I. Motivation
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Motivation
Recent years have seen much higher growth rates than previous decades.

Source: World Bank. Annual percentage growth in GDP. Aggregates are based on constant 2005 USD.
A period of large scale scandals – as the pie grows so do opportunities for rents

2G telecom scam:
Price tag: $13 billion

Ex-chief minister Y.S. Reddy land scandal
Price tag: $16.2 billion

“Coal-gate” scam:
Price tag: $33 billion

What about illicit outflows?
Near-perfect correlation between gold imports and current account deficit

Gold and Current Account Deficit

Sources: MoCI/H, RBI/Haver
Four Facts about Gold Imports

1. Financial savings and gold
2. Composition of gold imports
3. Share of gold imports from Switzerland
4. Discrepancies
1. Financial savings have been falling relative to GDP as gold imports have been rising relative to GDP.

Sources: IMF International Financial Statistics, Reserve Bank of India, UN Comtrade
2. Gold imports are mostly composed of gold bars

Indian Gold Imports by Type of Gold

Quantity in Kilograms

Value in Millions of 2010 USD

- **gold bars**
- **manufactured and powdered gold**
3. Switzerland is a key import partner for India

Indian Gold Imports by Partner

Quantity in Kilograms

Value in Millions of 2010 USD

- Switzerland
- All other partners
4. There are large discrepancies in India’s reported imports of gold and partners reported exports to India

Partners export of gold to India less India’s import of gold from partners

Quantity in Kilograms

Value in Millions of 2010 USD
Papers in the existing literature examine under-invoicing exports to avoid taxes, but what about capital outflows via over invoicing of imports?


“Tariffs, enforcement, and customs evasion: Evidence from India”
Data
Indian Imports

India import from country $c$ of product $p$ in time $t$
Country $c$ export to India of product $p$ in time $t$

Outflows: over invoicing of imports

Country $\text{export}_{cpt} - \text{India import}_{cpt} \leq 0 = \text{over invoicing of imports}$
over invoicing of imports = financial outflow from India
### Challenge: many unmatched pairs

<table>
<thead>
<tr>
<th></th>
<th>Observations</th>
<th>Share</th>
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<tbody>
<tr>
<td>Partner exports to India with no matching import</td>
<td>367,797</td>
<td>23%</td>
</tr>
<tr>
<td>Indian imports from partners with no matching export</td>
<td>539,235</td>
<td>33%</td>
</tr>
<tr>
<td>Matched Indian Imports and Partner Exports</td>
<td>721,851</td>
<td>44%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,628,883</strong></td>
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Two possible extreme assumptions for unmatched observations:

- **Smuggling Assumption**
  Assume, if India reports an import and partner does not report an export, the product was smuggled or never actually never exported. Code the missing value as 0.

- **No Smuggling / Error Assumption**
  Assume, if India reports an import and partner does not report an export, this is an error. Drop these observations.
Total outflows increasing over time under both smuggling and no smuggling assumptions

Partner reported exports to India less India reported imports from partner

Smuggling assumption

No smuggling assumption

Millions of 2010 USD
Key commodities standout in over invoicing of imports

Partner reported exports to India less India reported imports from partner

Smuggling assumption

No smuggling assumption

Millions of 2010 USD

-200,000 -150,000 -100,000 -50,000 0

-80,000 -60,000 -40,000 -20,000 0

all others   oil   gold   coal   diamonds
Key commodities make up a greater percentage of over invoiced imports than of total imports.

Key commodities as a percentage of total imports

Key commodities as a percentage of over invoicing of imports
Key partners standout in over invoicing of imports

Partner reported exports to India less India reported imports from partner

Smuggling assumption

No smuggling assumption

Millions of 2010 USD

-200,000 -150,000 -100,000 -50,000 0 -80,000 -60,000 -40,000 -20,000 0


all others Switzerland UAE Saudi Arabia China Hong Kong
Iran Australia South Africa USA Germany Venezuela
Key partners account for a greater percentage of over invoicing of imports than of total imports.

Percent of total imports from key partner countries.

Percent of over invoicing of imports from key partner countries.

smuggling assumption

- all others
- Switzerland
- UAE
- Saudi Arabia
- China
- Hong Kong
- Iran
- Australia
- South Africa
- USA
- Germany
- Venezuela
Switzerland stands out in over invoicing of India’s gold imports

Partner reported exports of gold to India less India reported imports of gold from partner—smuggling assumption
These discrepancies persist when we look at discrepancies in quantities.

Partner reported exports of gold to India less India reported imports of gold from partners – smuggling assumption

Kilograms of Gold

- 1,000,000
- 800,000
- 600,000
- 400,000
- 200,000
- 0

- all others
- Switzerland
- UAE
- China
- Hong Kong
- Australia
- South Africa
Discrepancies are not the result of mispricing. Indian prices closely track world prices.
Gold bars stand out in total over invoicing of gold imports, but when we drop unmatched observations these inconsistencies disappear, why?

Partner reported exports of gold to India less India reported imports of gold from partner

- Smuggling assumption
- No smuggling assumption

Millions of 2010 USD

Gold Bars (710812)  Powdered Gold (710811) & Semi-Manufactured Gold (710813)
We see extreme discrepancies in gold bars because Switzerland (and other countries) do not report country specific exports of gold bars.

Indian imports from Switzerland

Swiss exports to India

- **Gold Bars (710812)**
- **Powdered & Semi-Manufactured Gold (710811 & 710813)**
Explanations
Benign explanation

Swiss don’t report, but not for any nefarious reason. Non-reporting policy was adopted many years ago (see next slide) and remains because of policy inertia.

If Switzerland reported country-specific figures for its gold exports we would see that they closely mirror India reported imports from Switzerland.
Switzerland stopped publication of detailed statistics on monthly gold movements in and out of the country after complaints from leading Banks that it was bad for business....

…the “Big Three” [banks] manager of the Zurich gold pool complained that identification of countries of origin and destination was harming business, as anonymity is a vital element in dealing with sellers and purchasers of gold.
Malign explanation

Switzerland is an attractive destination for capital, because of Swiss financial secrecy.

Those wishing to move funds out of India are taking advantage of the Swiss non-reporting to mask illicit flows in the large Swiss-India gold trade.
…Efforts to lift the veil on Swiss banking secrecy have gained momentum…


…While a huge investment into the country is routed from Mauritius, a number of high-value and criminal probes - are connected to black money stashed in Swiss banks…

….Among the major countries to which India dispatched its secret tax and finance related queries during 2012-13 fiscal were United Arab Emirates (38), United Kingdom (26), United States of America (61), British Virgin Island (22), Cyprus (16), Denmark (11) and Singapore (19)…
“[An] MP has asked parliament to revisit this policy. If parliament agrees to a more detailed publication of data [a new policy] could come into effect by 2014.

"Since …1981, gold data can only be published quarterly and without partner countries."
Wrapping up: benign explanations

• Increase in gold imports reflects gold prices and domestic inflation

• Imports from Switzerland because Switzerland produces high quality gold bars

• Discrepancy because Switzerland does not publish export data
Wrapping up: malign explanations

• Growth led to ill-begotten wealth, some of which is stashed domestically in gold

• Hence the decline in financial savings and increase in gold imports

• The gold trade channel offers a convenient way of expatriating wealth to the tax haven, which also happens to be the source of imports. This channel is not only, convenient it is also “legitimate,” at least in the limited sense that payments can be made through the banking system for *prima facie* legal (namely trade) purposes.

• And conveniently, Switzerland does not publish details of gold export data even though it publishes all other export data
When endogenous rents emerge, gold offers 4 advantages

- Domestically, many prefer to store wealth in gold
- Internationally, over invoicing gold allows outflows
- Money can be sent to Switzerland without suspicion
- Swiss do not publish exports of certain types of gold
Conclusions

• Since 1981, the Swiss have not reported country specific data on imports or exports of gold
  – What is the rationale behind this policy in 2013?
• The international community has made great strides in efforts to improve transparency and curtail money laundering and tax evasion.
  – Switzerland has been responsive to these efforts, led by the the US and other rich nations
• It is time to extend transparency to areas of concern to developing nations, struggling to improve governance and reduce corruption.
  – Switzerland could help in this endeavor by publishing details of its gold trade.
• Unraveling the mystery of India’s gold fetish could well be in the hands of the bureaucrats of Berne.
  – The clarion call from developing countries to Switzerland should be:

  “Publish or We Perish”