Abstract

This update on illicit financial flows from developing countries, the fourth in an annual series, finds that US$946.7 billion in illicit outflows left the developing world in 2011, up from US$832.4 billion in 2010. Compared to our 2012 report, this report utilizes significant enhancements to the methodology for estimating trade misinvoicing and analyzes for the first time possible drivers of illicit flows using panel data from 55 developing countries for a ten-year period (2002-2011). The revision to the methodology of estimating trade misinvoicing (which comprises about 80 percent of illicit outflows) reduces China's outsized role in driving illicit financial flows, due mainly to our previous studies not specifically incorporating the use of Hong Kong as a trade entrepôt, without significantly impacting our total illicit financial flows figure. In that respect, this is probably the first study that has explicitly incorporated data from the Hong Kong Census and Statistics Department to correct for trade distortions that arise from Hong Kong's role as a trade entrepôt. While regression analysis using panel data finds scant evidence that macroeconomic conditions drive illicit flows, certain regulatory measures (such as export proceeds surrender requirements) and governance-related factors (such as corruption) seem to do so. There is scope to extend this research on the drivers of illicit flows by incorporating more countries and data series and by extending the time period analyzed to twenty years or longer.