laundering and tariff fraud requires three critical elements: ongoing collaboration between nations, adequate funding and staffing for enforcement agencies, and advanced technology that can keep pace with increasingly sophisticated criminal operations.

"The challenge is significant," David Schwartz, president and CEO of the Financial International Business Association, told me. "We must safeguard the global financial system's credibility without hampering the legitimate international commerce that drives our interconnected economy."

The nexus between high tariffs and money laundering demands vigilance and action to confront illicit behavior — the sooner, the better.

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