

India's Gold Fetish and Switzerland's Data Secrecy



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Agenda

I. Motivation

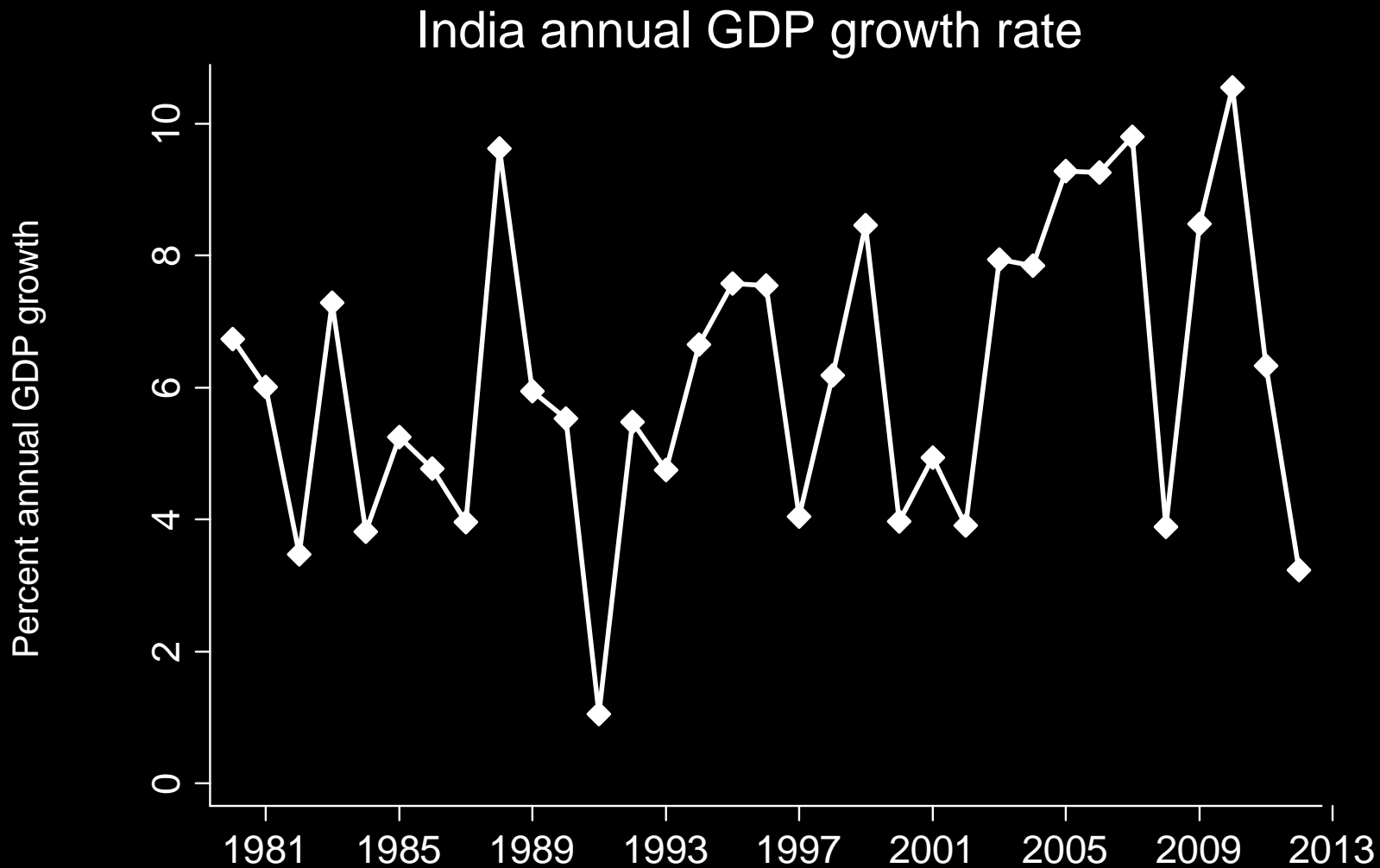
II. Data

III. Explanations

IV. Conclusions

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

Ethereal



2G telecom scam:

Price tag: \$13 billion

Terrestrial



Ex-chief minister Y.S. Reddy land scandal

Price tag: \$16.2 billion

Subterranean



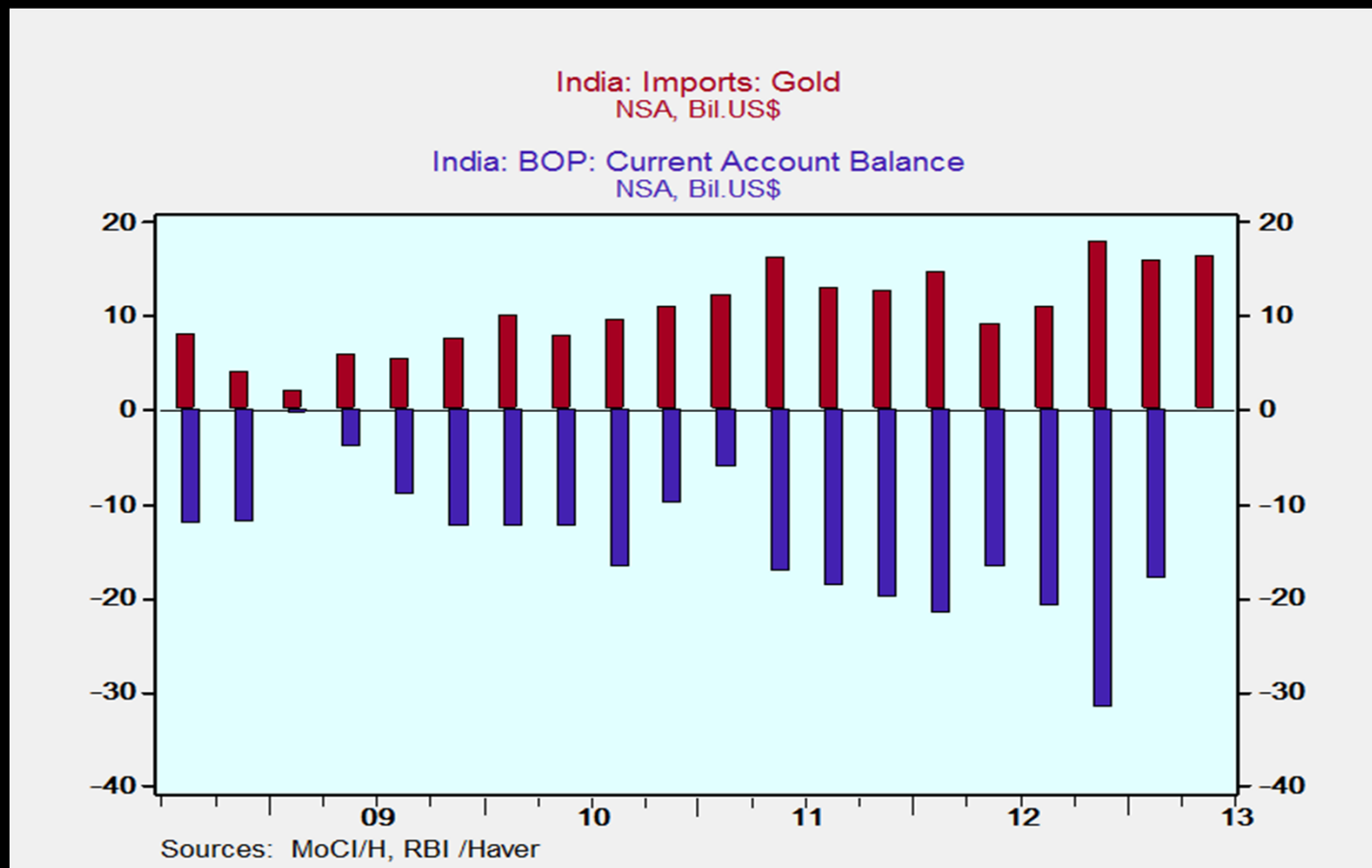
“Coal-gate” scam:

Price tag: \$33 billion

What about illicit outflows?

Near-perfect correlation between gold imports and current account deficit

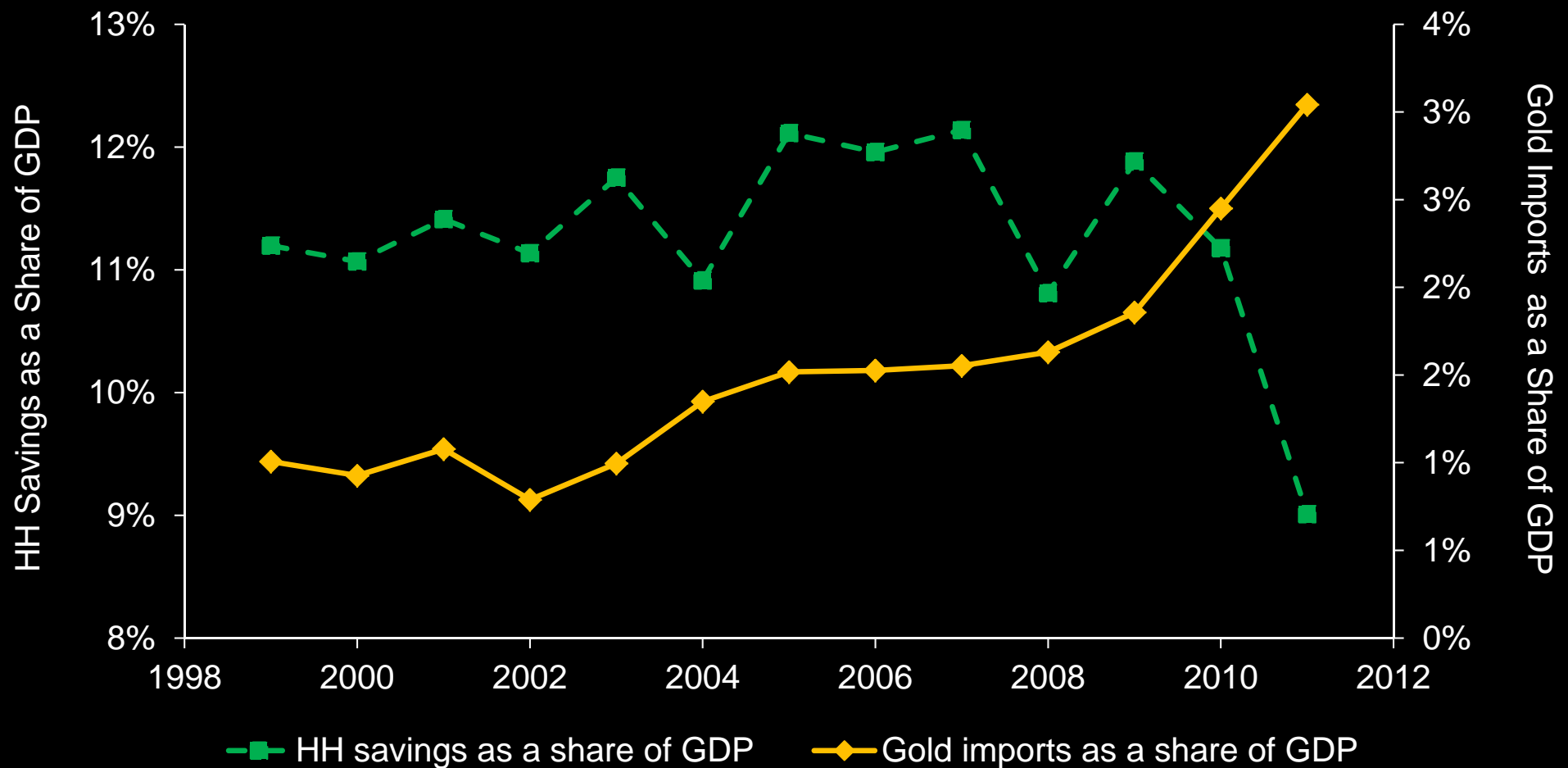
Gold and Current Account Deficit



Four Facts about Gold Imports

1. Financial savings and gold
2. Composition of gold imports
3. Share of gold imports from Switzerland
4. Discrepancies

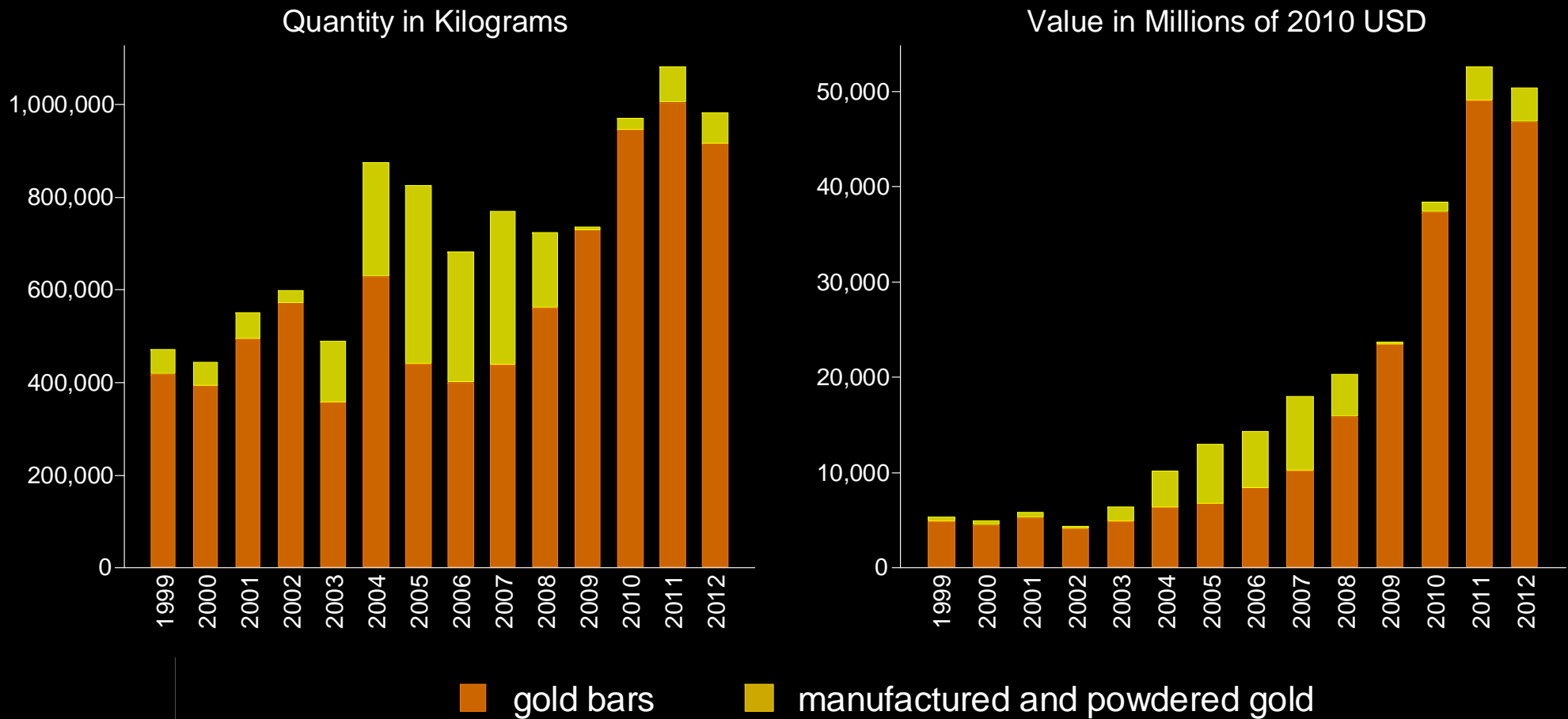
1. Financial savings have been falling relative to GDP as gold imports have been rising relative to GDP



Sources: IMF International Financial Statistics, Reserve Bank of India, UN Comtrade

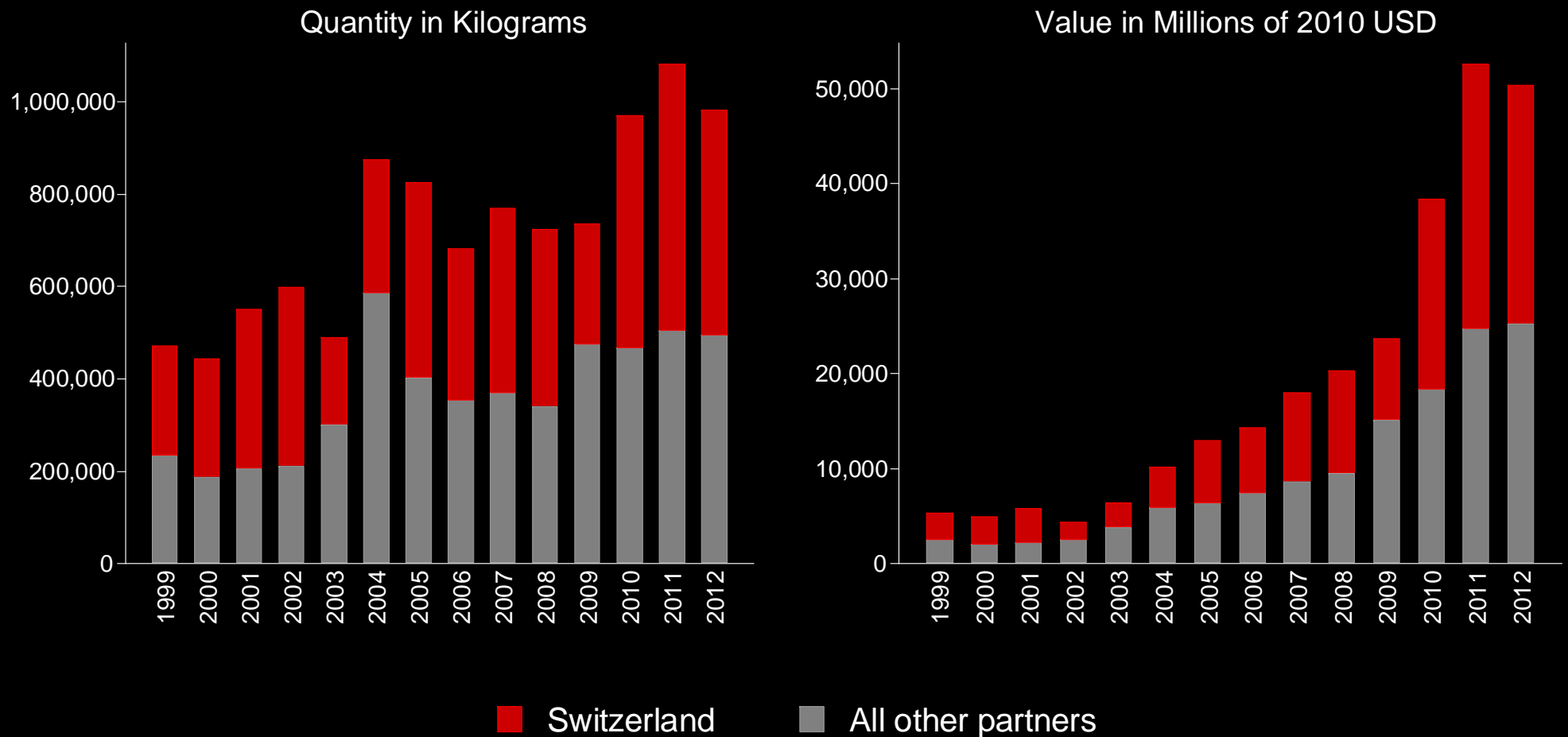
2. Gold imports are mostly composed of gold bars

Indian Gold Imports by Type of Gold



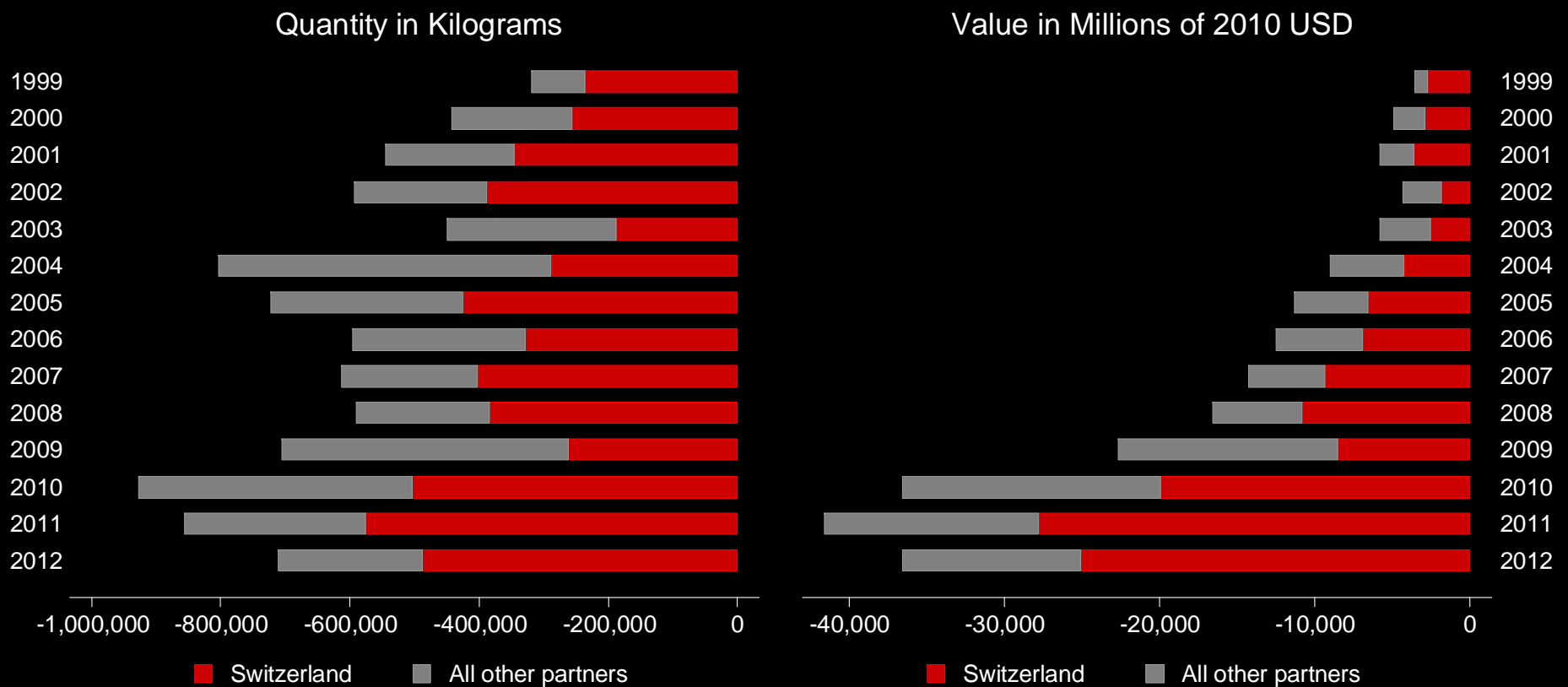
3. Switzerland is a key import partner for India

Indian Gold Imports by Partner



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



Switzerland All other partners

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

“Tax Rates and Tax Evasion: Evidence from ‘Missing Imports’ in China”

Fisman & Wei (2004) *Journal of Political Economy*.

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

Mishra, Subramanian, & Topalova (2008) *Journal of Public Economics*.

Data



UN comtrade



WITS



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



Indian Imports

	Observations	Share
Partner exports to India with no matching import	367,797	23%
Indian imports from partners with no matching export	539,235	33%
Matched Indian Imports and Partner Exports	721,851	44%
Total	1,628,883	

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.



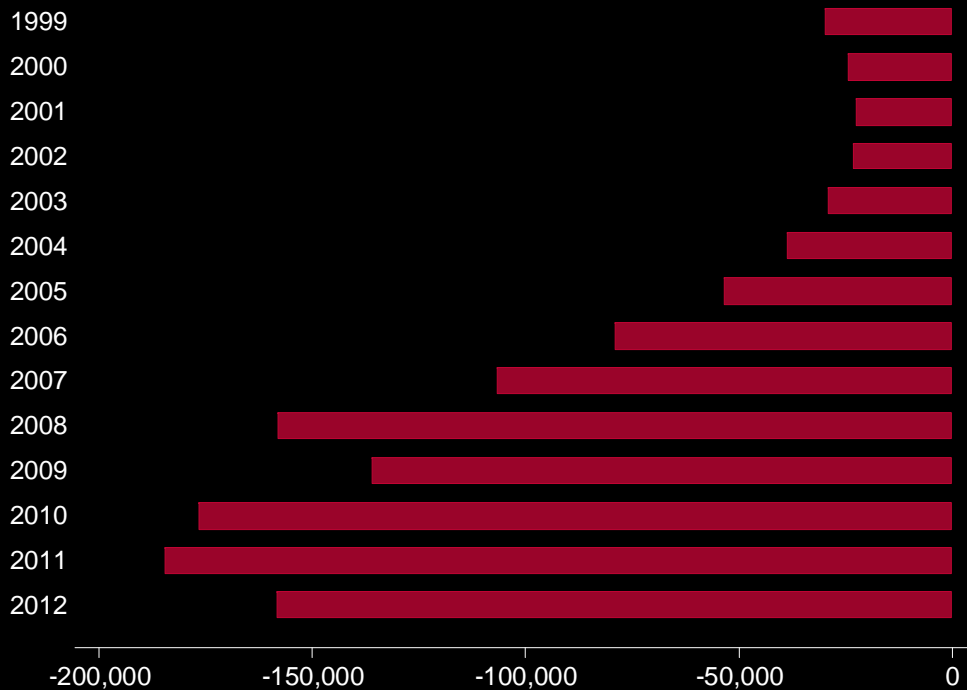
No Smuggling / Error Assumption

Assume, if India reports an import and partner does not report an export, this is an error. Drop these observations.

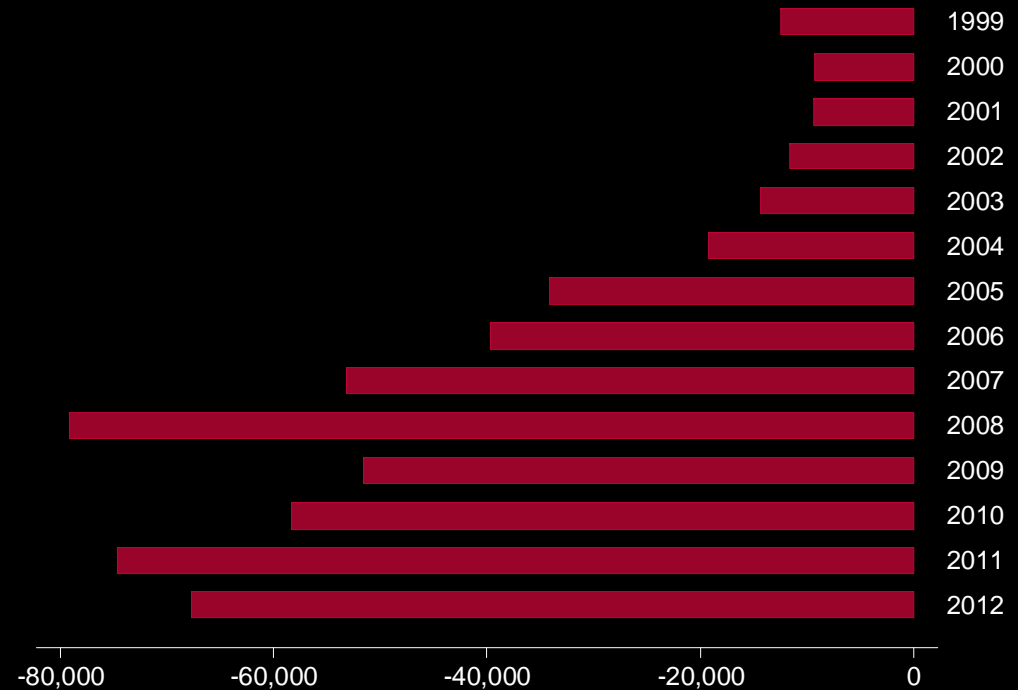
Total outflows increasing over time under both smuggling and no smuggling assumptions

Partner reported exports to India less India reported imports from partner

Smuggling assumption



No smuggling assumption



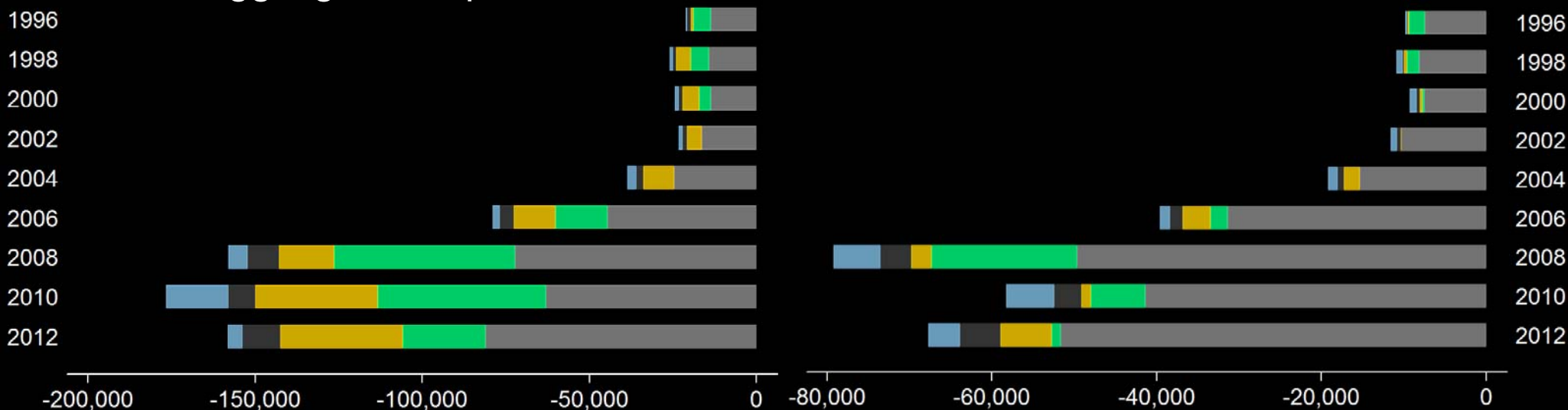
Millions of 2010 USD

Key commodities standout in over invoicing of imports

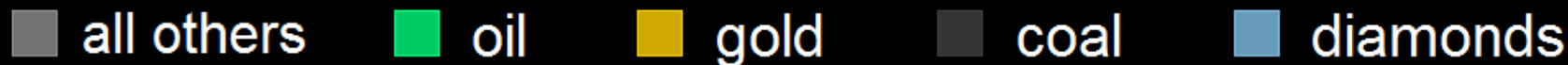
Partner reported exports to India less India reported imports from partner

Smuggling assumption

No smuggling assumption



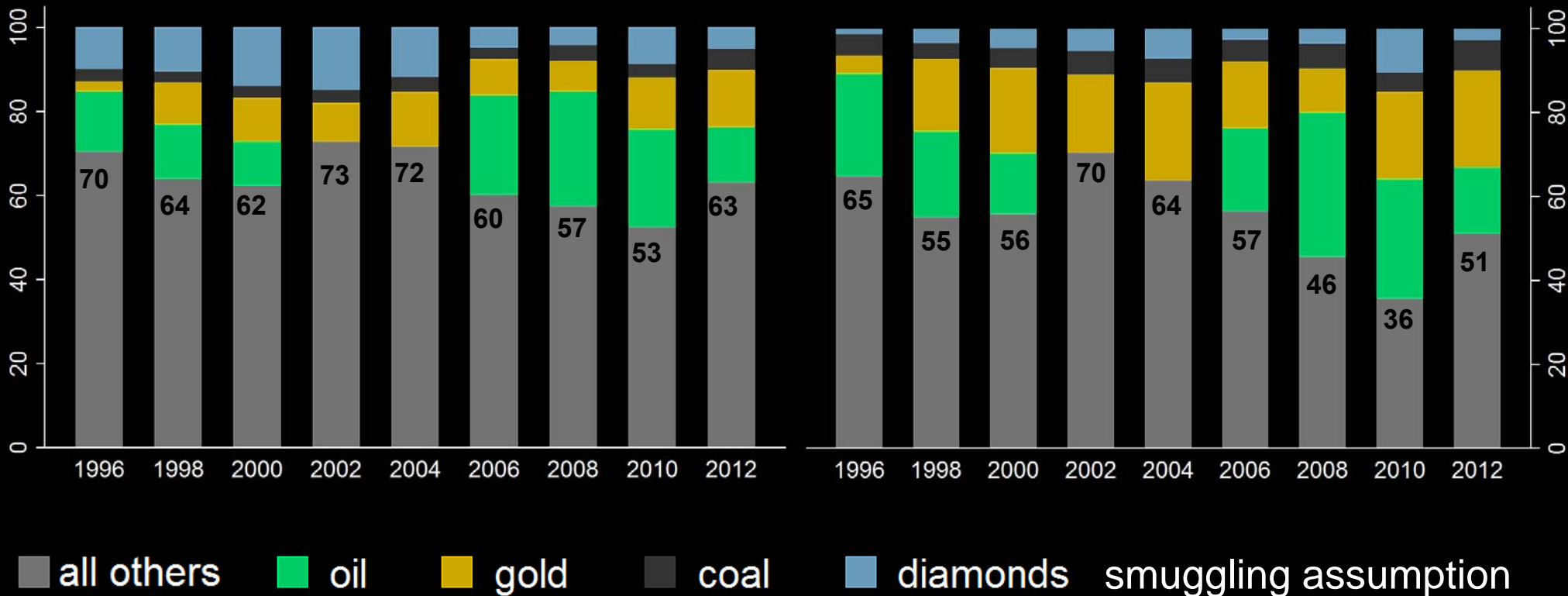
Millions of 2010 USD



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**

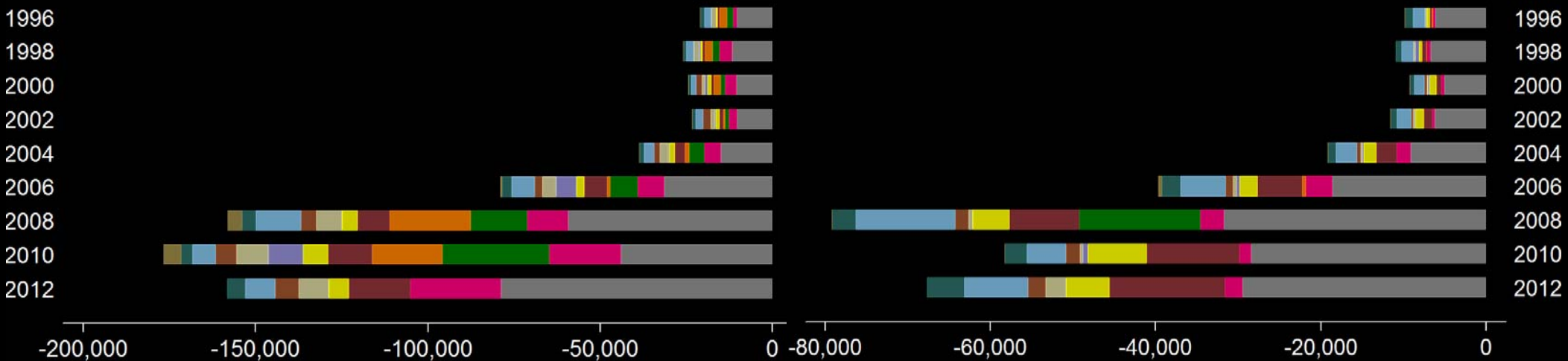


Key partners standout in over invoicing of imports

Partner reported exports to India less India reported imports from partner

Smuggling assumption

No smuggling assumption



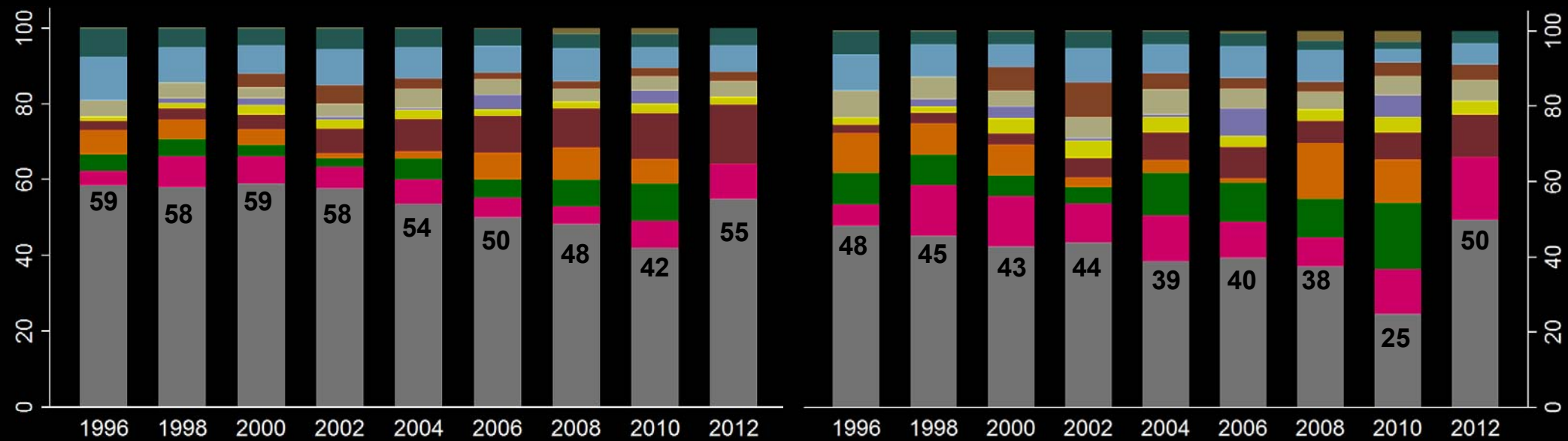
Millions of 2010 USD



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

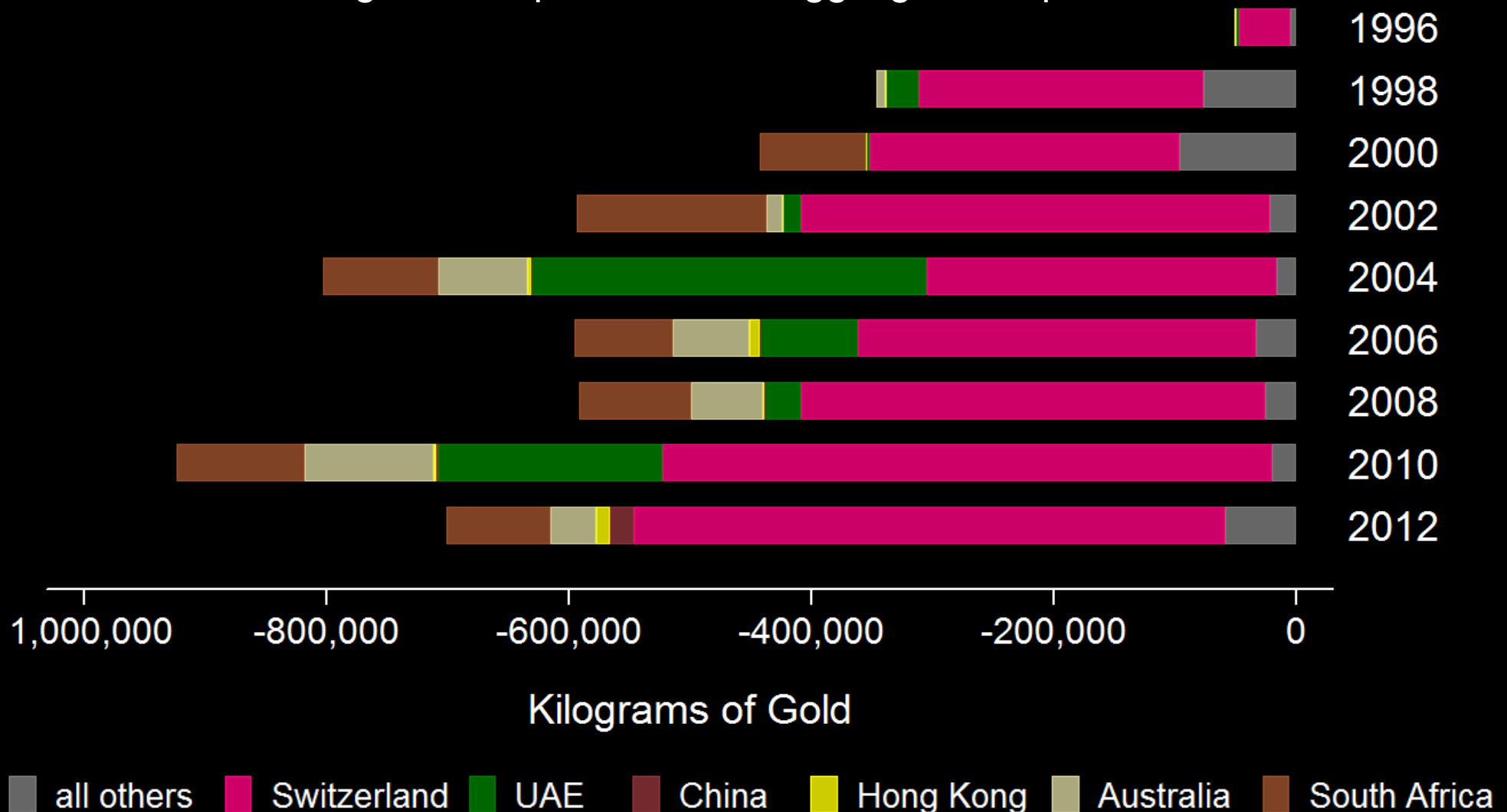


- all others
- Switzerland
- UAE
- Saudi Arabia
- China
- Hong Kong
- Iran
- Australia
- South Africa
- USA
- Germany
- Venezuela

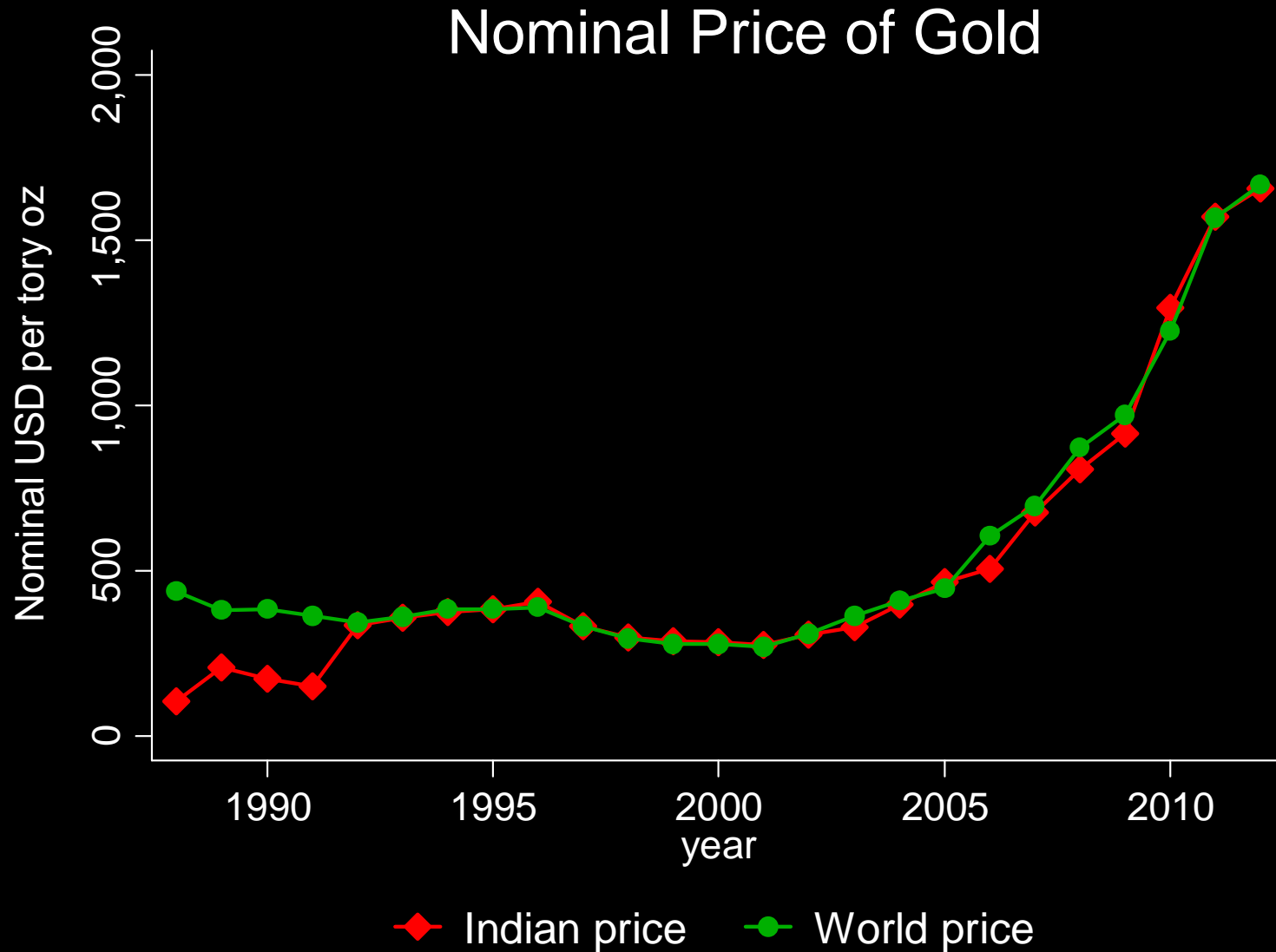
smuggling assumption

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

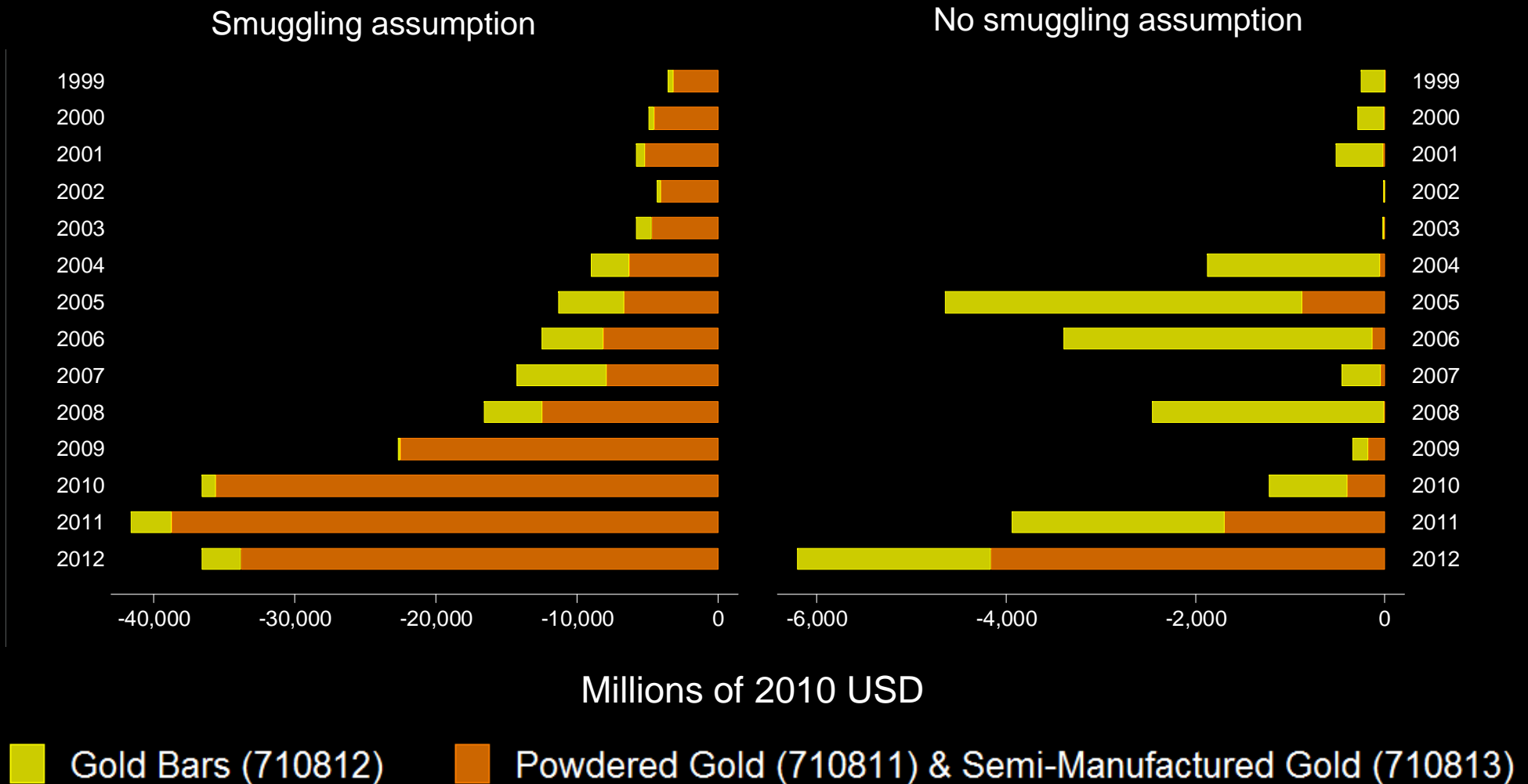


Discrepancies are not the result of mispricing.
Indian prices closely track world prices



Gold bars stands out in total over invoicing of gold imports, but when we drop unmatched observations these inconsistencies disappear, why?

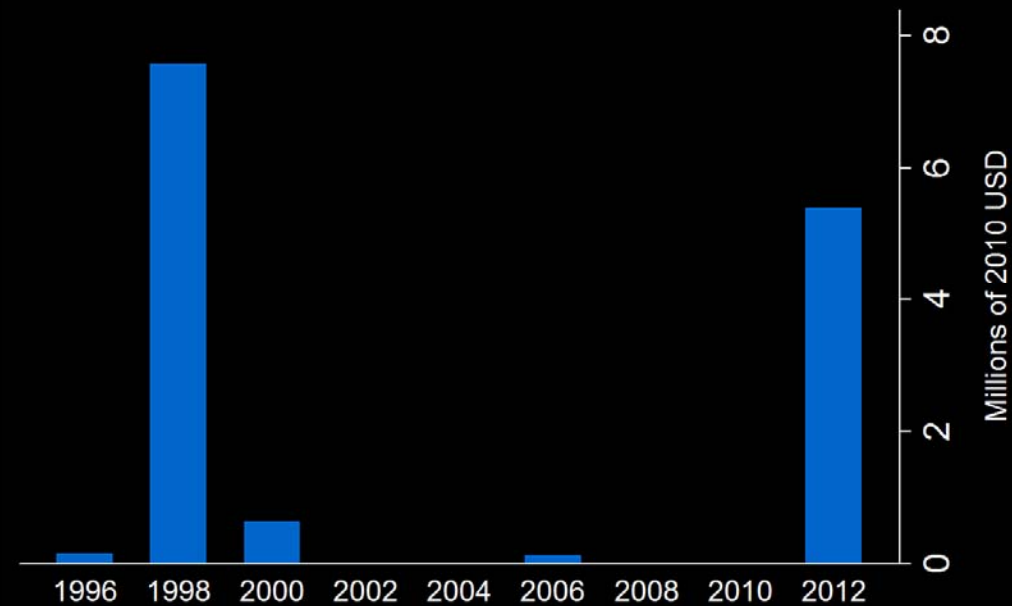
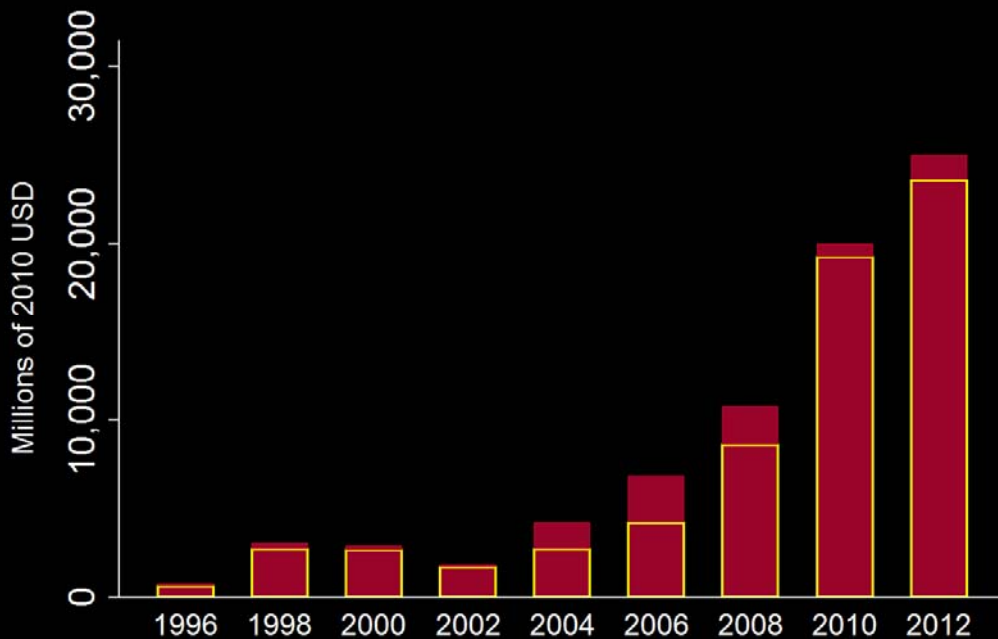
Partner reported exports of gold to India less India reported imports of gold from partner



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)

- 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.

THE WALL STREET JOURNAL.

January 1981

“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.

Business Standard

June, 2013

“ ...Efforts to lift the veil on Swiss banking secrecy have gained momentum...

...India dispatched - 232 requests for secret financial information - to Switzerland, [and] 145 similar letters to Mauritius during 2012-13.

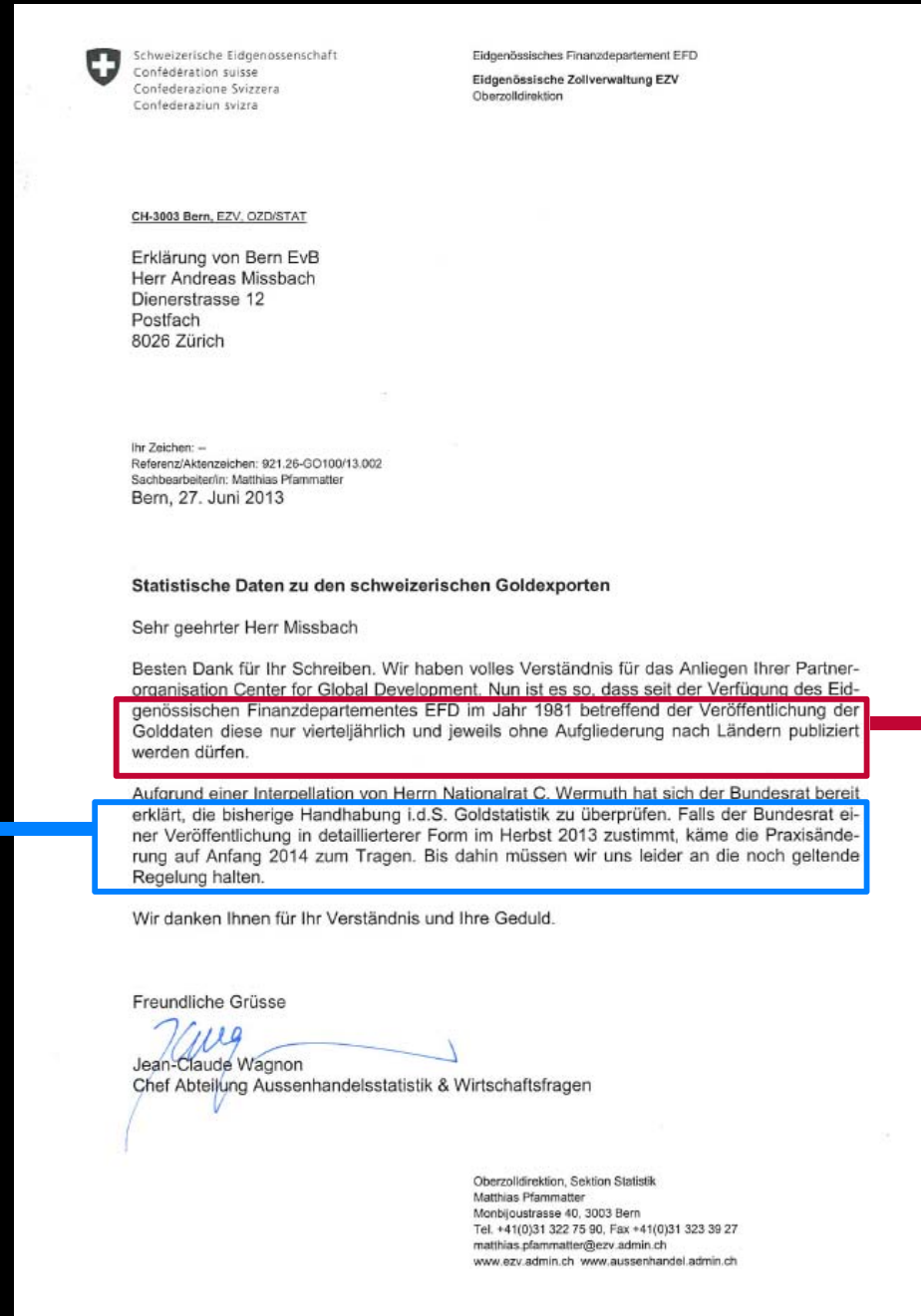
...While a huge investment into the country is routed from Mauritius, a number of high-value and criminal probes - are connected to black money stashed in Swiss banks...

....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)...

”

Swiss Federal Customs Agency confirms that 1981 policy is still in place

“[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”



www.cgdev.org/initiative/understanding-india

