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Money Laundering Risk in Batam's Special Economic Zone: Industrial Vulnerabilities and Enforcement Gaps

Ramlan[1]*, Darwis Anatami[2], Parameshwara[3], Khairul Riza[4]
[1,2,3]Faculty of Law, Universitas Batam, Kepulauan Riau, Indonesia, [4]STIE Krakatau, Lampung, Indonesia
e-mail: ramlan@univbatam.ac.id[1], darwis@univbatam.ac.id[2], parameshwara@univbatam.ac.id[3], khairul@univbatam.ac.id[4]
*Corresponding Author: Ramlan

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ABSTRACT

Purpose: This study analyzes the forms of money-laundering risk emerging from industrial activity in the Batam Special Economic Zone (SEZ), evaluates the effectiveness of legal enforcement and preventive measures, and identifies the institutional obstacles that constrain risk mitigation in the zone. Methodology: The research applies a normative-empirical (socio-legal) approach combining statutory and case analysis. Primary data were collected through in-depth interviews with law enforcement officials, financial-intelligence analysts from Indonesia's Financial Transaction Reports and Analysis Center (PPATK), industrial actors, and Batam SEZ authorities, supplemented by secondary data from statutes, court records, and institutional risk assessments, and analyzed using a qualitative-descriptive method. Findings: The Batam SEZ is highly vulnerable to money laundering, particularly through fictitious export-import transactions, under-invoicing, abusive transfer pricing, and the use of shell companies. Although a comprehensive regulatory framework and reporting infrastructure exist, enforcement remains weakened by institutional fragmentation, the absence of fully risk-based supervision, and limited corporate compliance with Anti-Money Laundering standards, patterns that recur across documented cases and parallel compliance failures elsewhere in the zone's regulatory architecture. Limitations: The study is constrained by limited access to confidential financial data and by its focus on a single SEZ; broader comparative research across other zones and jurisdictions is needed. Contribution: The study contributes to the discourse on economic-crime prevention by mapping practical vulnerabilities within SEZ industrial sectors and proposing integrated, risk-based enforcement and asset-recovery strategies, including expanded reporting obligations, strengthened Non-Conviction Based Asset Forfeiture, and the prospective use of Deferred Prosecution Agreements.

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Introduction

Special Economic Zones (SEZs) are conceived as engines of national growth, yet the same features that make them attractive to investors fiscal incentives, streamlined licensing, and intensive cross-border trade also make them structurally hospitable to money laundering.[1] Batam, Indonesia's most active SEZ

[1]Alexandra Hall, Georgios A. Antonopoulos, Rowland Atkinson, and Tanya Wyatt, "Duty Free: Turning the Criminological Spotlight on Special Economic Zones," *British Journal of Criminology* 63, no. 2 (2023): 265-282, https://doi.org/10.1093/bjc/azac010.

and free trade zone, illustrates this paradox acutely. Positioned on the Singapore Strait and administered under a fiscal and licensing regime designed to compete for foreign capital,[2]

Batam has simultaneously become a recurring reference point in Indonesian money-laundering enforcement, with law enforcement officials and the Financial Transaction Reports and Analysis Center (PPATK) repeatedly flagging suspicious flows tied to export-import companies operating in the zone.

Three developments motivate closer scrutiny of this problem. First, Indonesia's Financial Intelligence Unit has documented a rising trend of suspicious transactions originating from Batam that follow a recognizable pattern of under-invoicing, over-invoicing, and offshore transfers routed through shell companies.[3] Second, the Financial Action Task Force has repeatedly identified free trade zones as "grey areas" of cross-border financial oversight, vulnerable precisely because of the volume and opacity of trade documentation moving through them.[4]

Third, a series of prosecutions in Batam most visibly the case of businessman La Hardi, charged with laundering approximately IDR 44 billion through layered corporate and personal accounts,[5] the designation of a Batam entrepreneur as a money-laundering suspect by the National Police's Criminal Investigation Agency for allegedly disguising corporate assets,[6] and the widely publicized conviction of the so-called "Crazy Rich Batam" duo, Fandias and Juni, who received only two years' imprisonment despite proven laundering offenses[7] has exposed the practical difficulty of tracing, prosecuting, and adequately sanctioning industrial money laundering in the zone.

These cases are not idiosyncratic. They sit within a broader typology in which trade-based money laundering (TBML) the manipulation of trade invoices, quantities, and quality descriptions to move value across borders under cover of legitimate commerce is recognized internationally as one of the most sophisticated and hardest-to-detect laundering methods, precisely because it hides within otherwise lawful international trade.[8]

Criminological research on SEZs elsewhere confirms that this vulnerability is structural rather than accidental: zones built around reduced oversight, tax exemption, and light-touch regulation generate what has been termed a criminogenic "duty free" environment in which financial crime becomes an ordinary, low-risk byproduct of the zone's own design.[9] Indonesia's own National Risk Assessment (NRA) situates export-import and manufacturing activity among the country's highest-risk sectors for money laundering,[10] and Batam, as the busiest node of Indonesian cross-border manufacturing and logistics, sits squarely within that assessment.

[2] Suyatno, *Hukum dan Kebijakan Kawasan Ekonomi Khusus di Indonesia* (Yogyakarta: Genta Publishing, 2021).

[3] Pusat Pelaporan dan Analisis Transaksi Keuangan, *Penilaian Risiko Tindak Pidana Pencucian Uang Berbasis Perdagangan Tahun 2021* (Jakarta: PPATK, 2021).

[4] Financial Action Task Force and Organisation for Economic Co-operation and Development, *Money Laundering Vulnerabilities of Free Trade Zones* (Paris: FATF/OECD, 2010).

[5] BatamToday, "La Hardi Terdakwa TPPU Senilai Rp 44 Miliar Jalani Sidang Perdana di PN Batam," February 13, 2024, https://batamtoday.com/batam/read/181991.

[6] Liputan6, "Pengusaha Batam Jadi Tersangka Pencucian Uang," February 16, 2024, https://www.liputan6.com/regional/read/5544856/pengusaha-batam-jadi-tersangka-pencucian-uang.

[7] KabarBatam, "Terlibat TPPU, Crazy Rich Batam Fandias dan Juni Hanya Divonis 2 Tahun Penjara," February 21, 2024, https://kabarbatam.com/terlibat-tppu-crazy-rich-batam-fandias-dan-juni-hanya-divonis-2-tahun-penjara.

[8] Mohammed Ahmad Naheem, "Trade Based Money Laundering: Towards a Working Definition for the Banking Sector," *Journal of Money Laundering Control* 18, no. 4 (2015): 513-524, https://doi.org/10.1108/JMLC-01-2015-0002.

[9] Hall et al., "Duty Free."

[10] Pusat Pelaporan dan Analisis Transaksi Keuangan, *Paparan National Risk Assessment (NRA) TPPU 2021* (Jakarta: PPATK, 2021).

Despite the existence of a comprehensive legal framework anchored in Law Number 8 of 2010 concerning the Prevention and Eradication of the Crime of Money Laundering, and reinforced by Government Regulation Number 41 of 2021 on the administration of free trade zones and free ports enforcement in Batam continues to be undermined by institutional fragmentation. Regulatory responsibility is scattered across the police, the Attorney General's Office, PPATK, the Directorate General of Customs and Excise, and the Batam Business Entity (BP Batam), with no binding operational protocol governing how these institutions share data, divide investigative labor, or coordinate prosecutions.[11] The absence of an explicit statutory obligation for non-financial reporting entities including export-import companies and logistics providers to conduct enhanced due diligence compounds the problem, depriving PPATK of the upstream data it needs to flag suspicious activity before funds are laundered rather than after.[12]

This gap between formal regulatory completeness and operational effectiveness is what this study sets out to map. Three questions guide the inquiry: first, what forms of money-laundering risk arise from industrial activity within the Batam SEZ; second, how effective are existing prevention and enforcement efforts in addressing that risk; and third, what structural and institutional obstacles constrain law enforcement and supervisory agencies in controlling it.

Answering these questions matters beyond Batam itself. As Indonesia continues to expand its network of SEZs under Law Number 39 of 2009 concerning Special Economic Zones, the institutional weaknesses documented here offer a cautionary template for zones still in earlier stages of development, and speak to a wider international literature on the criminogenic potential of free trade zones.[13]

Global assessments of money laundering exposure corroborate the urgency of this inquiry: Indonesia continues to register measurable vulnerability on cross-border indices of laundering and terrorist-financing risk, reflecting gaps in supervisory capacity that mirror those documented at the sectoral level in Batam,[14] while comparative estimates of illicit financial flows confirm that trade-related channels remain among the largest conduits through which developing economies lose fiscal resources to laundering and mispricing schemes.[15]

Effective identification of these vulnerabilities depends on systematic risk mapping: as the United Nations Office on Drugs and Crime has observed, the inability to identify and understand the vulnerable points of money laundering within an industrial supply chain allows illegal funds to enter the economic system in a systematic and largely undetected manner.[16] Domestically, Huda and Mulyadi likewise argue that accurate risk mapping strengthens the handling of money-laundering cases by reinforcing interagency coordination and minimizing overlapping authority, making it not merely a detection tool but a core component of Indonesia's broader economic criminal-law reform agenda.[17] The imbalance between rapid industrial growth and still-limited legal oversight in Batam has itself been identified as a specific driver of this exposure, opening channels for cross-border economic crime, including money laundering, to flourish

[11] H. Siregar, *Pencucian Uang sebagai Kejahatan Ekonomi: Kajian Yuridis dan Strategi Penanggulangan* (Jakarta: Graha Hukum, 2021).

[12] Leslyn Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence pada Nasabah BPR dalam Pencegahan Pencucian Uang di Batam," *UNES Law Review* 4, no. 4 (2022): 417-421, https://doi.org/10.31933/unesrev.v4i4.701.

[13] FATF and OECD, *Money Laundering Vulnerabilities of Free Trade Zones*. Hall et al., "Duty Free."

[14] Basel Institute on Governance, *Basel AML Index 2025: Ranking Money Laundering and Terrorist Financing Risks around the World* (Basel: Basel Institute on Governance, 2025).

[15] Global Financial Integrity, *Trade-Related Illicit Financial Flows in 134 Developing Countries: 2009-2018* (Washington, DC: Global Financial Integrity, 2021).

[16] United Nations Office on Drugs and Crime, *Combating Money Laundering through Industry Sector Risk Mapping* (Vienna: UNODC, 2020).

[17] M. Huda and R. Mulyadi, "Pemetaan Risiko Tindak Pidana Pencucian Uang dalam Industri dan Implikasinya terhadap Penegakan Hukum," *Jurnal Hukum Pidana dan Ekonomi* 10, no. 2 (2021): 77-94.

alongside legitimate trade.[18] Money laundering is defined under Indonesian law as any act meeting the elements set out in Law Number 8 of 2010, the core purpose of which is to conceal or disguise the origin of proceeds derived from criminal conduct; Articles 3 through 5 of that statute identify disguising the origin of assets, receiving or controlling criminal proceeds, and assisting in their concealment as the three principal forms of the offense. Money laundering's defining characteristics its transnational reach, its dependence on the formal financial system, and its parasitic relationship to predicate offenses ranging from corruption to human trafficking place it within the broader category of white-collar crime as classically defined: crime committed by persons of respectability and high social status in the course of their occupation.[19]

This classification is analytically significant, because it directs attention away from the image of the marginalized offender and toward the rational, well-resourced economic actor who exploits legitimate business structures rather than circumventing them.[20] Money laundering further carries what Arief describes as a dual criminal character: it is simultaneously a continuation of the predicate offense and an independent threat capable of corroding the integrity of the national financial and economic system if left unaddressed;[21] a related domestic literature on economic criminology situates Batam's exposure within this dual character, noting that industrial money laundering both perpetuates upstream criminality and generates freestanding harm to the zone's investment climate.[22]

Internationally, this transnational, system-dependent character of money laundering is precisely what the United Nations Convention against Transnational Organized Crime was designed to address by obligating states to criminalize laundering and to build cross-border cooperation mechanisms capable of tracing proceeds across jurisdictions.[23] Reuter and Truman's influential assessment of the global anti-money-laundering regime similarly cautions that formal compliance with international standards frequently outpaces substantive enforcement capacity, a mismatch that closely echoes Batam's own gap between regulatory completeness and operational effectiveness.[24]

Contemporary criminological scholarship situates this behavior within a broader account of white-collar and corporate offending in which opportunity, rationalization, and weak external control substitute for the desperation typically associated with street crime.[25] Trade-based laundering in particular has been shown to thrive wherever formal compliance coexists with weak verification: shell companies, over- and under-invoicing, and multi-invoicing schemes allow illicit value to move under the cover of documented, seemingly ordinary commerce.[26]

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[18]A. Rizal and F. Siregar, "Zona Ekonomi Khusus dan Implikasinya terhadap Penerapan Hukum Ekonomi di Indonesia," *Jurnal Hukum dan Ekonomi* 13, no. 1 (2022): 45-60.

[19]Edwin H. Sutherland, *White Collar Crime* (New York: Holt, Rinehart & Winston, 1949).

[20]M. Arif and S. Nurul, *Hukum Pidana Ekonomi: Teori dan Aplikasi dalam Penegakan Hukum* (Yogyakarta: Genta Press, 2022). Petter Gottschalk, *White-Collar Crime: Detection, Prevention and Strategy in Business Enterprises* (New York: Palgrave Macmillan, 2010).

[21]Barda Nawawi Arief, *Bunga Rampai Kebijakan Hukum Pidana* (Jakarta: Prenadamedia Group, 2017).

[22]Soerjono Soekanto, *Kriminologi dan Kejahatan Ekonomi di Indonesia* (Jakarta: Rajawali Press, 2021).

[23]United Nations, *United Nations Convention against Transnational Organized Crime* (New York: United Nations, 2000).

[24]Peter Reuter and Edwin M. Truman, *Chasing Dirty Money: The Fight against Money Laundering* (Washington, DC: Peterson Institute for International Economics, 2004).

[25]Donald R. Cressey, *Other People's Money: A Study in the Social Psychology of Embezzlement* (Glencoe, IL: Free Press, 1953). Sally S. Simpson, "White-Collar Crime: A Review of Recent Developments and Promising Directions for Future Research," *Annual Review of Sociology* 39 (2013): 309-331, https://doi.org/10.1146/annurev-soc-071811-145546.

[26]Financial Action Task Force, *Trade-Based Money Laundering: Trends and Developments* (Paris: FATF, 2019). Naheem, "Trade Based Money Laundering."

Free trade zones amplify this risk because they combine exactly the conditions that facilitate concealment high transaction volume, reduced customs scrutiny, and fragmented interagency oversight with strong incentives, in the form of tax relief and simplified licensing, for legitimate and illegitimate actors alike to operate within them.[27]

Prior Indonesian scholarship has begun to document the practical consequences of this exposure. A study of customer due diligence practice among rural bank customers in Batam found that, while CDD principles are formally applied, their reach does not extend effectively to more complex transactions involving industrial or multinational entities[28] a finding echoed internationally in comparative reviews of customer due diligence implementation, which consistently identify a gap between the existence of CDD rules and their consistent application to complex corporate structures.[29]

Indonesia's own National Risk Assessment identifies export-import and manufacturing as the two sectors carrying the highest risk of trade-based laundering, attributing this to the use of fictitious trade documentation and transactions between affiliated entities designed to disguise the origin of funds.[30] The methodological approach adopted in this study combining normative-juridical and sociological-empirical inquiry follows an approach used elsewhere in Indonesian legal scholarship addressing the prevention of financially motivated crime through a combination of statutory analysis and field-level institutional assessment.[31]

Method

This study employs a normative-empirical (socio-legal) approach, combining doctrinal analysis of Indonesia's anti-money laundering framework with an empirical assessment of its implementation in the Batam SEZ.[32] Two complementary approaches structure the inquiry: a statute approach, examining the legal instruments governing money laundering and industrial activity in the zone, and a case approach, evaluating the dynamics of law enforcement through documented cases arising in the region.[33]

Data were drawn from two sources. Primary data were obtained through in-depth interviews with law enforcement officials from the Batam Police and the Batam District Attorney's Office, financial-intelligence analysts from PPATK, representatives of BP Batam, and relevant industrial actors, including compliance and internal-audit personnel at firms operating within the zone. Secondary data were drawn from legal literature, scholarly journals, statutory materials, and court decisions relevant to money laundering.[34] Data were analyzed using a qualitative-descriptive technique that situates empirical findings within the framework of positive law and evaluates the effectiveness of existing supervisory and preventive mechanisms.[35]

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[27]FATF and OECD, *Money Laundering Vulnerabilities of Free Trade Zones.* A. Rizal, "Kelemahan Pengawasan Transaksi Ekspor-Impor dan Risiko Pencucian Uang di Indonesia," *Jurnal Kriminologi Ekonomi* 6, no. 1 (2022): 65-82.

[28]Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence."

[29]Howard Chitimira and Sharon Munedzi, "Overview International Best Practices on Customer Due Diligence and Related Anti-Money Laundering Measures," *Journal of Money Laundering Control* 26, no. 7 (2023): 53-62, https://doi.org/10.1108/JMLC-07-2022-0102.

[30]PPATK, *Penilaian Risiko TPPU Berbasis Perdagangan.*

[31]Parameshwara and Khairul Riza, "Ideal Management of Social Assistance Funds as a Prevention and Mitigation Effort Corruption," *Journal of Multidisciplinary Academic and Practice Studies* 1, no. 1 (2023): 83-91, https://doi.org/10.35912/JoMAPS.v1i1.1529.

[32]Parameshwara and Riza, "Ideal Management of Social Assistance Funds."

[33]Soerjono Soekanto and Sri Mamudji, *Penelitian Hukum Normatif dan Empiris* (Jakarta: Rajawali Pers, 2021).

[34]Peter Mahmud Marzuki, *Penelitian Hukum: Edisi Revisi* (Jakarta: Kencana Prenada Media Group, 2017).

[35]H.S. Salim and Erlies Septiana Nurbani, *Penerapan Teori Hukum pada Penelitian Tesis dan Disertasi* (Jakarta: Rajawali Pers, 2016).

Three theoretical frameworks structure the analysis. Economic Criminology Theory explains the motive and opportunity structures underlying money-laundering offenses in the context of modern industrial activity, treating offenders as rational economic actors exploiting formal legal channels rather than socially marginalized individuals.[36]

Law Enforcement Theory, following Lawrence Friedman's tripartite division of legal systems into structure, substance, and culture, provides the basis for assessing whether Batam's enforcement apparatus functions consistently, transparently, and accountably in practice rather than merely on paper,[37] complemented by Soekanto's account of the factors that shape law enforcement effectiveness in the Indonesian context, including the legal apparatus itself, supporting facilities, and the surrounding legal culture.[38] Legal Risk Theory is used to identify structural, normative, and institutional-reputation risks embedded in the supervisory system that may be exploited by offenders.[39]

Results and Discussion

Risk Identification in Batam SEZ Industrial Activities

Findings drawn from both secondary document review and primary interview data confirm that industrial activity in the Batam SEZ carries pronounced exposure to money laundering. PPATK's 2021 trade-based risk assessment identifies export-import activity as among the sectors of highest risk nationally, and the intensity of cross-border trade in goods and capital in Batam places the zone squarely within that exposure.[40]

Interviews with law enforcement officers in the Batam Police and Attorney's Office confirm that laundering schemes identified in the zone consistently follow the conventional three-stage pattern of placement, layering, and integration: illicit funds are typically placed through local companies or shell entities before being layered through disguised trade transactions and eventually integrated back into the legitimate economy. The most frequently cited modus operandi is under-invoicing — understating the value of exported goods on customs and banking documentation in order to conceal the true profit, which is then repatriated through an affiliated offshore entity.

A second significant pattern is the use of fictitious export-import transactions. Representatives of BP Batam report that several companies remain administratively active in export documentation while never physically shipping goods, supported by fabricated invoices, packing lists, and shipping documents intended to disguise the illegal cross-border movement of funds. A related pattern involves abusive transfer pricing between domestic and foreign affiliates, in which goods are priced disproportionately to disguise the flow of criminal proceeds.

These findings are consistent with the internationally documented mechanics of trade-based money laundering, in which manipulated trade documentation functions as the primary vehicle for disguising both the origin and destination of illicit funds.[41] They also illustrate a methodological difficulty widely noted in comparative risk-assessment scholarship: money-laundering risk indicators are inherently indirect proxies for a largely invisible phenomenon, and their reliability depends heavily on the quality and completeness of the underlying transactional data available to assessors, a constraint that applies with particular force to trade-based schemes routed through zones with weak physical verification of

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[36]Achmad Ali, *Menguak Teori Hukum dan Teori Peradilan*, vol. 1 (Jakarta: Kencana, 2020). Simpson, "White-Collar Crime."

[37]Lawrence M. Friedman, *The Legal System: A Social Science Perspective* (New York: Russell Sage Foundation, 1975).

[38]Soerjono Soekanto, *Faktor-Faktor yang Mempengaruhi Penegakan Hukum* (Jakarta: RajaGrafindo Persada, 2008).

[39]Satjipto Rahardjo, *Ilmu Hukum* (Bandung: Citra Aditya Bakti, 2006).

[40]PPATK, *Penilaian Risiko TPPU Berbasis Perdagangan*.

[41]Naheem, "Trade Based Money Laundering." FATF, *Trade-Based Money Laundering: Trends and Developments*.

shipments.[42] The 2021 National Risk Assessment further identifies Batam's manufacturing and logistics sectors as high-risk precisely because reporting on financial transactions by companies in those sectors remains poorly integrated with PPATK's financial-intelligence infrastructure, and notes that limited-liability companies with international affiliations are particularly vulnerable to being used as laundering vehicles through complex financial structures that obstruct the tracing of fund flows.[43]

Notably, this pattern of formally compliant but substantively hollow reporting is not confined to financial crime: a parallel study of occupational safety compliance in Batam's SEZ documents an analogous phenomenon in which manufacturing firms maintain audit-ready safety documentation without corresponding operational substance, a practice of "cosmetic compliance" sustained by weak inspection capacity and fragmented interagency coordination.[44]

The recurrence of this pattern across two distinct regulatory domains financial reporting and labor safety within the same zone suggests that the underlying vulnerability is institutional rather than sector-specific: wherever oversight in Batam depends on self-reported documentation rather than independent verification, the same structural gap invites exploitation. Economic Criminology Theory offers a coherent explanation for why the Batam SEZ, as an open, investment-oriented, trade-intensive zone, functions as fertile ground for these practices.[45] Two conditions identified by the theory are directly present. First, high economic incentive fiscal freedom and licensing ease creates pressure to maximize returns, including through illegal means. Second, opportunity, in the form of weak oversight, uneven interagency regulation, and legal gaps, is exploited to create false transactions, manipulate invoices, and deploy shell companies as intermediaries. These features correspond closely to Sutherland's original conception of white-collar crime as offending by persons of high social standing who exploit their formal position for illegitimate gain.[46]

The offenders identified in Batam's cases are not marginal actors but individuals affiliated with export-import companies who possess access to formal financial institutions and international transaction systems, operating in the grey area between legality and illegality while relying on their "official" standing within the industrial structure to evade detection. This confirms that the risk in Batam originates not from an absence of law, but from the presence of an economic structure that is systematically exploitable.[47]

Case Analysis of Money Laundering in Batam SEZ

Several documented cases illustrate the modus operandi and enforcement dynamics characteristic of the Batam SEZ. Table 1 summarizes three representative cases alongside the institutional weakness each exposes.

Table 1. Selected Money Laundering Cases in Batam's Special Economic Zone

Case	Modus Operandi	Legal Outcome	Institutional Weakness Exposed
La Hardi (2024)	Layered banking transactions and asset purchases disguising proceeds of approximately IDR	Prosecuted at the Batam District Court; proof of predicate-	Difficulty establishing *mens rea* and the nexus between laundered funds

[42]Ernesto Ugo Savona and Michele Riccardi, "Assessing the Risk of Money Laundering: Research Challenges and Implications for Practitioners," *European Journal on Criminal Policy and Research* 25, no. 1 (2019): 1-4, https://doi.org/10.1007/s10610-019-09409-3.

[43]PPATK, *NRA TPPU 2021*.

[44]Siti Nurkhotijah, Soerya Respationo, Erniyanti, and Khairul Riza, "Occupational Safety Compliance Fraud in Batam's Special Economic Zone: Evidence from Reporting Manipulation," *Advances in Financial Crime and Law* 1, no. 2 (2026): 69-82, https://doi.org/10.35912/afcl.v1i2.4370.

[45]Simpson, "White-Collar Crime."

[46]Sutherland, *White Collar Crime*.

[47]Cressey, *Other People's Money*.

Case	Modus Operandi	Legal Outcome	Institutional Weakness Exposed
	44 billion, including transfers to accounts held by third parties and suspected fictitious companies	offense linkage remained contested	and the predicate offense
Unnamed Batam entrepreneur (2024)	Use of an export-import company to receive and transfer criminal proceeds through fictitious invoices and layered offshore transfers	Named suspect by the National Police Criminal Investigation Agency (Bareskrim)	Limited cross-border data access and weak cooperation with foreign financial institutions impeding fund tracing
Fandias and Juni, "Crazy Rich Batam" (2024)	Purchase of luxury assets and falsified corporate bookkeeping to disguise laundered proceeds	Convicted; sentenced to two years' imprisonment despite proven laundering offenses	Weak evidentiary use of the "follow the money" approach and insufficient sentencing proportionality

Beyond these individual prosecutions, PPATK's National Risk Assessment and its 2021 trade-based risk report document a systematic pattern across the sector: falsified invoices, fictitious export sales, and corporate bank accounts opened for entities with no genuine business activity, frequently implicating professional intermediaries such as accountants and lawyers within what has been described internationally as professional money-laundering networks.[48]

Juridically, these cases expose the incomplete operationalization of Law Number 8 of 2010, particularly regarding coordination among law enforcement, PPATK investigators, and industrial-sector authorities. In the La Hardi case, prosecutors succeeded in establishing the existence of suspicious fund flows, but proving the *mens rea* element and the connection between those funds and the predicate offense remained a persistent obstacle underscoring the continuing need to strengthen investigators' capacity to apply the "follow the money" approach and comprehensive asset tracing.[49]

Procedurally, PPATK's financial-intelligence products continue to face resistance in judicial practice: although Article 74 of Law Number 8 of 2010 permits PPATK's analytical findings to be used as evidence, courts have shown limited willingness to treat such analysis as primary proof, a pattern reflected in the comparatively lenient sentences handed to Fandias and Juni, which many observers viewed as disproportionate to the scale of the offense.

Weaknesses in secondary reporting regulation further contribute to delayed detection. The absence of a statutory requirement for non-financial industrial companies in the SEZ to conduct enhanced due diligence on large transactions deprives PPATK of early-stage data needed to flag suspicious activity, reinforcing the case for expanding the category of mandatory reporting entities to include trade and logistics-sector firms.[50] Finally, an enforcement approach weighted almost entirely toward custodial punishment, without a parallel strategy for asset recovery, has resulted in the state's frequent failure to recover losses caused by money laundering; interviews with Batam prosecutors indicate that asset seizure and auction are routinely delayed by weak legal documentation and slow verification of ownership, reinforcing the case for more assertive use of Non-Conviction Based Asset Forfeiture (NCBAF)

[48]PPATK, *NRA TPPU 2021*. PPATK, *Penilaian Risiko TPPU Berbasis Perdagangan*.

[49]Siregar, *Pencucian Uang sebagai Kejahatan Ekonomi*.

[50]Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence."

mechanisms.[51] Law Enforcement Theory situates these findings within a broader account of legal effectiveness. Friedman's tripartite division of legal systems into structure, substance, and culture illustrates that although the substantive law governing money laundering is comprehensive under Law Number 8 of 2010, the structural component the police, the Attorney General's Office, and PPATK as enforcing institutions — continues to face significant implementation constraints.[52] As reflected in the La Hardi and Fandias cases, enforcement is repeatedly hindered at the investigation, evidentiary, and sentencing stages; low conviction severity, slow case handling, and difficulty tracing assets indicate that the enforcement system is not yet optimal, and that effective enforcement against money laundering requires not merely adequate legal instruments but a strong, coordinated institutional structure.

Evaluation of Supervisory and Law Enforcement Systems

Within Batam's oversight architecture, each institution occupies a strategically important role yet confronts distinct structural and operational limitations. The police, as the front-line law enforcement agency, hold investigative authority, but interviews with investigators from the Barelang Regional Police confirm that limited access to cross-sector financial information remains the primary obstacle; many money-laundering cases stall at the investigation stage because establishing the link between the predicate offense and laundered funds proves difficult.

PPATK plays a central role in producing suspicious transaction analysis, yet its findings are not always acted upon promptly by law enforcement; the 2021 NRA notes that many reporting parties, including SEZ industrial companies, do not fully understand their reporting obligations, rendering oversight reactive rather than preventive[53] a pattern also documented in comparative research on financial intelligence units, where institutional capacity to produce analysis routinely outpaces the capacity of partner agencies to act on it.[54] Customs and Excise authorities in Batam play a critical role in verifying export-import documentation that may serve as a vehicle for laundering, but data from PPATK's trade-based risk assessment show that under-invoicing and fictitious shipment remain difficult to detect accurately owing to weak physical verification of shipments and poor interagency data integration; customs officials confirm that high transaction volume combined with limited personnel constrains the depth of inspection possible. BP Batam, as the zone's managing authority, should in principle play an active role in safeguarding the economic integrity of the zone through oversight of business activity and financial flows, yet interviews with BP Batam officials reveal the absence of a dedicated compliance unit for anti-money laundering oversight, leaving many companies in the zone without a functioning "Know Your Business Partner" practice for vetting foreign business partners.

A core weakness across this architecture is the lack of regulatory and systemic synchronization among participating institutions. Law Number 8 of 2010 assigns mandates to multiple institutions without accompanying implementing rules specifying coordination procedures, data-sharing protocols, or collective responsibility among supervisory and enforcement agencies, producing overlapping authority and gaps in enforcement.[55] Although PPATK operates an integrated financial transaction reporting system, not all institutions possess equal access to or capacity to process that data, and risk-based supervision of the industrial sector which should ideally be conducted jointly by PPATK, BP Batam, and Customs remains

[51]Dwidja Priyatno, "Non Conviction Based (NCB) Asset Forfeiture for Recovering the Corruption Proceeds in Indonesia," *Journal of Advanced Research in Law and Economics* 9, no. 1 (2018): 219-233, https://doi.org/10.14505/jarle.v9.1(31).27.

[52]Friedman, *The Legal System*.

[53]PPATK, *NRA TPPU 2021*.

[54]Pieter Lagerwaard, "Financial Surveillance and the Role of the Financial Intelligence Unit (FIU) in the Netherlands," *Journal of Money Laundering Control* 26, no. 7 (2023): 63-84, https://doi.org/10.1108/JMLC-09-2022-0134. Mirko Nazzari and Alberto Aziani, "From (Possible) Detection to Action: The Real-World Impact of Suspicious Transaction Reports in Italy," *Crime, Law and Social Change* 83, no. 1 (2025): art. 44, https://doi.org/10.1007/s10611-025-10220-x.

[55]Siregar, *Pencucian Uang sebagai Kejahatan Ekonomi*.

underdeveloped; research on customer due diligence practice in Batam similarly identifies a lack of coordinated cross-institutional training on detection methods, particularly for trade-based laundering typologies.[56] Ad hoc, legally unanchored cross-sectoral coordination further complicates investigations spanning multiple jurisdictions. Interviews with Batam prosecutors indicate that when an investigation requires information from industrial authorities, banks, or foreign counterparts, the process is frequently slowed by the absence of a permanent cooperation protocol, extending case-handling time and weakening the strength of evidence presented at trial.

Private-sector actors industrial operators, exporters, and logistics providers remain insufficiently integrated into the SEZ's prevention architecture; the absence of a regulatory obligation to apply Customer Due Diligence or Beneficial Ownership Disclosure principles leaves their activity difficult to supervise comprehensively, even though PPATK's trade-based risk assessment identifies this sector as a strategic vehicle for disguising the proceeds of cross-border crime.[57] Legal Risk Theory frames these findings as a compound of structural, normative, and reputational risk. The absence of binding operational procedures among the police, the Attorney General's Office, PPATK, Customs, and BP Batam constitutes structural risk the potential for systemic failure arising from the absence of integrated normative and administrative coordination in countering money laundering.[58] Normative risk arises from the absence of an explicit obligation for SEZ industrial entities to apply strict Customer Due Diligence, notwithstanding the sector's demonstrated vulnerability to being used to disguise criminal proceeds; research on Batam's banking-sector CDD practice confirms that many companies lack internal AML compliance policies, resulting in weak early detection of suspicious transactions.[59]

Institutional-reputation risk, finally, concerns the erosion of public confidence in the legal system caused by inefficiency and a perceived lack of firmness in case handling; lenient sentencing outcomes and incomplete asset recovery convey the impression that the law functions as a negotiable rather than binding constraint. Left unmitigated through regulatory reform and stronger interagency coordination, this compound legal risk threatens not only to fail at preventing crime but to deepen the social and economic inequality that unchecked financial crime produces.[60]

Prevention Efforts and Risk Mitigation Strategies

Several internationally recognized best practices in industrial financial oversight offer a template for strengthening prevention in the Batam SEZ. A risk-based supervision model, in which oversight bodies prioritize scrutiny of high-risk industrial entities such as large-scale export-import and manufacturing firms operating in free trade zones, is recommended by PPATK's 2021 National Risk Assessment and mirrors international guidance from the Financial Action Task Force on applying a risk-based approach to supervision,[61] consistent with the risk-based supervisory posture embedded in the FATF's own global standards, which call on member jurisdictions to calibrate the intensity of customer and sectoral due diligence to the level of risk identified.[62] Interviews with PPATK analysts and internal-audit practitioners in Batam indicate that pattern-based early-warning systems have already assisted several firms in identifying transactional anomalies before they escalate into laundering schemes; one international logistics company

[56]Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence."

[57]PPATK, *Penilaian Risiko TPPU Berbasis Perdagangan*.

[58]Rahardjo, *Ilmu Hukum*.

[59]Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence."

[60]Friedman, *The Legal System*. Michael Levi and Peter Reuter, "Money Laundering," *Crime and Justice* 34 (2006): 289-375, https://doi.org/10.1086/501509.

[61]Financial Action Task Force, *Guidance on the Risk-Based Approach for the Securities Sector* (Paris: FATF, 2019). PPATK, *NRA TPPU 2021*.

[62]Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations* (Paris: FATF, 2023).

in Batam has adopted real-time reporting for cross-border transactions above a defined threshold and engaged an independent third party to audit its quarterly financial statements, a step credited with preventing several previously undetected risky transactions. Regular capacity-building for industrial actors, particularly finance and compliance staff, represents a further essential preventive measure. Research on CDD practice in Batam indicates that staff understanding of Customer Due Diligence and Suspicious Transaction Reporting principles remains limited, making improvements in industrial human-resource capacity a critical component of building a robust compliance culture[63] a finding consistent with comparative research showing that the effectiveness of due diligence regimes depends less on the existence of formal rules than on the institutional capacity to apply them consistently.[64]

Cross-sectoral cooperation among industrial operators, banks, and supervisory authorities such as PPATK and BP Batam is beginning to emerge; BP Batam has signaled an initiative to establish a local Financial Crime Compliance Forum as a venue for information-sharing and education among industrial actors and regulators, illustrating one model of collaborative financial-crime prevention within a strategic economic zone. Internal audit plays a vital role in detecting and preventing laundering, particularly within firms maintaining transactional relationships with foreign partners; an effective audit function extends beyond procedural compliance checks to include assessment of the financial and legal risk inherent in large transactions. In several cases analyzed for this study, weak internal audit function delayed the identification of laundering indicators such as falsified invoices or misuse of corporate accounts by third parties.[65]

Consistent adherence to Anti-Money Laundering principles remains the fundamental foundation of prevention; companies operating in the Batam SEZ, particularly those engaged in international trade, are obligated to apply AML principles under Law Number 8 of 2010 and PPATK regulations, yet observation and interview data indicate that only a small proportion of firms maintain a genuinely active compliance unit, with many failing to identify beneficial owners or maintain internal SOPs for suspicious-transaction reporting.

Risk-detection technology, particularly transaction-monitoring software and electronic Know Your Customer (e-KYC) systems, has become an important supervisory tool, enabling firms and financial institutions to automatically flag unusual transaction activity and integrate customer data to detect indirect ownership or high-risk affiliations. PPATK's trade-based risk assessment underscores the need for substantial investment in this technology, including within the non-financial sector forming part of the export-import supply chain.[66] Interviews with digital-audit system providers in Batam indicate that technology adoption among SEZ companies remains limited, largely owing to cost constraints and low technological literacy at the management level, even though implementation not only improves reporting efficiency but also serves as demonstrable evidence of corporate compliance with national and international standards.

Beyond preventive supervision, comparative practice suggests that Indonesia's enforcement toolkit could be strengthened by mechanisms oriented toward state-loss recovery rather than custodial punishment alone. Deferred Prosecution Agreements, already used to resolve corporate fraud, bribery, and money-laundering cases in the United States, the United Kingdom, and France, offer a normatively compatible model for Indonesia: research applying comparative and conceptual analysis finds substantial normative grounding for adapting such agreements into Indonesian criminal procedure, anchored in Indonesia's ratification of the United Nations Convention against Corruption, the prosecutorial discretion already recognized under national procedure, and compatibility with a corrective rather than purely retributive conception of justice.[67]

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[63]Kho and Tantimin, "Efektivitas Penerapan Customer Due Diligence."

[64]Chitimira and Munedzi, "Overview International Best Practices."

[65]Siregar, *Pencucian Uang sebagai Kejahatan Ekonomi.*

[66]PPATK, *Penilaian Risiko TPPU Berbasis Perdagangan.*

[67]Parameshwara, Soerya Respationo, and Khairul Riza, "Deferred Prosecution Agreement in Corporate Fraud Cases: Evidence from State Loss Recovery Mechanisms," *Advances in Financial Crime and Law* 1, no. 2 (2026): 83-93,

Strengthening Non-Conviction Based Asset Forfeiture in parallel would allow the state to recover laundered proceeds even where a criminal conviction cannot be secured, addressing the asset-recovery shortfall documented in the case analysis above.[68] Extending corporate criminal liability more assertively to the companies through which laundering schemes are routed, rather than confining prosecution to individual company officers, would further close a persistent accountability gap; research on corporate criminal responsibility in Indonesian corruption cases argues that the legal foundation for such liability already exists but remains inconsistently applied, limiting its deterrent effect on the corporate structures most often used to disguise illicit proceeds.[69]

A more consistent and rationally reasoned approach to sentencing would reinforce this shift: judicial reasoning that visibly connects the severity of a sentence to the proven scale of harm, rather than defaulting to lenient outcomes of the kind seen in the Fandias and Juni case, is essential to restoring public confidence that the law functions as a binding rather than negotiable constraint.[70] Restorative and victim-centered thinking offers a further complementary lens. Indonesian scholarship on restitution rights for victims of human trafficking a frequent predicate offense feeding into money laundering demonstrates that Indonesia's legal framework for restitution remains under-implemented in practice, and that restitution functions not merely as compensation but as a form of state recognition of victims' dignity consistent with the Pancasila value of "just and civilized humanity".[71]

Applied by analogy to money laundering, in which the state itself is frequently the principal victim of lost fiscal revenue and eroded market integrity, this reasoning strengthens the case for treating asset recovery and loss restitution, not incarceration alone, as a central measure of enforcement success. Taken together, risk-based supervision, capacity building, technological investment, deferred prosecution mechanisms, and asset-recovery-oriented enforcement form a coherent mitigation agenda capable of closing the gap between Batam's comprehensive formal legal framework and its still-uneven practical implementation.

Conclusion

Industrial activity in the Batam Special Economic Zone carries significant and well-documented money-laundering risk, manifested chiefly through fictitious export-import schemes, under-invoicing, abusive transfer pricing, and the use of shell companies to disguise the proceeds of crime. This risk is reinforced by the zone's openness to cross-border transactions and by financial oversight that has not yet matured into a fully integrated, risk-based system, allowing offenders to exploit persistent gaps between formal regulatory completeness and operational practice. Prevention and enforcement efforts including the application of Anti-Money Laundering principles, suspicious-transaction reporting systems, and internal corporate audit have made measurable progress, and PPATK together with law enforcement agencies continues to play an important role in detecting and acting on suspicious fund flows. Effectiveness, however, remains heavily contingent on interagency coordination, investment in risk-detection technology, and genuine corporate commitment to due diligence. Law enforcement and supervisory agencies continue to face structural and functional obstacles, including weak cross-sectoral coordination, unsynchronized regulation, limited access to cross-border data, and insufficient technical capacity to trace complex

https://doi.org/10.35912/afcl.v1i2.4375. United Nations, *United Nations Convention against Corruption* (New York: United Nations, 2003).

[68]Priyatno, "Non Conviction Based Asset Forfeiture."

[69]Parameshwara and Khairul Riza, "Tindak Pidana Korupsi dalam Konteks Pertanggungjawaban Pidana Korporasi," *Jurnal Studi Multidisiplin Ilmu* 1, no. 1 (2023): 25-34, https://doi.org/10.35912/jasmi.v1i1.1973.

[70]Soerya Respationo and M. Guntur Hamzah, "Putusan Hakim: Menuju Rasionalitas Hukum Refleksi dalam Penegakan Hukum," *Jurnal Yustisia* 2, no. 2 (2023), https://doi.org/10.20961/yustisia.v2i2.10194.

[71]Khairul Riza, "Hak Restitusi bagi Korban Perdagangan Orang: Sebuah Langkah Penting Menuju Keadilan di Indonesia," *Kajian Ilmiah Hukum dan Kenegaraan (KIHAN)* 2, no. 1 (2023): 37-44, https://doi.org/10.35912/KIHAN.v2i1.2359.

transactions. Low industrial compliance with AML principles and a still-underdeveloped internal audit function compound these gaps, resulting in delayed detection and inconsistent enforcement of money-laundering practices. Addressing these weaknesses will require, at minimum, binding interagency coordination protocols, an expanded category of mandatory reporting entities covering the trade and logistics sectors, sustained investment in transaction-monitoring technology, and a stronger institutional commitment to asset recovery through mechanisms such as Non-Conviction Based Asset Forfeiture and, prospectively, Deferred Prosecution Agreements for qualifying corporate offenders. As a matter of legal policy, these measures are best pursued not as isolated technical fixes but as part of a coherent political-legal agenda that treats the integrity of Special Economic Zones as a national economic-security priority rather than a purely local enforcement concern.[72] This study is limited by restricted access to confidential financial transaction data and by its focus on a single SEZ; broader comparative research encompassing other Indonesian SEZs and the international dimensions of industrial money laundering is needed to generalize these findings. The role of the informal sector and transnational laundering networks likewise merits further, more quantitative investigation, including risk-modeling approaches capable of tracing patterns across multiple zones and jurisdictions.

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R conceived the research problem, conducted primary field interviews with law enforcement and PPATK informants, and drafted the Introduction and Results and Discussion sections. DA contributed to the normative-juridical analysis of the statutory framework and the Method section, and reviewed the manuscript's legal-theoretical apparatus. P contributed the comparative analysis of enforcement and asset-recovery mechanisms and assisted in structuring the Discussion. KR conducted the literature review, coordinated reference verification, and prepared the manuscript for submission. All authors read, revised, and approved the final manuscript.

AI Usage Statement

Generative artificial intelligence tools were used in a limited, supportive capacity during manuscript preparation, principally to assist with English-language editing, reference formatting consistency, and document layout in accordance with the journal's template. All research design, data collection, interpretation of findings, and substantive conclusions are the original work of the authors, who take full responsibility for the accuracy and integrity of the content.

Conflict of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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[72] Soerya Respationo, *Politik Hukum* (Batam: Zahira, 2022).

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