Source : www.economictimes.indiatimes.com Date : 2020-03-04

AT USD 83.5 BN, INDIA HAS 3RD HIGHEST TRADE-RELATED ILLICIT FINANCIAL FLOW GLOBALLY: REPORT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

NEW DELHI: India has the third-highest trade-related illicit financial flow among over 135 countries with a whopping USD 83.5 billion escaping the government's tax net owing to trade-based money laundering tactics, according to a report released on Tuesday by US-based think tank Global Financial Integrity (GFI).

The GFI classifies as illicit flows funds which are illegally earned, transferred, and/or utilised across an international border. The primary sources of illicit flows include grand corruption, commercial tax evasion, and transnational crime.

A drug cartel using trade-based money laundering techniques to use the illegal proceeds of narcotics sales to purchase used cars, which will be exported to the drug source country and sold, is an example of illicit financial flow, it said.

According to the report titled "Trade-related Illicit Financial Flows in 135 Developing Countries: 2008-2017", for 2017, five countries with the largest identified value gaps were China at USD 457.7 billion, followed by Mexico at USD 85.3 billion, India at USD 83.5 billion, Russia at USD 74.8 billion, and Poland at USD 66.3 billion.

About the value gaps identified for India, GFI's senior economist Rick Rowden said a good way to think about a value gap is "the amount of trade that was not properly taxed" by the governments of the importers and exporters involved.

"This is why GFI believes the practice of trade misinvoicing is such a big problem - it leads to huge amounts of trade that are not being properly taxed, thus countries are losing out on billions of dollars of uncollected trade taxes each year," Rowden said.

For India's trade with all its global trading partners, in terms of the sum of all of the value gaps identified in the country's trade with all its global trading partners, we identified gaps totalling USD 83.5 billion for the year of 2017, and an average sum of USD 77.9 billion over the ten-year period of 2008-2017, he said, citing the report.

In terms of the value gaps in the bilateral trade between 135 developing countries and the 36 advanced economies in US dollars, India consistently ranked among the top ten largest value gaps across the ten-year period examined.

"Specifically, India registered the 6th largest value gap for the last six years of the ten-year period, and ranked 6th in terms of the largest average size of the value gaps among the 135 developing countries over the ten-year period," Rowden said.

The report said a staggering USD 8.8 trillion value gap was identified in trade between 135 developing countries and 36 advanced economies over the period of 2008-2017.

In order to identify a country's imports/exports that may have been misinvoiced, the GFI conducts a value gap analysis by examining data submitted by governments each year to the

United Nations Comtrade database and applying a series of filters to ensure unmatched trades are omitted.

The GFI then uses a partner-country analysis to compare and contrast the differences between any set of two countries in order to identify value gaps or mismatches in the reported data.

Trade misinvoicing is a way of illicitly moving money (value) in or out of a country by hiding it within the regular international commercial trading system. This is done when importers or exporters deliberately falsify the price they declare for goods on the invoice they submit to customs authorities.

For example, if Ecuador reported exporting USD 20 million in bananas to the United States in 2016, but the US reported having imported only USD 15 million from Ecuador that year, this would reflect a mismatch, or value gap, of USD 5 million in the reported trade of this product between the two partners for that year, the report said, explaining the value gaps.

The three largest value gaps (in US dollars) between the 135 developing countries and 36 advanced economies were identified in electrical machinery (USD 153.7 billion), mineral fuels (USD 113.2 billion) and machinery (USD 111.7 billion), it said.

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