



GLOBAL FINANCIAL INTEGRITY

## Mexico Hemorrhages US\$872 Billion to Crime, Corruption, Tax Evasion from 1970-2010

### Illicit Financial Outflows Average Over 5% of GDP, Driven by Underground Economy, Spiked in Wake of NAFTA

*Study Recommends Policies Be Implemented to Address Trade Mispricing, Money Laundering, Tax Evasion*

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**MEXICO CITY / WASHINGTON, DC** – Crime, corruption and tax evasion cost the Mexican economy US\$872 billion between 1970 and 2010 according to a new report from Global Financial Integrity (GFI), a Washington, DC-based research and advocacy organization. The illicit financial outflows, which averaged a massive 5.2% of GDP, grew significantly over the 41-year period studied from just US\$1 billion in 1970 to US\$68.5 billion in 2010.

“This is a devastatingly large amount of money for any developing country to lose,” said Raymond W. Baker, director of GFI. “\$872 billion is gone, which could have been used to develop the Mexican economy, to invest in education, to build roads, or to fight the drug cartels. The negative ramifications are huge for everyday Mexicans.”

The study, which was authored by Dr. Dev Kar, GFI lead economist, saw illicit outflows explode from an annual average of US\$3.0 billion in the 1970s, to US\$10.4 billion in the 1980s, to US\$17.4 billion in the 1990s, and US\$49.6 billion in the decade ending 2009.

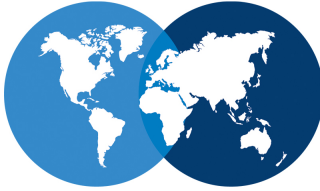
#### **Underground Economy**

Moreover, illicit outflows were found to drive the domestic underground economy, which includes—among other things—drug smuggling, arms trafficking and human trafficking. Thus, illegal capital flight was found to contribute to a deterioration in governance. Likewise, growth in the underground economy was also shown to drive illicit flows, creating “a snowballing effect whereby both the underground economy and illicit flows continue to grow at an increasing rate unless policy measures and institutions intervene,” according to Dr. Kar, who worked as a senior economist at the International Monetary Fund before joining GFI.

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### Trade Mispricing and NAFTA

The report concluded that policymakers should focus on measures to curtail trade mispricing, a form of trade based money-laundering, which skyrocketed in the years after NAFTA came into effect and which was shown to account for 73.7% of total illicit financial outflows over the 41-year time period.

The study recommends three policy measures to reduce trade mispricing:

- Require the utilization of computer software to detect export and import prices that are clearly out of line with international norms; (49)
- Require that the parties conducting a sale of goods or services in a cross-border transaction sign a statement in the commercial invoice certifying that no trade mispricing has taken place in an attempt to avoid duties or taxes and that the transaction is priced using the OECD arms-length principle; (51) and
- Undertake additional measures to curb abusive transfer pricing. (51)

### Further Policy Recommendations

In addition to recommending policies to curtail trade mispricing, the report recommends four additional policy actions to reduce illegal capital flight from Mexico:

- Expand double tax avoidance agreements with other jurisdictions; (53)
- Require automatic cross-border exchange of tax information with other jurisdictions on personal and business accounts; (54)
- Maintain macroeconomic stability, which includes maintaining low budget deficits, low external debt levels, and low and stable inflation rates; (56) and
- Take steps to reign in the role of offshore financial centers (OFCs) and banks. (59)

### Destination of Illicit Outflows

While the report cannot specifically breakdown into which jurisdictions illicit outflows from Mexico are deposited, the study does indicate that a majority of Mexican capital outflows, which include both licit and illicit capital, end up in U.S. banks. The large spike in illicit outflows following the implementation of NAFTA would imply that much of those outflows were indeed headed for the United States. This suggests that U.S. policymakers have a significant role to play in curtailing the flow of illicit money out of their southern neighbor.

In addition to the U.S., tax havens in the Caribbean and Europe were the second and third largest recipients of Mexican capital outflows.

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## Drug Cartels and National Security Risk

A large portion of drug cartel activity is conducted in cash, and none of those cash transactions are detected in GFI's data, which is one of the reasons why the organization believes its figures to be extremely conservative. That said, drug cartels like many criminal enterprises also utilize legitimate commercial transactions to launder their profits. In fact, the Los Angeles Times [reported last month](#) that Mexican drug cartels were utilizing trade-based money laundering techniques to move their money across the U.S.-Mexico border. Those kinds of business transactions would show up in the organizations data, however it cannot be determined exactly how much of the trade mispricing in GFI's report is attributable to the activities of drug cartels.

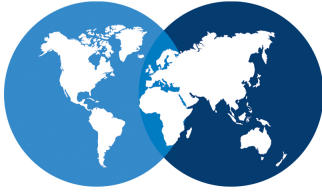
As such, the organization believes that this has serious implications for national security.

"The ease with which money can be laundered across the U.S.-Mexico border via trade mispricing poses a major national security risk to both the United States and Mexico," said Mr. Baker. "Drug traffickers, like kleptocrats, terrorists and tax dodgers, all gain from anonymous shell companies, tax haven secrecy, and nefarious trade mispricing tactics. Taking steps to address these issues would curtail a number of societal ills."

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### Notes to Editors:

1. Download an embargoed full copy of the report in English [here](#) [PDF - 3.56MB] and in Spanish [here](#) [PDF - 3.52MB].
2. A media tip-sheet is available to journalists for download in English [here](#) [PDF - 197KB] and in Spanish here **[Link Coming Soon]**.
3. Press briefings will be held in Mexico City and in Washington, DC on Monday January 30, 2012. The Mexico City press briefing will take place at the Hilton Mexico City Reforma Hotel on Monday, January 30, 2012 at 11am CST. To RSVP for the Mexico City press briefing, contact Clark Gascoigne at [cgascoigne@gfintegrity.org](mailto:cgascoigne@gfintegrity.org). The Washington, DC briefing event will take place at 1319 18<sup>th</sup> Street NW, Suite 200, Washington, DC at 10am EST on Monday January 30, 2012. To RSVP for the Washington, DC launch event, contact EJ Fagan at [efagan@gfintegrity.org](mailto:efagan@gfintegrity.org).



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