GLOBAL FINANCIAL INTEGRITY

In December 2008 Global Financial Integrity released its analysis of ***Illicit Financial Flows from Developing Countries: 2002 – 2006****, estimating such shifts at $859 billion to $1.06 trillion a year. This analysis is currently being updated, with revised figures extending to 2008 showing further growth in illicit outflows from poorer countries.*

We are now pleased to release our analysis of ***The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008.*** *Utilizing the World Bank Residual Method and IMF Direction of Trade Statistics, the hard data indicates outflows over this 61-year period of $213 billion. Adjusting this for accumulated interest on gross illicit outflows increases the figure to $462 billion. We regard this as a conservative estimate. It does not include smuggling, certain forms of trade mispricing, and gaps in available statistics. Taking these into consideration, it is entirely reasonable to estimate that more than a half-trillion dollars have drained from India since independence.*

Budget deficits and inflation are often seen as drivers of illicit money across borders. We do not find this to be true for India. While the licit component of financial flows—foreign direct investment and portfolio investment by Indian citizens—may have reacted to such conditions, our historical analysis indicates that these conditions were of little importance in the movement of the illicit component.

What is clear is that, during the post-reform period of 1991-2008, deregulation and trade liberalization have accelerated the outflow of illicit money from the Indian economy. Opportunities for trade mispricing have grown, and expansion of the global shadow financial system accommodates hot money, particularly in island tax havens. Disguised corporations situated in secrecy jurisdictions enable billions of dollars shifting out of India to "round trip," coming back into short- and long-term investments, often with the intention of generating unrecorded transfers again in a self-reinforcing cycle.

Illicit outflows drain hard currency reserves and reduce tax collection, harming India's poor and widening income gaps. Global Financial Integrity, through its Policy Advisory Program for governments, urges that forthright steps be taken to address these realities. We note and applaud the very impressive growth of the Indian economy in recent years. We wish to encourage that this growth accrue to the benefit of all citizens of India—the world's largest democracy and an emerging power exerting enormous influence across the globe.

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