The University of Chicago

Money Politics as a Driver of Trade Misinvoicing: A Comparative Case Study Analysis of Philippines and India

By Muskan Garg

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Faculty Advisor: Paul Staniland

Preceptor: Linnea Turco

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Abstract

Capital flight via trade misinvoicing is very high in emerging Asian economies. This thesis aims to analyze whether money politics is a driver for trade misinvoicing in the region. The methodology is a comparative case study between Philippines and India. Philippines has a higher role of money politics and crony capitalism than India. It also has higher trade misinvoicing as a percentage of its total trade. The interdependence between government and business creates a loose regulatory environment for few firms, allowing them to engage in illicit practices like trade misinvoicing for profit shifting.

1) Introduction

i. Puzzle

The drivers of trade-misinvoicing are traditionally understood to be low economic growth, high custom duties, and low capital account liberalization. Many emerging Asian economies, like Thailand, Malaysia, Philippines, and India have experienced high GDP, economic growth, political stability, and most have fairly liberal capital accounts. Different mechanisms affect trade mis-invoicing in developing and industrialized countries. There is limited research of what are the drivers of trade mis-invoicing in emerging economies.

ii. Research Question

This paper intends to look at the Illicit Financial Flows (IFFs) among developing countries. I focus on the illicit practice of trade misinvoicing, which appears to be largest component of measurable IFFs. Developing Asian economies have had the largest average value gaps in USD by region, at US$388.6 billion. In sum, this thesis aims to address the following research question: What are the drivers of trade mis-invoicing in developing Asian economies?

iii. Normative Significance

Trade misinvoicing is a channel to move illicit financial funds (IFFs), by deliberate falsification of the value or quantity of imports or exports. It may be done for the objective of evasion of customs or other duties, laundering proceeds earned from criminal sources or hiding proceeds from licit trade transactions offshore.

It allows profits from firms to escape the tax net of governments and may even facilitate revenues generated from illegal or illicit sources to leave the country. The practice facilitates corruption, money laundering and capital flight.

It is a huge problem especially for developing countries because it decimates government revenues that may otherwise be used to achieve development objectives. Trade misinvoicing in value terms has surpassed the value of funds that most developing countries receive in official development assistance. Revenues from developing often end up in banks of developed ones. It hampers economic development and increases disparity within society.[1]

As a result, there is less investment within the country and economic growth is hampered. Over time, sustained capital flight through trade misinvoicing, may weaken currency, reduce purchasing power of citizens and lower living standards.

iv. Academic Significance

As per a report by Global Financial Integrity (GFI), there is a value gap of over $800 billion between 134 developing countries and 36 advanced economies in 2018. Developing Asian economies have had the largest average value gaps in USD by region, at US$388.6 billion. This value gap is the value of mismatch between what any two countries report regarding their trade with each other.[2] This signifies the amount of capital flight through trade misinvoicing.

Traditional literature largely attributes evasion of custom duties and economic instability as the driving forces behind trade misinvoicing. This is majorly because trade misinvoicing reduced in developed countries with economic development and reduction in customs duties.

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[1] Global Financial Integrity, “Illicit Financial Flows Are Significant and Persistent Drag on Developing Country Economies «Global Financial Integrity,” Global Financial Integrity, January 28, 2019, https://gfintegrity.org/press-release/2019-iff-update-press-release/.

[2] Global Financial Integrity, “Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018” (Global Financial Integrity, December 2021), https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

Capital flight may happen through export under invoicing and import over invoicing. Export under invoicing is generally seen among developing and underdeveloped countries. The determinants have been trade openness, political stability, and the current deficit of the country.

Import over invoicing is generally seen in developed countries due to high custom duties in some of these. Capital flight due to trade mis invoicing from developing countries gets channeled to developed countries due to financial secrecy.

Misinvoicing has steadily declined in developed countries with economic development, however the same trend is not being seen among developing Asian economies.
The focus is on developing Asian economies because countries, for instance, India and Philippines have seen immense economic growth and stability for many years, however this has not been accompanied by a decline in export under invoicing.

Different mechanisms affect trade mis-invoicing in developing and industrialized countries. There is limited research of what are the drivers of trade mis-invoicing in developing countries.

I believe the relationship between business and politics in emerging Asian economies is very different from the same in developed economies, which contributes to practices like export over-invoicing. Political and economic spheres are closely knitted in many emerging Asian economies. Despite being a developing country, India has one of the largest electoral spending in the world. The sources of this spending are not transparent, which allows large amounts of it, which may be illicit to fund politicians. Many large businesses firms are entrenched family oligarchies. Their continued survival and growth for many years may be a sign that they receive state protection from regulations and competition. I will explore this with a comparative case study of India and Philippines.

v. Argument

I believe the relationship between business and politics in emerging Asian economies is very different from the same in developed economies, which contributes to trade misinvoicing.

In this paper I argue that higher crony capitalism in economies leads to higher trade misinvoicing. Money Politics has had a large and increasing role in emerging Asian economies.

The economic and political spheres in emerging Asian economies are closely knit. The state had a role in privatization, which has been a gradual process over many years. Businesses have depended upon the state for licenses, limited investment resources and lower regulation in order to be competitive. The state with its limited resources may be more responsive to the needs of few firms that have had a historical economic advantage.

In recent years, the campaign spending needs of political actors has been increasing. The dependence of political parties on businesses for their large political finance needs, creates an environment with little policy controls over illicit trade practices. A quid pro quo relationship has developed between businesses and government officials, which contributes to high IFFs due to trade mis-invoicing.

2) Literature Review

i. Defining IFFs

The existing literature has varying definitions of Illicit financial flows (IFFs). Epstein defines IFFs as "capital taken abroad in a hidden form, perhaps because it is illegal, or perhaps because it goes against social norms, or perhaps because it might be vulnerable to economic or political threat."[3] In their book, Blankenburg and Khan interpret IFFs as those that are illegitimate from the social good perspective. [4]

For their purposes, individual organizations use varied but similar definitions. The OECD defines them as "essentially they are generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws."[5] The

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[3] G.A. Epstein, "Edward Elgar Publishing," E-elgar.com, 2020, https://www.e-elgar.com/shop/gbp/capital-flight-and-capital-controls-in-developing-countries-9781843769316.html.

[4] "Draining Development?," Google Books, 2013, https://books.google.co.in/books?hl=en&lr=&id=CCwqWOvf9dQC&oi=fnd&pg=PA21&dq=Blankenburg+and+Khan+IFFs&ots=Vo7nLQ6_03&sig=31MfLRHarczXQBR2ttjQUlDcU94#v=onepage&q=Blankenburg%20and%20Khan%20IFFs&f=false.

[5] "Measuring OECD Responses to Illcit Financial Flows from DEVELOPING COUNTRIES "ILLICIT FINANCIAL FLOWS: WHAT DO THEY MEAN for DEVELOPING COUNTRIES? Illicit Financial Flows from Developing Countries: Measuring OECD Responses" (Paris: OECD, 2013.), https://www.oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf.

International Monetary Fund (IMF) defines IFFs as, "the movement of money across borders that is illegal in its source (e.g. corruption, smuggling), its transfer (e.g. tax evasion), or its use (e.g. terrorist financing)."[6] In a report by Global Financial Integrity (GFI) (2015), IFFs are defined as funds crossing borders that are illegally earned, transferred, and/or utilized. This is the definition given by Baker in his book in 2015 and is the most widely accepted one, as well as the one that this paper would refer to.[7]

Thus, there are varied interpretations about what funds exactly comprise of IFFs. They may be illicit or illegal, and in contravention of national or international laws. There is a broad categorization of funds that may generated in an illicit manner, which may include sources like bribes, criminal earnings, tax evasion, corporate profit shifting. They may be transferred via different methods like trade-based money laundering, shell corporations, cash smuggling. Different definitions may be distinct as some define them as harming social good or contravening law.

The focus of this paper will be illicit financial flows that are channeled through deliberate falsification of the value of traded goods on the invoices that are submitted to customs authorities.

trade misinvoicing. This is the practice of trade misinvoicing. The motivations for illicitly transferring the wealth may be diverse and this paper attempts to assess the larger drivers of the

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[6] "The IMF and the Fight against Illicit and Tax Avoidance Related Financial Flows," IMF, March 8, 2021, https://www.imf.org/en/About/Factsheets/Sheets/2018/10/07/imf-and-the-fight-against-illicit-financial-flows.

[7] Raymond W Baker, *Capitalism's Achilles Heel : Dirty Money and How to Renew the Free-Market System* (Hoboken, N.J.: John Wiley & Sons, 2005).

practice. The individual motivations may be tax evasion, money laundering, or hiding profits in offshore accounts.

Due to the illicit nature of the funds, measurement is difficult to quantify, and estimates are hardly accurate. Extensive research has been done to measure the scale of the problem. The most widely accepted one used for research purposes is the methodology used by GFI to measure IFFs. GFI uses a gap value analysis methodology. Scholars like Nitsch have critiqued it and believe it may be inflated, however there aren't many competing methods.[8]

ii. Traditional Literature on Drivers of IFFs

There is not enough comprehensive research regarding the drivers, consequences, and policy aspects of IFFs. This background paper for the World Bank discusses drivers of IFFs. It defines the actors as multinational corporations, corrupt officials, tax evaders, and criminal entrepreneurs. It discusses their incentives however, the report did not delve deeper into what drives IFFs, more so in some countries than others.[9]

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[8] Volker Nitsch, "Trillion Dollar Estimate: Illicit Financial Flows from Developing Countries," Darmstadt Discussion Papers in Economics (Darmstadt University of Technology, Department of Law and Economics, 2016), https://ideas.repec.org/p/zbw/darddp/227.html.

[9] Peter Reuter, *Illicit Financial Flows and Governance* (World Bank, Washington, DC, 2017), https://doi.org/10.1596/26210.

Current literature on drivers of illicit financial flows, and its consequences and policy aspects, is majorly divided by regional studies. Studies of Latin American countries in 1980s and Asian economies in 1990s by scholars like Cuddington, Muscatelli, Hallett, Pastor, and Ketkar, have contributed that, factors like macroeconomic instability, large budget deficits, low growth rates and the spread between foreign and domestic interest rates are drivers of capital flight. [10][11][12][13]

Other studies have focused on capital flight from Africa. Ajayi and Ndikumana discuss the role of banking secrecy in the global financial system, the monetary policies of countries, and governance and institutional dimensions as being drivers for capital flight.[14] Adekele emphasises economic

[10] John T. Cuddington, "Macroeconomic Determinants of Capital Flight: An Econometric Investigation," European Economic Review 31, no. 1-2 (February 1987): 382–88, https://doi.org/10.1016/0014-2921(87)90055-9.

[11] Myrvin L. Anthony and Andrew J. Hughes Hallett, "How Successfully Do We Measure Capital Flight? The Empirical Evidence from Five Developing Countries," Journal of Development Studies 28, no. 3 (April 1992): 538–56, https://doi.org/10.1080/00220389208422244.

[12] Manuel Pastor, "Capital Flight from Latin America," World Development 18, no. 1 (January 1990): 1–18, https://doi.org/10.1016/0305-750x(90)90099-j.

[13] SUHAS L KETKAR and KUSUM W. KETKAR, "DETERMINANTS of CAPITAL FLIGHT from ARGENTINA, BRAZIL, and MEXICO," Contemporary Economic Policy 7, no. 3 (July 1989): 11–29, https://doi.org/10.1111/j.1465-7287.1989.tb00566.x.

[14] S. Ibi Ajayi and Léonce Ndikumana, *Capital Flight from Africa: Causes, Effects, and Policy Issues*, *Google Books* (OUP Oxford, 2014),

regulation and greater regulation of corporates as policy recommendation.[15] Scholars like Ndikumana, Boyrie, Hermes, Lensink, and Ngeno have contributed that corruption, political freedom, and accountability are drivers of capital flight from Africa. In some countries, they may be driven by presence of large organized crime, due to which funds are laundered. [16][17][18]

Largely, traditional literature attributes evasion of custom duties, economic instability, low economic growth, and capital account controls as the drivers of trade misinvoicing. This is because

https://books.google.co.in/books?hl=en&lr=&id=nikDBQAAQBAJ&oi=fnd&pg=PP1&dq=ajayi+ndikumana+illicit+financial+flows&ots=YigMOoxFi9&sig=xxYP7JNs9aJ91AzW3iLdAVQQ92U#v=onepage&q=ajayi%20ndikumana%20illicit%20financial%20flows&f=false..

[15] Fola Adeleke, "Illicit Financial Flows and Inequality in Africa: How to Reverse the Tide in Zimbabwe," ResearchGate (Taylor & Francis (Routledge), October 8, 2019), https://www.researchgate.net/publication/336359674_Illicit_financial_flows_and_inequality_in_Africa_How_to_reverse_the_tide_in_Zimbabwe.

[16] Maria E. de Boyrie, James A. Nelson, and Simon J. Pak, "Capital Movement through Trade Misinvoicing: The Case of Africa," Journal of Financial Crime 14, no. 4 (October 16, 2007): 474–89, https://doi.org/10.1108/13590790710828181.

[17] Niels Hermes and Robert Lensink, "The Magnitude and Determinants of Capital Flight: The Case for Six Sub-Saharan African Countries," De Economist 140, no. 4 (December 1992): 515–30, https://doi.org/10.1007/bf01725243.

[18] N.K. Ng'eno, "Capital Flight in Kenya," External Debt and Capital Fight in Africa, 2000, 300–321.

trade misinvoicing reduced in developed countries with economic development and reduction in customs duties.

I will narrow down my research by region, to developing Asian economies. Research in the Asian context is limited. Majorly, there is a GFI report regarding trade related IFFs. As per a study by GFI, China, Mexico, Russia, Poland, Malaysia and India are the biggest Exporters of Illicit Capital.

By region, Asia had the largest value gap at USD388.6 billion. The report defines trade mis-invoicing as "importers and exporters deliberately falsifying the stated prices on the invoices for goods they are importing or exporting as a way to illicitly transfer value across international borders, evade tax and/or customs duties, launder the proceeds of criminal activity, circumvent currency controls, and hide profits offshore," and points it out as a major global challenge.

The share of trade mis-invoicing in total outflows by region in Asia is 94.0 percent. Five of the ten countries with the highest illicit outflows are in Asia (China, Malaysia, the Philippines, India, and Indonesia). The focus of the paper would be these trade-related illicit financial flows. India's trade related IFFs are valued at USD 83.5 billion. [19]

Thus, in all, there are several gaps in the literature. The definition of IFFs to be used may be broad, but it may be disaggregated throughout the paper. The methodology for measuring IFFs too, is

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[19] "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018 «Global Financial Integrity," Global Financial Integrity, February 8, 2022, https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

debated but the one used in the report by GFI, referred to above, is the most conventionally used one, even if it has been critiqued for not being entirely accurate.

Misinvoicing has steadily declined in developed countries with economic development, however the same trend is not being seen among developing Asian economies. The drivers of trade-misinvoicing are traditionally understood to be low economic growth, high custom duties and low capital account liberalization. Many emerging Asian economies have experienced high GDP, economic growth, political stability, and have gradually liberalized their capital account, without seeing a decline in trade misinvoicing.

Thus, this paper attempts to explore an alternative explanation for the drivers of illicit financial flows in developing Asian economies, with a comparative case study methodology.

3) Money Politics as a Driver: Role of Crony Capitalism

Oligarchic capitalism refers to an economic system when a large proportion of productive resources and in turn access to business opportunities, is controlled by few private actors. These actors are generally few prosperous families that have close relations with government officials.

Crony capitalism is when politicians and government officials provide the access to wealth and power to their political supporters. Since, in developing Asian countries, many of these political supporters are business firms that are controlled by families, the terms can be used interchangeably.

I develop the argument that higher crony capitalism, allows higher trade misinvoicing. The close relations between government and large businesses in developing countries, facilitated by high

interdependence, creates potential for large businesses to lobby government officials with the objective of protection of their gains and position from market competition.
Government officials and business organizations may have a collusive relationship wherein business firms maximize their wealth by special treatment from government officials.

This may include loose regulations on business operations. Government officials may limit competition and allow a firm to concentrate more of a market by denying permits to competing firms. Essentially, the business would be able to maximize 'economic rent.' Economic rent is like unearned revenue. It is payments made to an owner of factor of production which is above the actual costs of bringing that factor into production. Examples are forming cartels or getting policy advantages that give a certain firm unfair advantage over competition.

Governments have incentive to gain high political finance in democratic countries with developing economies. With a largely poverty-ridden population and a small class of business owners, they can't openly implement market reforms for benefit of businesses. So, to avoid scrutiny for having openly pro-business policies, but to protect their sources of campaign finance and economic growth, they are responsive to the needs of a small set of firms.

This dependence of governments on them, allows firms to maintain close relationship with government officials, which results in lax implementation of regulatory and control practices over their operations. This, in turn, gives those firms more leeway to engage in illicit practices for profit generation and profit shifting, such as trade misinvoicing.

Large firms with trading activity are incentivized to engage in profit-shifting when they do not fear consequences. As rational economic agents, firms are inclined to shift profits via trade misinvoicing, as the costs of doing the same are lowered due to a lack of legal or political consequences. The domestic political environment is conducive to a system wherein few firms that can maintain personal connections with government officials benefit from it.

In the Asian countries that have been researched, there is a heterogenous business environment, wherein business firms fail to lobby government toward implementation of policy for their collective interests. So, historically close relations with a few oligarchical and large private sector firms and interdependence on them in a heterogenous business environment, allows governments to have rigorous policy implementation for the broader business sphere, while at the same time fostering a 'quid-pro quo' relationship with a few of the largest profit generating firms.

The Asia-Pacific region holds a prominent position in global merchandise trade. In 2020, despite pandemic-related supply chain disruptions, the region had a share of 41.5% of global exports and 37.1% of global imports.[20] Asia's large role in world trade, combined with high trade misinvoicing rates makes it susceptible to large amounts of capital flight.

This paper has a focus on emerging Asian economies. Many such Asian economies have transitioned from closed economies with autarkic policies to open ones with policies for trade promotion. These market reforms tend to make these countries attractive destinations for investment. With rapid industrialization and high productivity, they have been able to reduce poverty and have rapid economic growth.

[20] Witada Anukoonwattaka, "Asia-Pacific Trade and Investment Trends 2021/2022," *Unescap.org* (United Nations Economic and Social Commission for Asia and the Pacific, November 2021), https://www.unescap.org/kp/2021/trade-goods-outlook-asia-and-pacific-20212022.

However, there is greater economic disparity in their economies and wealth is concentrated among fewer firms. There is also evidence that these economies lack a competitive market, despite many firms. Most firms tend to be small and medium sized, with few large firms that reap maximum profits. Philippines and India rank similarly on the global competitiveness index at 56 and 58 respectively.[21] This reflects a lack of fairness, and role of innovation in growth of many firms and a need for stronger institutions for fair market competition.

Due to the nature of their economic transformation, the state played a large role in transferring state-controlled monopolized businesses into private hands. It has been several years since this process of privatizations, and some of the conglomerates and family run firms that benefitted from patronage, are now less dependent on it, but are still able to benefit from continued investments and government support.[22]

4) Research Design: Case Study Selection and Methods

Crony capitalism and IFFs seem to be linked. Current research on drivers and dynamics of IFFs have not considered it as a driver of the phenomenon. This is an extension on the argument that corruption is a driver of trade misinvoicing. This is because it studies the relationship between the political variable of government policy and economic variable of market structure, and the effect that has on trade misinvoicing.

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[21] Klaus Schwab, "The Global Competitiveness Report 2018," *Weforum.org* (Geneva: World Economic Forum, 2018), https://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

[22] Michele Ford, Michael Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy? Privatisation and Business Elites in Myanmar," *Journal of Contemporary Asia* 46, no. 1 (August 14, 2015): 18–41, https://doi.org/10.1080/00472336.2015.1072731.

This research paper intends to understand this relationship in the context of developing Asian economies. Developing Asian economies, as classified by the think tank, Global Financial Integrity (GFI) that has measured trade-related illicit financial flows in developing countries over a time period of 2009 to 2018. Developing Asian economies have the largest value gap in reported and expected value of traded goods at US$ 388.6 billion.[23] This number represents the value that escapes government taxation and may be used for development objectives.

The methodology will be a comparative case study approach to establish whether electoral spending and IFFs are linked. A large-scale quantitative analysis was not possible due to a lack of data.

First, an extensive literature review of trade misinvoicing data across developing Asian economies was conducted. From the Asian economies studied by GFI, Philippines emerged as the country with the highest rates of trade misinvoicing as a percentage of its total trade at an average of 26.1 per cent over the time period of 2009-18.

Over the same time period, India had a much lower rate of trade misinvoicing as a percentage of its total trade at an average of 19.8 per cent, even though its value gap was much higher than Philippines in value terms, calculated US dollars by GFI.

The case studies were chosen because based on extensive research, I only found one index that measured cronyism, which includes only 22 countries. Based on a cross reference of the crony capitalism index and GFI's trade misinvoicing index, I selected Philippines and India for maximum

[23] Global Financial Integrity, "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018" (Global Financial Integrity, December 2021), https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

variation and complete data availability in the dependent variable. Case studies were selected based on trade misinvoicing because there was limited variation among developing Asian economies as measured by the crony capitalism index due to limitations of the index.

Philippines and India have had similar rates of economic growth, taxation systems, political structures, and trajectories of economic history. In contrast to traditional theories on drivers of trade misinvoicing, the value gap is explained by the crony capitalism index. The crony capitalism index ranks Philippines higher than India on the crony capitalism index and its trade misinvoicing rates are higher as well.

i. Dependent Variable: Measuring IFFs

Due to their illicit nature, IFFs are hard to measure and there have been several attempts and competing methods to do so.[24] Some of the popular methodologies include balance of payments methodology, use of international portfolio and deposit data, the walker model. These models and other that build on these use a broad definition of illicit financial flows. They measure capital flows that may be unaccounted for, undeclared to tax authorities or laundered. Since the focus of this paper is on trade-related illicit financial flows, these methodologies prove too broad.

Trade-related IFFs measured by trade gap analyses, trade price deviation analyses and transfer price analyses. Trade gap analyses or mirror trade analyses measure the same based on any differences between the declared price and quantity of goods at the place of export and their destination.

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[24] Matthew Collin, "Illicit Financial Flows: Concepts, Measurement, and Evidence," *The World Bank Research Observer* 35, no. 1 (2019), https://doi.org/10.1093/wbro/lkz007.

Trade price deviation analyses attempt to measure illegal capital flight based on deviation in prices of traded goods from a reasonable range. However, price deviation may simply be a result of errors or differences in price owing to quality of a product. Transfer price analyses combine the two methods and intends to measure IFFs channeled through trade-based money laundering and transfer pricing.

Trade misinvoicing is the channel for the largest value of capital flight in terms of trade-related illicit financial flows, so for the purposes of this study, the measurements of trade related IFFs done by GFI through its trade gap analysis method is used. The methodology used by GFI accounts for a 6 percent deviation owing to error or shipping costs. However, this is standard in the methodology regardless of shipping distance so, an oft-noted limitation is deviation in declared price of goods at exporting and import country due to higher shipping costs or error.

To measure trade misinvoicing, GFI's trade gap analysis methodology presents precise estimations of the scale of the problem. The method is prone to certain limitations, but it is comprehensive as it examines international trade data from the United Nations Comtrade database to measure discrepancies in reported trade data.[25]

ii. Independent Variable: Measuring Crony Capitalism

[25] Global Financial Integrity, "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018" (Global Financial Integrity, December 2021), https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

The 'crony capitalism' index first published by the Economist in 2014 and updated once since then[26], has been the only attempt, as per my research to measure the extent of cronyism in different states. The index included twenty-three countries comprising of five largest developed economies, ten largest developing ones, and eight smaller ones where cronyism was hypothesized to be a big problem. In later versions of the index after the original 2014 one, Hong Kong is treated as part of China and only twenty-two countries remain on the index. The methodology used was to calculate total wealth of world's billionaires active in the industries, which were shortlisted as rent-heavy ones. This was compared to the world GDP.[27]

The index was critiqued since it does have several limitations, most of which are recognized alongside the original published index. It is biased against countries that have a larger proportion of industries classified as rent-heavy and cronyism may occur in industries that the index does not regard as rent-heavy. It is also biased against larger economies since smaller ones may have level of cronyism but not as much wealth for creation of billionaires. It disregards wealth that may be dispersed and not entirely with an individual, but with a corporate, conglomerate or state. While not accurate, the index provides a useful estimate of wealth concentration in opaque industries, which are most prone to government and business collusion.

Between 2007 to 2014, India's cronyism rank fell from six to nine, due to improvement in increasing competitiveness. There was wealth creation in sectors like technology, pharmaceuticals

[26] "Our Crony-Capitalism Index Offers a Window into Russia's Billionaire Wealth," The Economist, March 2022, https://www.economist.com/finance-and-economics/2022/03/12/our-crony-capitalism-index-offers-a-window-into-russias-billionaire-wealth.
[27] "Planet Plutocrat," The Economist, March 15, 2014, https://www.economist.com/international/2014/03/15/planet-plutocrat.

and consumer goods. This was matches with a decline in trade misinvoicing as percentage of its total trade from its peak in 2009 at 21.1 percent to its lowest in 2014 at 18.4 percent.

However, in the period from 2016 to 2021, India's share of billionaire wealth concentrated in crony industries rose from 29% to 43% in crony industries. Starting from the low in 2014, trade misinvoicing rates started increasing again too reaching 19.6 percent of total trade in 2018, the latest year for which data is available.

Philippines got a higher rank from 2007 to 2014 and an even higher one in 2021, due to a worse score over the time period. Billionaire wealth in crony sectors accounted for about four-fifths of GDP, however it has decreased slightly between 2014 and 2021. Its trade misinvoicing rates were at their peak of 28.6 percent of total trade in 2009 and remained consistent for many years until their lowest at 22.5 percent in 2016. They have been increasing again since 2016.

4) Comparative Case Study Analysis

Drivers of trade misinvoicing are traditionally understood to be low economic growth, high custom duties, and a closed capital account. To analyze the validity of these drivers for India and Philippines, these factors are studied for the two case studies. Then, the evolution of the political and economic systems of the two countries are analyzed. This helps build an understanding of the current government business relations in the two countries and how they differ from each other, to understand the extent of crony capitalism.

i. Case Study #1: Philippines

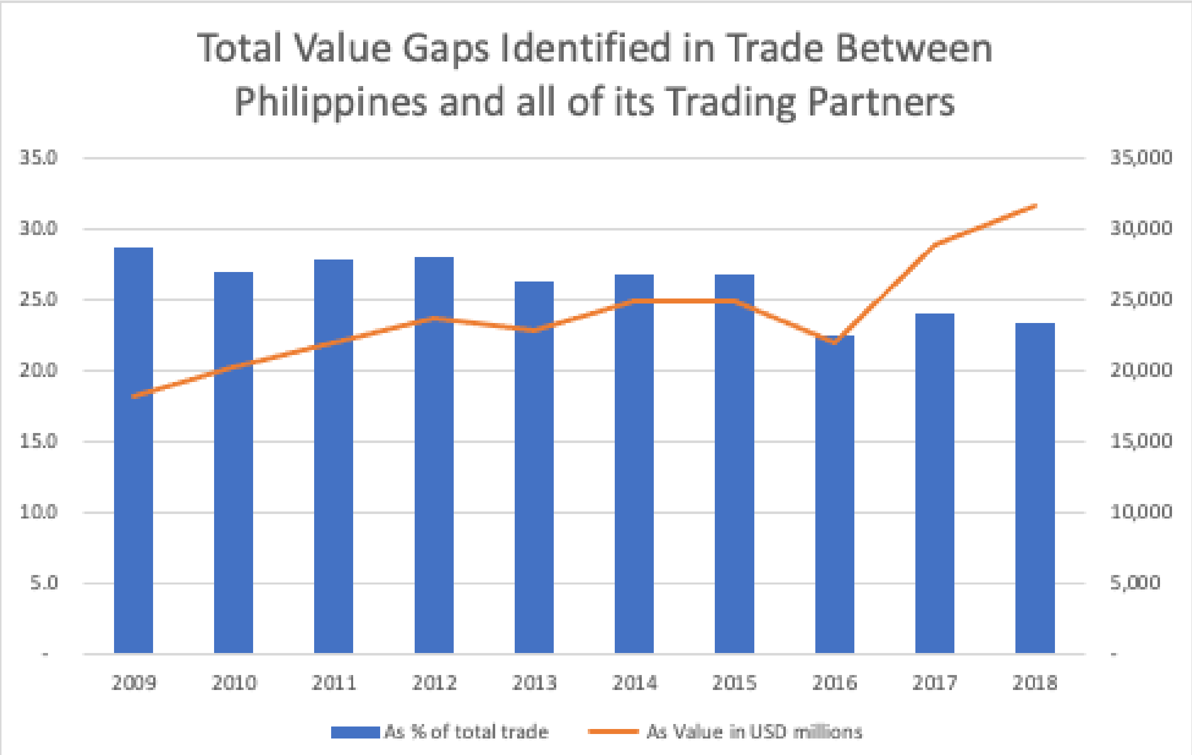

Figure 1: Graph depicting total value gaps identifies between Philippines and all of its Trading Partners

Data source: Global Financial Integrity, "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018" (Global Financial Integrity, December 2021), https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

Philippines' Economy and Analysis of Traditional Drivers of Misinvoicing

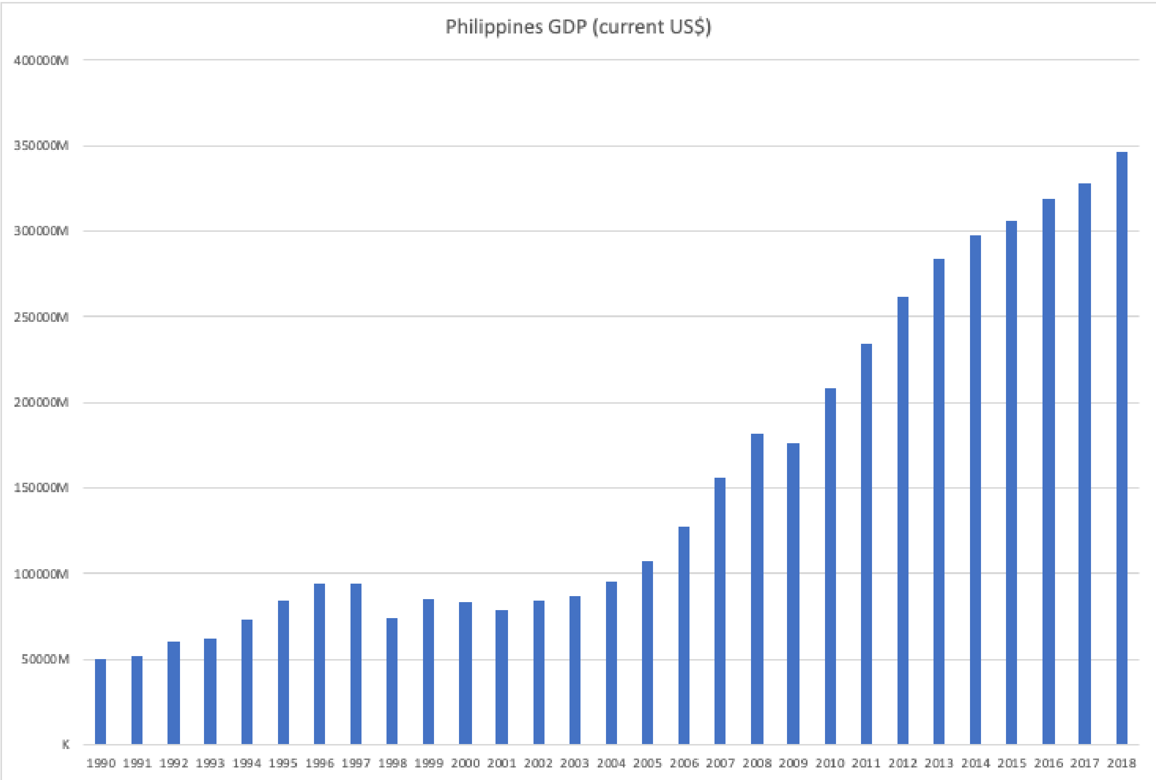

Figure 2: Graph depicting GDP of Philippines

Data Source: World Bank, "GDP (Current US$) - Philippines | Data," data.worldbank.org, 2021, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2021&locations=PH&start=1975.

The country has had a mixed history of economic growth and sluggishness. Up to the 1970s, Philippines was a much richer economy than most of its neighbouring countries. In the two decades following that, economic growth slowed and the country faced several politico-economic challenges to its growth. However, since the early 2000s, it has had significant economic growth, with higher output in most sectors.

From a period of high economic growth in 1970s, the economy shrank by the 1980s and export revenues reduced. This was largely attributed to political corruption and instability. It also had high tariffs, low manufacturing, and largely exported raw materials and natural resources. It gradually started opening its relatively closed off economy because of a recession in the mid-1980s with the Aquino administration implementing an import liberalization program.[28] However, its growth

[28] Ramon L. Clarete, "The Recent Philippine Trade Liberalization: Can the Multilateral Trade System Sustain It?," *Developing Countries and the Global Trading System*, 1989, 379–96, https://doi.org/10.1007/978-1-349-20417-5_19.

remained sluggish till the early 2000s, while other countries in the region saw rapid industrialization and economic growth during this period.

The structure of its economy has changed from a largely agrarian one to an industrial and service-oriented economy. In the 1980s, agriculture contributed to about 25% of the country's GDP, which reduced to 9.3% in 2021. Its industrial sector contributed 45% of its GDP in 1980 but this has reduced over the years. It has been overtaken by the service sector as the largest contributor to GDP in the 2000s, which contributes more than 60 percent to GDP as of 2021.

Even though the economy has seen considerable and consistent growth since the early 2000s, the economic growth has not been accompanied by a reduction in trade misinvoicing trends.

Custom Rates:

Figure 3: Graph depicting Customs and Other Import Duties (% of tax revenue)

Data Source: World Bank, "Customs and Other Import Duties (% of Tax Revenue) - Philippines | Data," data.worldbank.org, 2021, https://data.worldbank.org/indicator/GC.TAX.IMPT.ZS?locations=PH.

The custom and other import duties have reduced in the country over the years. Between 2009 and 2018, they were lowest at 19.8 percent in 2013 and highest at 23.7 percent in 2010. According to traditional understanding of drivers of misinvoicing, trade misinvoicing should have also been lowest in 2013 and highest in 2010.

However, trade misinvoicing data shows that during the same period, trade misinvoicing was lowest in 2016 and highest in 2009. This indicates that rates of custom and other import duties are not directly correlated with trade misinvoicing.

Customs and other import duties increased from 20.4 percent to 23.1 percent from 2017 to 2018, however the trade misinvoicing rates reduced during the same period.

Capital Account Openness:

According to traditional understanding of drivers of trade misinvoicing, higher capital account openness should be correlated with lower trade misinvoicing.

Philippines has increasingly liberalized its capital account in several waves since 2007. However, it first started the process in late 1980s, when it started reducing restrictions of private sector capital outflows, to reduce inflows and increase demand for foreign exchange.[29]

Over time, it has eased restrictions on foreign exchange sale, and enhanced its flows by simplifying and reducing regulations.[30] The liberalization of its capital account has still been accompanied by

[29] https://www.adb.org/sites/default/files/publication/156730/adbi-dp91.pdf
[30] https://www.bsp.gov.ph/Media_And_Research/WPS/WPS201601.pdf

prudential regulations and market surveillance by the Central Bank of Philippines. It is still in the process of easing restrictions of non-trade transactions.

Philippines has much higher capital account openness than India, yet it has higher capital flight via trade misinvoicing. [31]

Business-Government Relations

State Interests:

In 1972, when Marcos came into power, he centralized a weak and fragmented state. As a result, the state was able to dominate business interests. The country experienced economic growth during the period but it was largely debt-driven. Due to US military interests, Marcos was able to consistently secure foreign aid from the US and from financial institutions like the IMF. So the state had no interest to incentivize businesses to invest in improving competitiveness.

In 1986, Marcos was ousted, and subsequent presidents gradually made real change to revive economic growth and make the economy more competitive through economic liberalization reforms. These included decentralization, privatization, creation of an independent central bank, stronger checks on public procurement and oversight over government-owned corporations. However, the country has suffered from episodic corruption scandals related to business advantages given to allies or supporters of the politicians in power.

[31] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Capital-Account-Openness-in-Low-income-Developing-Countries-Evidence-from-a-New-Database-44497

Although, there have been economic liberalisation reforms over the years, political institutions have not liberalised. Economic and political spheres are still closely knitted. Political power in the country, at both, local and national levels, is concentrated along family lines. This allows business firms that are closely related to political families, to undermine governance and regulations by them. So, the country has seen economic growth and wealth creation, but with large disparities within society.

Elections in the country have historically had a huge role for money, violence and small armies. Violence has played a larger role in local-level elections, than national ones. But money plays a large role in national-level elections. A study of senatorial elections shows the role of campaign expenditure to gain votes. In the 2013 election, election spending of all but two elected senators surpassed their net worth. Overall, the campaign expenditure increased from over 40 million in 2010 to 57 million in 2013. It reduced to 48 million in 2016.[32] This is similar to trade misinvoicing patterns, which increased from 2010 to 2013 and the, reduced by 2016.

Most recently, the Duterte administration who came to power in 2016, was involved in a corruption scandal, which showcased the continued role that cronyism and money politics play in the country. An online gambling company which was taken over by a supporter of Duterte's campaign was allowed to renew its franchise, which was earlier banned, and the company was then able to make huge profits.[33]

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[32] Joseph Anthony L. Reyes, Brando Gabriel C. Arce, and Nicolle Bien N. Madrid, "Do Money, Power, Family and Connections Really Matter in Politics? Analysing Factors of Success in the 2010, 2013 and 2016 Philippine Senatorial Elections," *The Copenhagen Journal of Asian Studies* 36, no. 2 (2018): 28–51, https://doi.org/10.22439/cjas.v36i2.5648.
[33] Ronald U. Mendoza, Oscar Bulaong Jr., and Gabrielle Ann Mendoza, "Cronyism, Oligarchy and Governance in the Philippines: 1970s vs 2020s," *SSRN Electronic Journal*, 2022, https://doi.org/10.2139/ssrn.4032259.

Over time, there is a pattern of a strong self-interested state in the 1970s when businesses focused on rent maximizing rather than growth due to dependence on the political actors in power. The democratization process started in the late 1980s, but political stability was fragile as seen by several coup attempts and business groups had been weakened too. Due to fragility of political and economic stability, political and business actors have been motivated to line their pockets rather than invest in long term economic growth.

So, state actors were open to exchanging money for votes initially and lax regulations for bribes later.

Business Interests, Family Oligarchies and Crony Capitalism:

The nature of business firms in Philippines has been such that they are organized along familial and primordial lines. There are diverse firms which are controlled by extended family groups. These set of diversified firms tend to include a bank, which all other family firms may use to get access to credit, reducing dependence on changing political actors. Since loyalty is based on family ties, business associations among actors in a certain industry are redundant in lobbying for collective interests.[34]

In the Philippines, business interests and state institutions have been closely knit for many years. In the 1960s, Philippines had a weak state. A class of land-owning elite had concentrated economic power and they indirectly controlled bureaucracy. There were entrenched family oligarchies from the pre-independence era that had economic advantage and continued to indirectly exercised

[34] David C Kang, *Crony Capitalism : Corruption and Development in South Korea and the Philippines* (Cambridge ; New York: Cambridge University Press, 2002).

considerable control over political actors.[35] Over time, these oligarchies remained powerful as they expanded their commercial activities from agriculture to manufacturing and finance. In these new sectors, they became more dependent on state support to limit competition in a protected economy. The state could be influenced by interests of the oligarchy.

In 1972, Marcos came to power on the promise of dismantling these oligarchies and promoting export-led industrialization. However, he simply targeted his competitors and eventually, gave rise to a different class of cronies. He didn't change the structure of familial businesses and politics, but simply created a new class of elites. Some of the older oligarchies like Benedicto and Cojuanco were able to have continued protection of their business interests, while there were some other newer actors like Disini. He was able to monopolize the tobacco market with policy support from Marcos, despite not coming from an oligarchical background but was still able to collude with him for wealth gain due to an old personal connection. By the early 1990s, economic reforms and privatization were emphasized. However, the privatization process was greatly dependent upon political connections.

Due to several factors including state's interests to maximize power, and access to external capital, investment was not promoted and businesses greatly depended upon loose regulatory control of the state to maximize their profits. So, many older oligarchical firms have not made investments into becoming more competitive and continue to stay dependent on the state. They only invested resources to compete for government favour, in the background of frequent power shifts and instability. So, these firms had low economic performance over time contributing to this trend of cronyism for profit shifting continuing over the years. Therefore, trade misinvoicing has continued to stay high in the country.

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[35] Hutchcroft, P. D. (1991). Oligarchs and Cronies in the Philippine State the Politics of Patrimonial Plunder. World Politics, 43(03), 414–450. doi:10.2307/2010401

Even in recent years, crony capitalism continues to be a problem for the country. Philippines' largest export is petroleum and the company dominating the area has been Phoenix Petroleum. Ownership of the parent company of which is with Dennis Uy. He has been known to be a close ally, and campaign donator to President Roberto Duterte. The company saw rapid growth, diversification, and acquisition of several important assets during the presidency of Duterte. [36]

The corporate sector continues to be dominated by a few groups. Approximately 60 to 90 percent of publicly traded companies are owned by the top twenty stakeholders.[37] The political actors like Marcos in 1970 and Duterte in this past decade, protect few firms while, still having policies in place to prevent more businesses to grow and compete with entrenched firms.

ii. Case Study of India

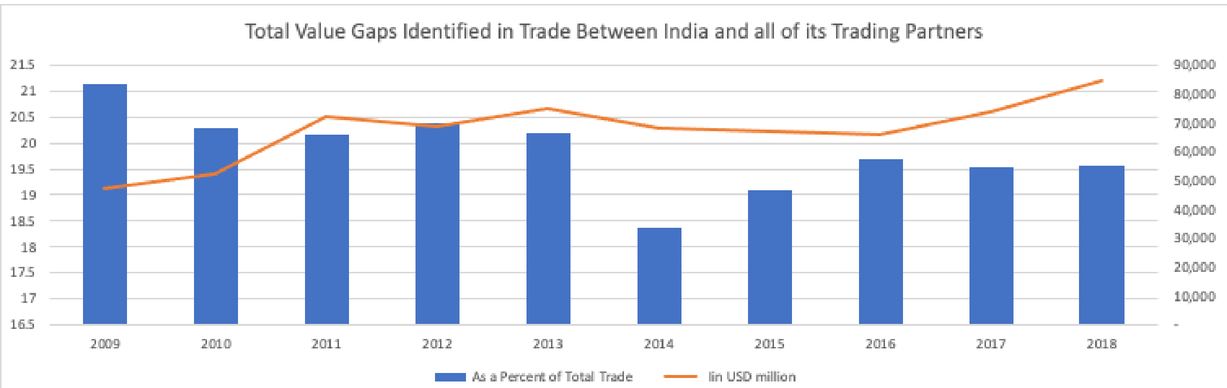

Figure 4: Graph depicting total value gaps in trade between India and all its trading partners

Data Source: Global Financial Integrity, "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018" (Global Financial Integrity, December 2021), https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/.

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[36] "Duterte's Tycoon Donor Dennis Uy Faces New Political Landscape". 2022. *Nikkei Asia*. https://asia.nikkei.com/Business/Business-Spotlight/Duterte-s-tycoon-donor-Dennis-Uy-faces-new-political-landscape.

[37] Cheng Hoon Lim, "Managing Corporate Distress in the Philippines: Some Policy Recommendations," papers.ssrn.com (Rochester, NY, September 1, 1998), https://ssrn.com/abstract=882700.

India's Economy and Analysis of Traditional Drivers

India has been one of the fastest-growing economies since 2000. It is the fifth-largest economy in the world in nominal GDP terms, overtaking UK and France in 2019.[38] When the country got its independence from colonial rule, it had abject poverty, illiteracy and was not industrialized. In

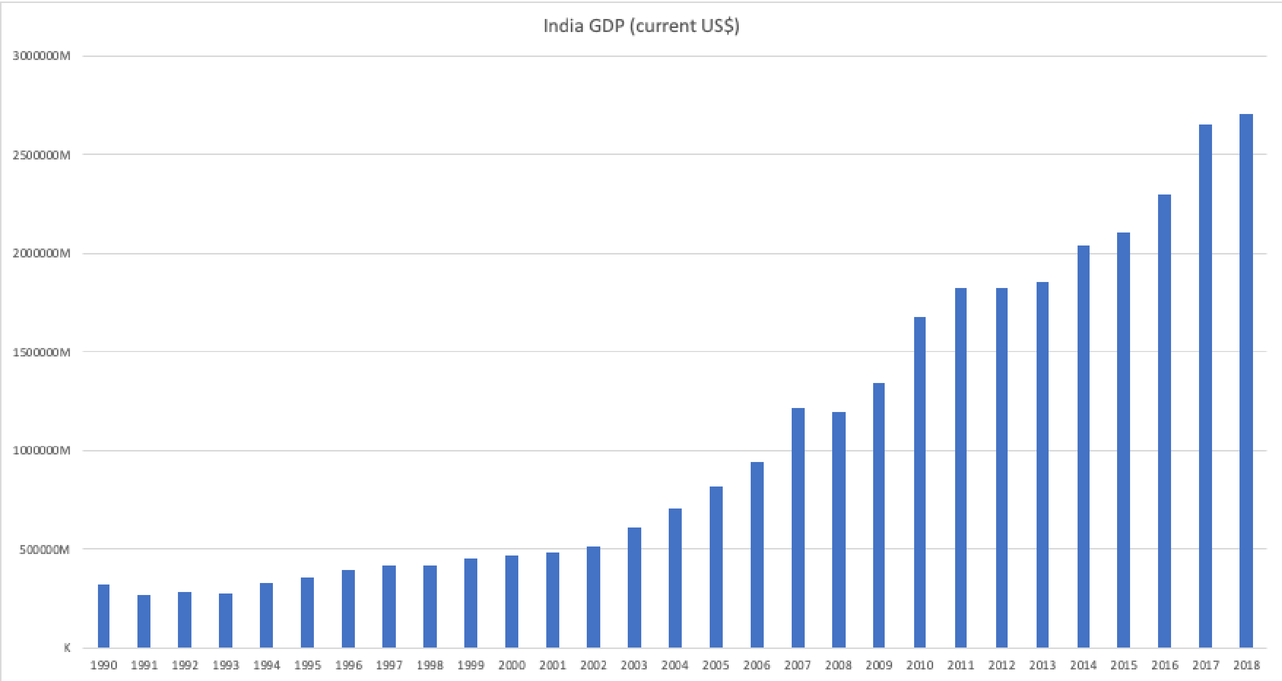

Figure 5: Graph depicting India's GDP Data Source: World Bank, "GDP (Current US$) - India | Data," Worldbank.org, 2021, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IN.

initial years after independence, it maintained a centrally planned economy. It planned to develop

[38] "GDP Ranked By Country 2022". 2022. *Worldpopulationreview.Com*.

https://worldpopulationreview.com/countries/countries-by-gdp

India's heavy industry sector, but the emphasis was deemed unsustainable in a previously agrarian society when it faced food shortages in the 1960s. 1991 marked as the year for India when it broke away from its earlier autarkic policies to economic liberalization, globalization and privatization.[39]

In response to a foreign exchange crisis, the government undertook major economic reforms. The country slashed tax rates, removed controls on entry of new firms and welcomed foreign trade and investment. As a result, India's share in world trade grew from a mere 0.4% in 1990 to 1.5% in 2006 and it built up its foreign exchange reserves. The country grew at an average rate of 6.3% annually in the 1990s and early 2000s and lifted large proportions of populations living in extreme poverty. [40]

India's growth has been resilient, and its economy stable for approximately five decades. Its agriculture and industry sectors have seen sustainable growth and the economy has transitioned toward the services sector. India's service sector is the largest and fastest growing sector. The service sector has attracted the largest share foreign investment, contributes over 50% in gross value added to GDP, contributes significantly to exports[41] and employs 32% of population in 2019.[42] [43] Thus, it has had stable economic growth and increasing GDP since the early 1990s, which has not been accompanied by a reduction in capital flight via trade misinvoicing from the country.

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[39] Gurcharan Das, "The India Model," *Foreign Affairs* 85, no. 4 (2006): 2, https://doi.org/10.2307/20032037.
[40] Bipan Chandra, Aditya Mukherjee, and Mridula Mukherjee, *India after Independence, 1947-2000* (New Delhi: Penguin Books, 2002).
[41] India Brand Equity Foundation, "Services Sector in India: Overview, Market Size, Growth, Companies...IBEF," www.ibef.org, 2022, https://www.ibef.org/industry/services#:~:text=India.
[42] World Bank, "Employment in Services (% of Total Employment) (Modeled ILO Estimate) - India | Data," data.worldbank.org, 2021, https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=IN.
[43] Poonam Gupta and Florian Blum, "India's Remarkably Robust and Resilient Growth Story," blogs.worldbank.org, April 2018, https://blogs.worldbank.org/endpovertyinsouthasia/india-s-remarkably-robust-and-resilient-growth-story#:~:text=First%2C%20India.

Custom Rates:

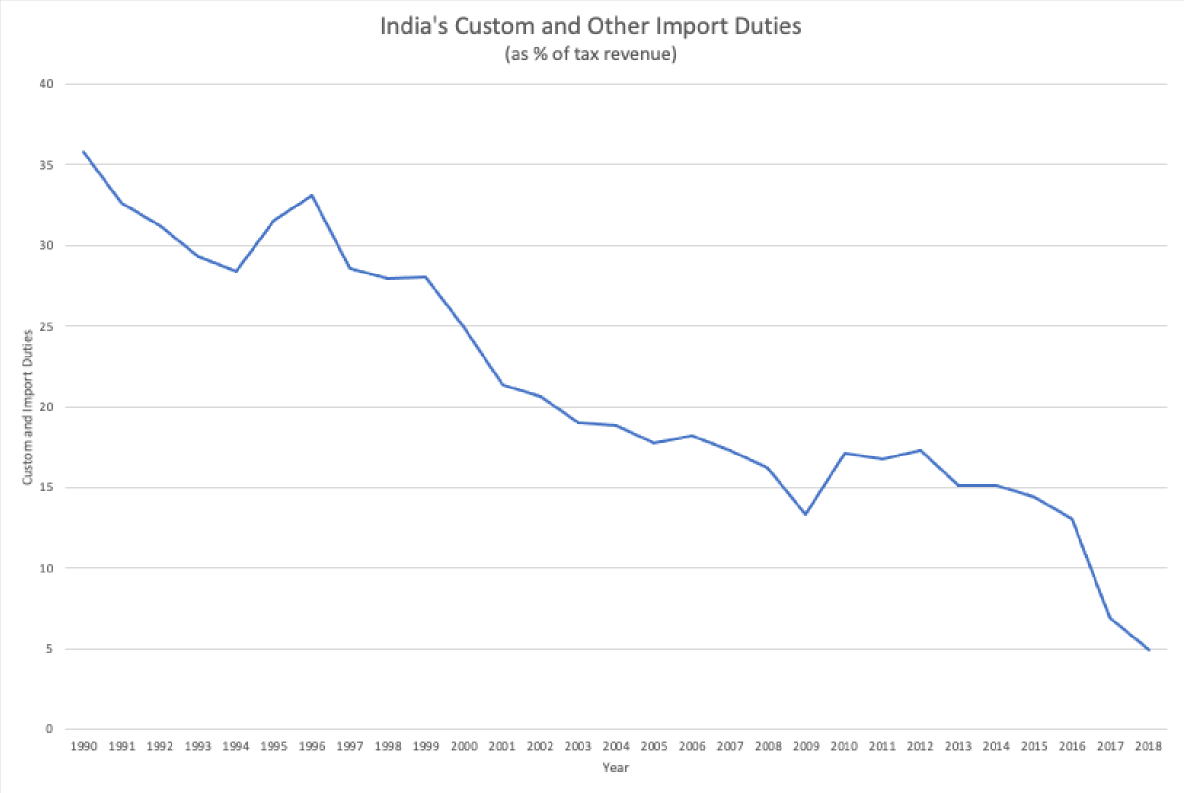

Figure 6: Graph Depicting India's Custom duties Data Source:World Bank, "India Customs and Other Import Duties in % of Tax Revenue 1990 - 2018 | WITS Data," wits.worldbank.org, https://wits.worldbank.org/CountryProfile/en/Country/IND/StartYear/1990/EndYear/2018/Indicator/GC-TAX-IMPT-ZS.

India's tariff rates have been declining since 1991, as well. In 1990, its customs and other import duties collection rate as a percentage of total tax revenue, stood at 35.8%. It declined substantially to 21% in 2001 and stood at 4.95% in 2018. India still has some of the highest average custom tariff rates among major economies, but it is at a comparable level to many emerging economies like Turkey, Brazil and Egypt. The decline in custom duties over the years has not been accompanied by any corresponding decline in trade misinvoicing.

Until the early 1990s, India had a closed capital account, which could be understood as a driver for trade misinvoicing. As a result of a balance of payment crisis in 1991, starting mid-1990s, policy measures were taken to gradually open the capital account. India still has a complex regulatory framework of capital controls in place and has restrictions on capital account transactions.[44] But over time, barring a few factors, Foreign Direct Investment (FDI) has become universally allowed. There are restrictions on capital outflows for residents, but FDI and portfolio investment has been convertible for investors.[45][46] While the capital account is not open, it has been increasingly liberal since 1990s with no effect on trade mis-invoicing. Therefore, I believe there are other neglected drivers of trade misinvoicing in emerging Asian economies.

Government Business Relations

State Interests:

Electoral spending is extremely high in India and despite being a developing country, it has one of the most expensive election in the world. Electoral spending, in the context of this paper, refers to funds for poll logistics, to promote candidates, media campaigns and includes funds used for voter mobilization with short term incentives like cash or liquor.[47] According to a report by the Centre of Media Studies, USD 8 billion was spent on the 2019 Indian general election.

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[44] Nidhi Aggarwal, Sanchit Arora, and Rajeswari Sengupta, "How Open Is India's Capital Account?," Ideas For India, July 2021, https://www.ideasforindia.in/topics/governance/how-open-is-indias-capital-account.html.

[45] Narendra Jadhav, "Capital Account Liberalisation: The Indian Experience," citeseerx.ist.psu.edu, November 2003, https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.367.9924&rep=rep1&type=pdf.

[46] https://www.adb.org/sites/default/files/publication/30234/management-capital-flows-india.pdf

[47] Oliver Heath and Louise Tillin, "Institutional Performance and Vote Buying in India," *Studies in Comparative International Development* 53, no. 1 (November 7, 2017): 90–110, https://doi.org/10.1007/s12116-017-9254-x

Traditionally, political parties in India financed themselves through private donations and party membership fees. Until 1959, Indian businesses were heavily dependent on the government, which was the Congress Party to protect their interests.

By the 1960s, concerns about corporate donations to political parties grew, and they were banned in 1968. However, the law to ban them was not accompanied by state funding to augment the funding for political parties. This ban was eased by 1985, when corporate donations to political parties were allowed under certain conditions. Moreover, ECI limits on election spending were kept artificially low. As such, despite regulations, the role of illicit funds for financing elections continued and increased over the years.

By the 1980s, party financing needs, which could earlier be fulfilled by voluntary contributions from candidates, supporters and some businesses was no longer possible. Larger parts of the population were disillusioned by continued poverty even after three decades of independence from colonial rule and memories of the role of the Congress party in the nationalist movement were fading. The budgets of political parties were now increasingly dependent on profits from businesses but there was a continued lack of rapport between political leadership and business. In order to 'earn' these, parties had to make promises to businesses for protection of their interests, which meant lax regulations over profit-shifting for such firms.

This helps government officials not lose votes and legitimacy in a largely poor society with a small business community. While at the same time, it helps them not lose their funding and continuing trend of economic growth for the country by allowing certain firms to increase exports and have business-friendly regulation for them.

So, parties become dependent on few firms with historical ties with them, which are also the largest export firms. Regulation and policy implementation continues for broader public, while there is protection of interests of the largest firms, due to a ‘quid-pro-quo’ relationship with them.
India moved from state-owned to privatization and had to give it to those with historical access to capital, making them more entrenched. They were later given better access to capital for investment and were able to invest in innovation, diversification, and growth.

There were few large business firms when India gained its independence from colonial rule. Since there wasn’t much competition and the government had very limited resources, it invested in already established large business houses. India’s economic growth has been driven largely few firms that have been dominant and entrenched.

In recent years, political leadership has had a large impact on trade misinvoicing rates and the role of money politics. Between 2009 to 2014, trade misinvoicing rates had been reducing and many new firms came up through investments in research and innovation in sectors like technology, pharmaceutical. However, in 2014, the Bhartiya Janta Party led by Narendra Modi came into power and election expenditure and opacity in political finance increased. In the following years, India’s wealth in sectors that traditionally need state support, increased manifold. Trade misinvoicing rates have been on the rise since their lowest in 2014.

Business Interests, Family Oligarchies and Crony Capitalism:

The relations of business and government in India, has a large impact on the way lobbying for business interests is conducted today. While lobbying is effective in India, it tends to have a marginal role in India relative to countries like the United States. Businesses tend to discredit competitors, and financial contributions for lobbying are intended to achieve individual oriented benefits like getting licences.

Businesses have failed to influence large economic issues like tax policy and could not prevent symbolic redistributive issues like caste-based reservations for public sector jobs. As a result, many have chosen to focus their efforts on influencing certain ministers or secretaries for individual benefits.

The business community is heterogenous and not organized. This is because of the way businesses have evolved in India. Since the 20th century, businessmen and trader communities existed in India. These communities, were however, based on caste identity. Bureaucratized voluntary modern business organizations originated from these familial and caste-based communities. It is not as united to lobby for its collective interests as business communities in the West are, due to the familial nature of heterogenous businesses. Only in recent years have businesses gained legitimacy as organizations representing economic growth and they have been traditionally viewed as exploitative in a socialist political setting. [48]

The strongest interests in India tend to remain those that reflect primordial loyalties, not those that represent the demands of smaller, more class-oriented groups like modern business associations. A small number of large corporate houses with historical ties to politics and government officials, and those with leadership positions in groups like FICCI, can lobby for their interests.

Political parties influence policy to protect their interests, while the much larger community of unorganized and small businesses are unable to have the same impact in terms of their business interests on policy.

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[48] Stanley A Kochanek, *Business and Politics in India.* (S.L.: Univ Of California Press, 2021).

The larger profit-generating potential of these firms that had first mover advantage and historical relationship with politics, makes them most profitable and influential. The concentrations of profits and influence among these few firms, allows governments to have rigorous policy implementation for the broader business sphere, while at the same time fostering a 'quid-pro quo' relationship with few of the largest profit generating firms.

There is considerable anecdotal evidence that some large firms had prior knowledge about government decision to implement demonetization, which allowed them to launder illicit cash before it would be worthless because of the policy.[49] The policy hurt small and medium enterprises and left several daily wage workers unemployed. [50]

Some of the top export firms from India are Reliance Industries, Tata Steel and Tata Motors under Tata Group, Sun Pharma, and Bajaj International among others.

Reliance Industries, the largest exporting firm, is not a pre-colonial family oligarchy like many other big export firms like Bajaj or Tata, but is still a family controlled business. Its expansion was shaped by rivalry with existing firms, but the context was that of rivalry over preconditions of competition. The taxes, excise duties and import duties it was subject to, was key to determining the firm's profitability. There is evidence that the firm received exceptionally favourable decisions from state agencies that were able to support the company's success. It paid almost no taxes for the

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[49] "Demonetisation a Scheme to Convert Black Money into White? Asks Chidambaram," *Business Standard India*, August 30, 2017, https://www.business-standard.com/article/politics/demonetisation-a-scheme-to-convert-black-money-into-white-asks-chidambaram-117083001218_1.html.

[50] Priyanka Tripathi, "Impact Factor: 5," *International Journal of Applied Research* 2, no. 12 (2018): 57–59, https://www.allresearchjournal.com/archives/2018/vol4issue12/PartA/5-9-42-501.pdf.

first two decades and firms that could have competed with it were denied certain licences for operation.[51]

Essentially, due to individual nature of lobbying, parties can implement policy for larger public while protecting of interests of the largest firms, due to a 'quid-pro-quo' relationship with them.

6) Findings & Limitations

i. Cross-Case Comparison

Commonalities:

Philippines and India both are democracy that still have high trade misinvoicing rates as a percentage of their total trade. Trade misinvoicing is higher in Philippines than India. Several aspects of the economic histories of both the countries are similar. In the post-colonial era, they started out as protectionist economies and later implemented free market economic reforms.

The business communities in both countries have been organized along family and primordial loyalties. Philippines and India have both seen a huge role for money in elections, and campaign finance has been increasing. There is a dependence of the state on businesses for campaign finance due to role of bribery in elections.

The political and economic spheres have been closely knit. Economic growth has largely been driven by few firms in both countries and large disparities exist. This proves the nature of market

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[51] Surajit Mazumdar, "From 'Outsider' to Insider: The Case of Reliance," *South Asia Multidisciplinary Academic Journal*, no. 15 (January 16, 2017), https://doi.org/10.4000/samaj.4278.

structure, in which few oligarchical firms have been able to use political connections to engage in illicit trade-related practices.

Differences:

In India, trade misinvoicing as a percentage of total trade has been reducing over time and it is also lower than the same in Philippines.

While money politics has played a role in both countries' economic and political spheres, it has played a larger and more consistent role in Philippines, and it has slowed the country's economic growth. This is because of the differences in the way political institutions and business organizations evolved in the Philippines and India.

In India, collusive relationship between business organizations and political institutions was on an equal footing. This is because business organizations were powerful and the state was stable for a long time after independence after implementing free market reforms. In the early years after independence, India lacked sources of external capital and didn't have reliable economic cooperation with superpowers. So, even when state-owned firms were privatized and the process wasn't entirely transparent or fair, firms were still incentivized to invest in becoming more competitive. While firms could engage in profit shifting and trade misinvoicing, they were still developing and driving economic growth.

Over time businesses became made investments and became more organized in India. While, in the Philippines businesses were still investing more in developing political connections.

In the Philippines, there were periods of time when the state was very powerful and there were periods when businesses organizations were more powerful. They were able to dominate each other at different points of time and due to a lack of stability, businesses were focused on rent-maximizing and profit-shifting for a long time.

In recent years, trade misinvoicing reduced in India but has been on the rise again. This is because the role of money politics and crony capitalism had been slowly reducing. India's trade misinvoicing rates reduced considerable between 2009 and 2014. During this period, many Indian firms in the spheres of technology, pharmaceuticals and consumer goods grew. However, since 2014, trade misinvoicing has been increasing again and India's wealth creation from crony sectors increased from 29 percent in 2016 to 43 percent in 2021. Its election spending has been on the rise too.

On the other hand, money politics has had a large role in Philippines. Trade misinvoicing reduced in 2016 but has been rising again since then. Its campaign expenditure has grown. Even during the latest presidency of Duterte, several large export-oriented businesses owned by people that had close relations with Duterte or were campaign supporters saw immense growth.

ii. Limitations

This study establishes how money politics and trade misinvoicing are linked with a comparative case study. While this explanation holds true in explanation of the difference in rates of trade misinvoicing in India and Philippines, there may be other factors at work in other emerging Asian economies that this study may not have accounted for. More in-depth research into the individual political and economic structures in these countries could reveal more about the drivers of trade-misinvoicing in fast-growing developing countries.

A major limitation is the dearth of accurate and transparent data sources related to campaign spending, and business reports for most Asian economies. Data collection in the field would allow for more accurate research on drivers of trade misinvoicing in the region.

While this paper established a previously disregarded link between trade misinvoicing and money politics. Other drivers of trade misinvoicing like economic growth still play a role. With economic development and investment, and stronger institutions, the role of money politics and trade misinvoicing can both be reduced.

7) Conclusion

In conclusion, there is a link between larger role of money politics with higher trade misinvoicing. The comparative case study analysis shows that, while both countries have high trade misinvoicing, it is higher in Philippines due to higher crony capitalism in the country. There is a collusive relationship between the government and few powerful oligarchical firms.

These firms are organized along familial and community lines. This leads to the creation of a heterogenous business environment, wherein lobbying by a certain industry is not possible. Oligarchical business organizations with their individual, albeit diversified firms lobby for their self-interest, which is wealth maximization.

In a closed off autarkic economy, businesses were dependent on the state for licenses and the government was dependent upon the small business sector for driving economic growth. When businesses developed closes relationship with political actors at this time, they benefitted from the same especially during the privatization process.

As campaign finance needs of political parties grew, businesses used finance for gaining loose regulatory control over its operations. This quid pro quo relationship allowed businesses to engage in illicit profit-shifting activities like trade misinvoicing.

The political and economic spheres have been closely knit. Economic growth has largely been driven by few firms in both countries and large disparities exist. This proves the nature of market structure, in which few oligarchical firms have been able to use political connections to engage in illicit trade-related practices.

The crony capitalism index measures the wealth of billionaires in industries that are prone to cronyism, due to dependence on the state. The cronyism score of Philippines has remained fairly consistent from 2007 to 2021. Firms in the country have historically spent more resources into competing for government support than made investments towards becoming more competitive.

India, however got a better score in 2014 from 2007. This is also a period when there was a decline in India’s trade misinvoicing rates. There were investments and growth through innovation in industries like technology. Thereafter, its cronyism score worsened between 2016 and 2021. Due to a change in political leadership, the role of money politics increased. This was matched with increasing trade misinvoicing rates between 2014 and 2018. This reflects how closely knit the two factors are.

In recent years, in both countries, the largest export firms are ones with close political connections. The role of money politics has been higher and more sustained in the case of Philippines. This has driven it to have the highest trade misinvoicing rates as percent of its total trade among developing Asian economies.

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