

Illicit Financial Flows and Development

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**FIRST INTERGOVERNMENTAL
GROUP OF EXPERTS ON
FINANCING FOR DEVELOPMENT**

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



THE 1 PERCENT

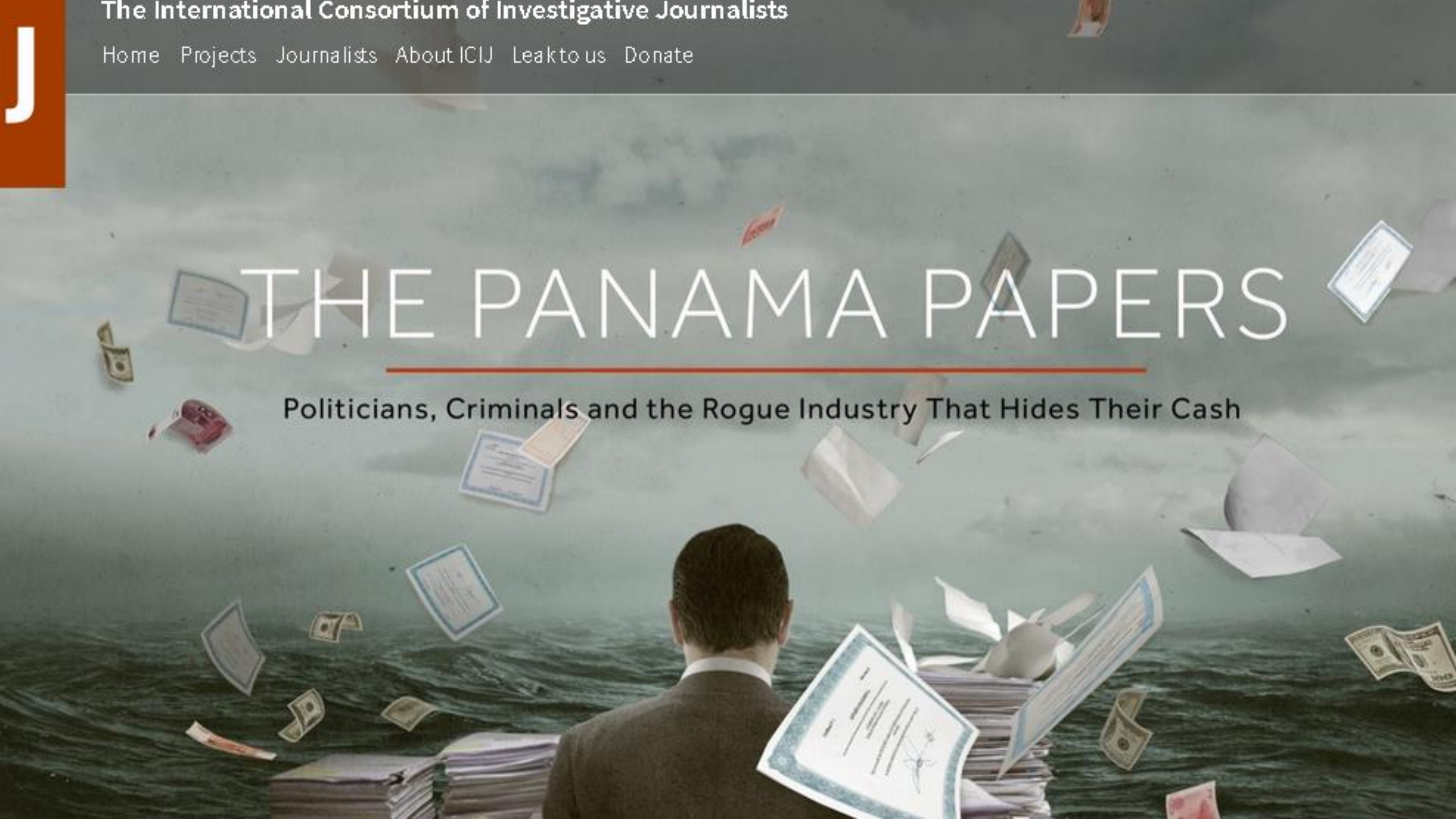
Offshore Trove Exposes Trump-Russia Links And Piggy Banks Of The Wealthiest 1 Percent

A new leak of confidential records reveals the financial hideaways of iconic brands and power brokers across the political spectrum.

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THE PANAMA PAPERS

Politicians, Criminals and the Rogue Industry That Hides Their Cash



Deleterious effects on the possibilities of development

- Criminogenic environment
- Institutional erosion
- Destruction of policy space, especially in the Global South
- Gresham Law in ethical and investment orientations
- Resources competition generates a reinforcing feedback loop in favor of illicit activities
- Further social polarization and concentration of political and economic power

Globalization, increasing porosity of the frontiers and Nation State

- 1st. Phase: Off-shore centers, rupture of the Bretton Woods Accords, floating and currency trade, Euro and Petro-dollar systems.
- 2nd. Phase: FED interest rate increase, External Debt Crises, IMF-WB Conditionality, De-regulation on finance, trade and establishments. Sharp degradation of most of the South's dynamics.
- 3rd. Phase: Structural Reforms and clear evidences of Financial Instability. WTO.
- 4th. Phase: Financial Derivatives, Shadow Banking, and further deregulation, Dotcom and Derivatives Crises
- 5th. Phase: "Post-Crisis" New international Liquidity System in the making...

Severe dangers for the immediate future

- Race to the bottom in ethics, tax, environmental, labor, financial and trade standards reach new levels.
- Increasing difficulties from the Nation-States to undertake effective solutions, especially in the South, mostly due to subjective factors (Unique Economic Thought Inertia) and the pressure of the most powerful financial interest in the World.
- Shadow banking + Off-shore networks + FinTech = New Liquidity System, totally preclude attempts to curb illicit financial flows.
- Open conditions for a new global financial crisis and a new external debt cycle.

Urgent Need for International Initiatives

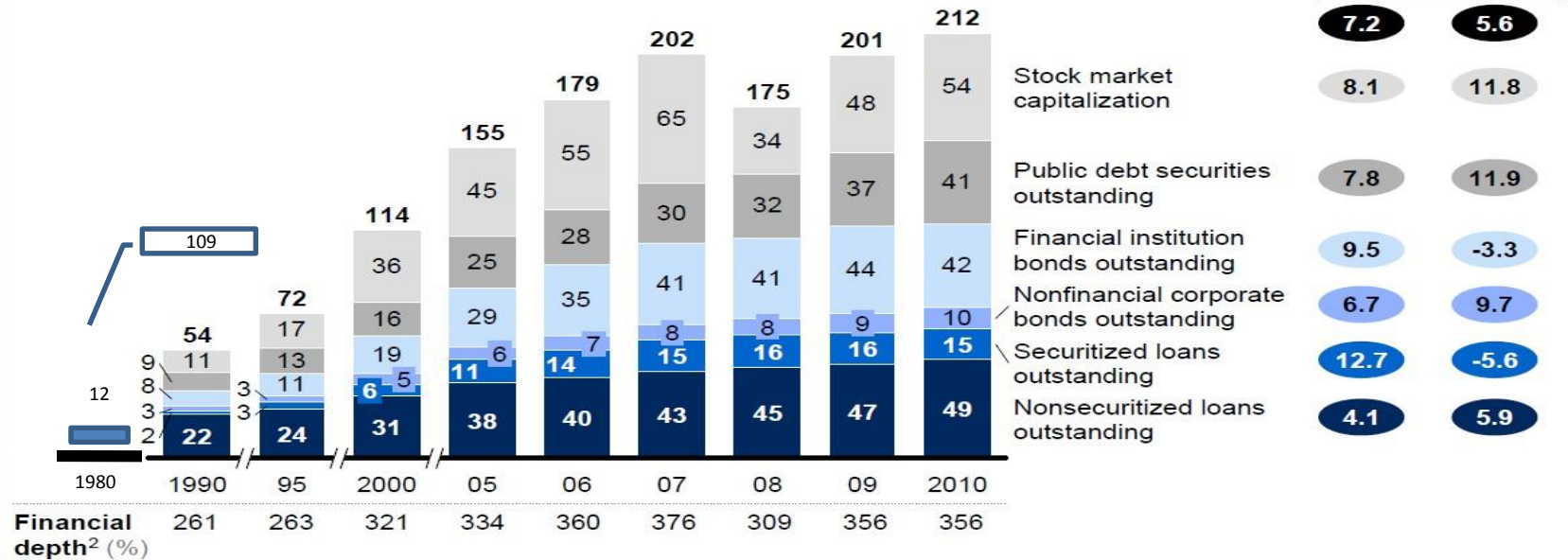
- Strengthening of policy spaces, legal, institutional and economic sovereignty. Promotion of the universal rule of law within each country and in the framework of international right. Stop the “too big to fail, too big to jail doctrine”
- Coordination on financial regulation and resume the negotiations for New Regional and Global Financial Architectures.
- Coordination on the combat against public and private corruption reinforcing national jurisdictions and international cooperation.
- Decisive measures like the Ecuadorian Referendum on Off-shores in combination with transparency rigors for public servants, banks and transnational enterprises.

World GDP of 63" vs. Debts for 212" vs. Financial derivatives for 1500"

Global financial stock has surpassed pre-crisis heights, totaling \$212 trillion in 2010

Global stock of debt and equity outstanding¹

\$ trillion, end of period, constant 2010 exchange rates



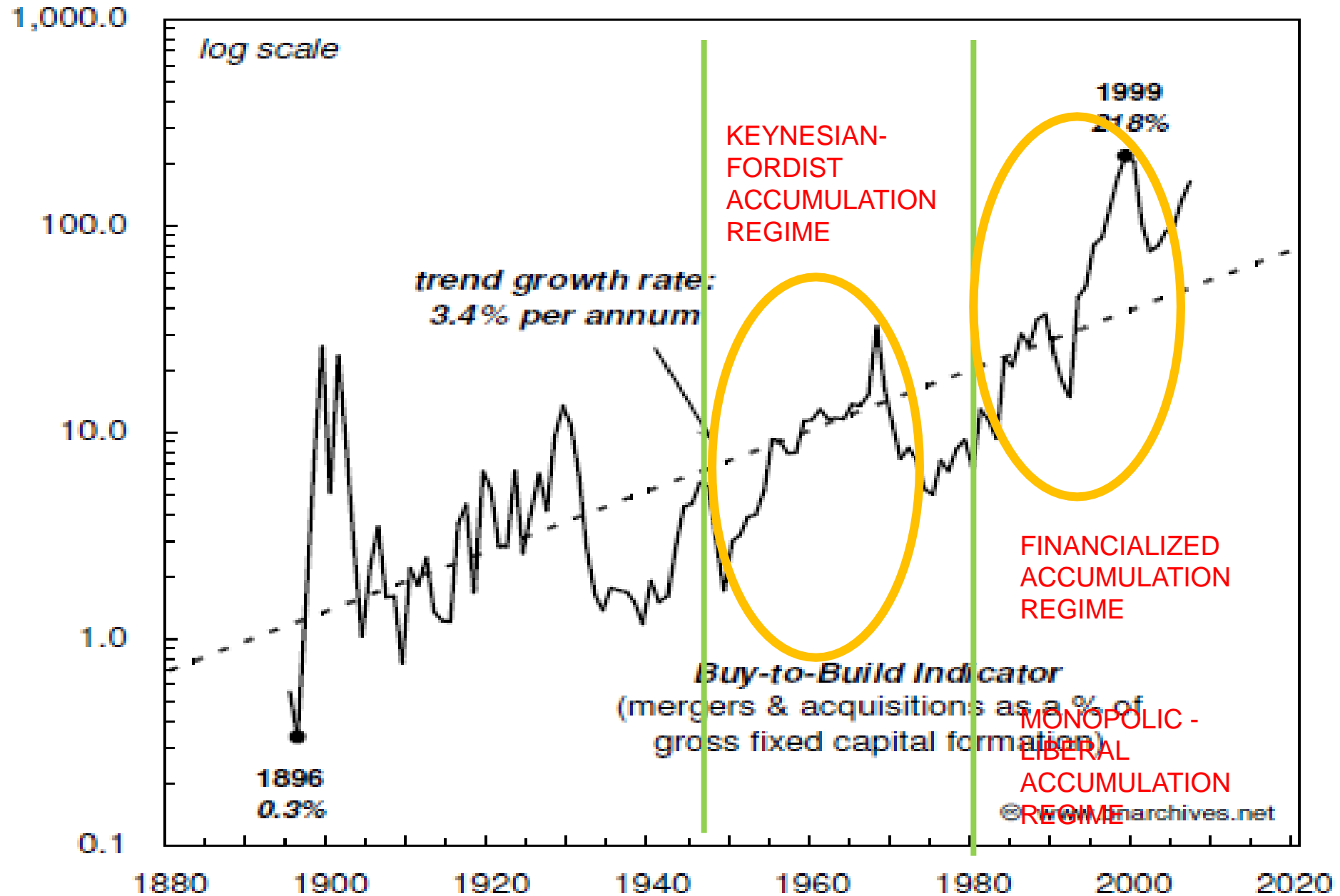
1 Based on a sample of 79 countries.

2 Calculated as global debt and equity outstanding divided by global GDP.

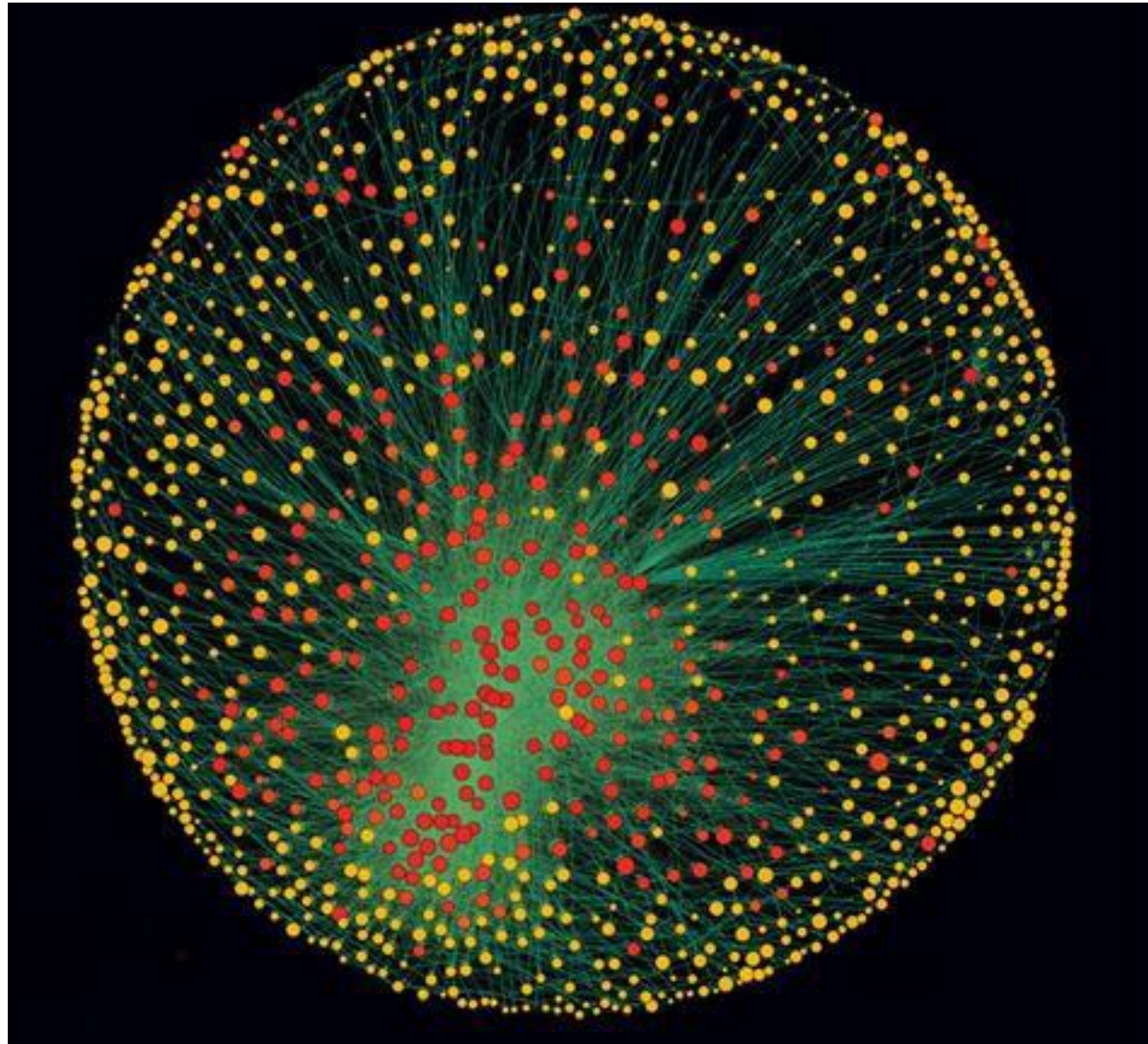
NOTE: Numbers may not sum due to rounding.

SOURCE: Bank for International Settlements; Dealogic; SIFMA; Standard & Poor's; McKinsey Global Banking Pools; McKinsey Global Institute analysis

Corporate Amalgamation in the United States, 1895-2007

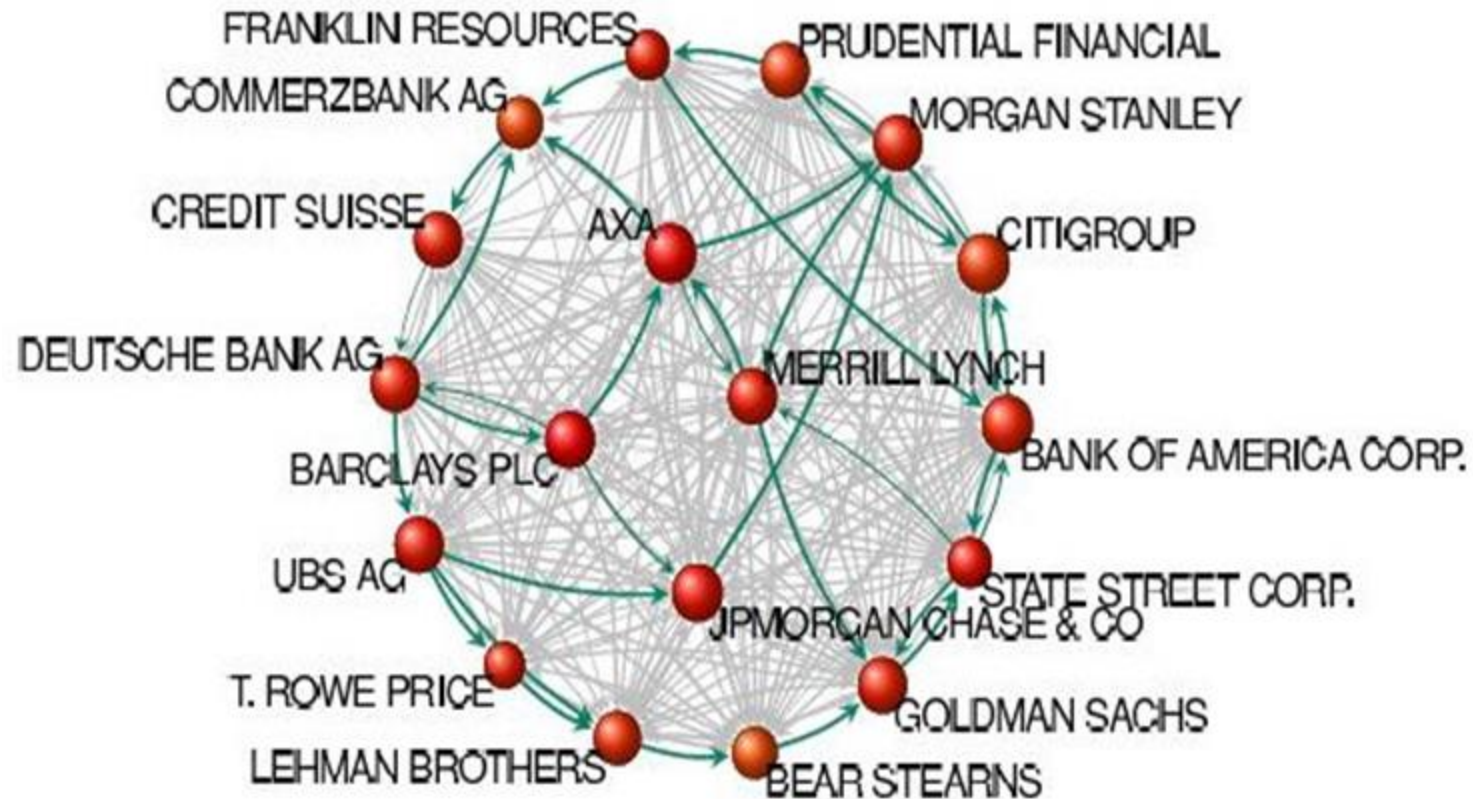


World power oligarquic concentration, 2007



From the 37 million companies registered in Orbis 2007, only 43060 TN control the fundamental and are interconnected by property relations. Among them, 1318 control over the 60% of total sales and only 17 the 40%

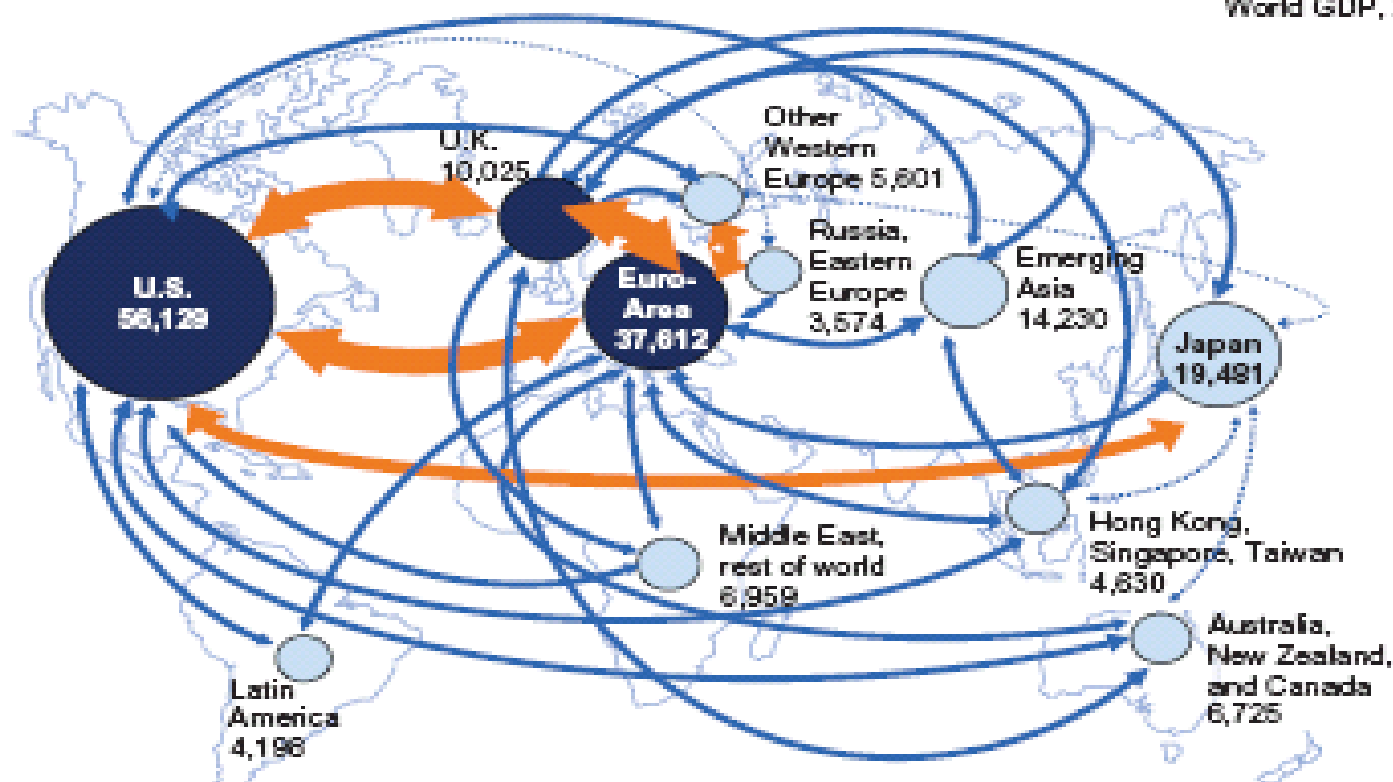
The Anatomy of Global Corporate Ownership Network



A subgraph layout of focusing on a few major TNC's in the financial sector; some of the many circles are highlighted.

THE GLOBAL WEB OF CROSS-BORDER INVESTMENTS, 2006

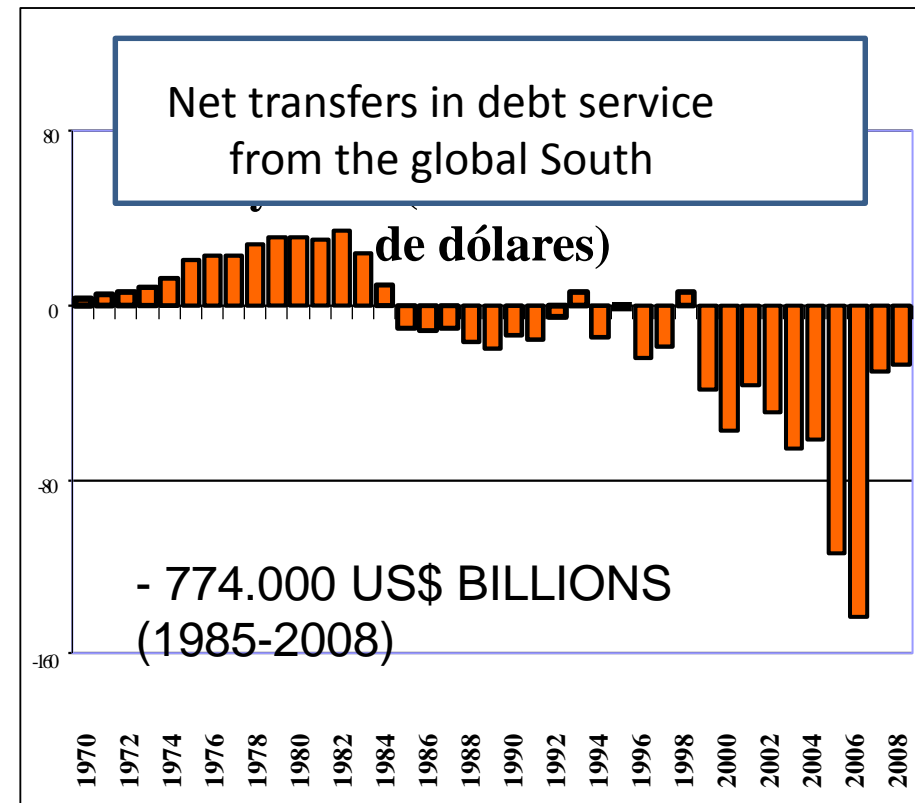
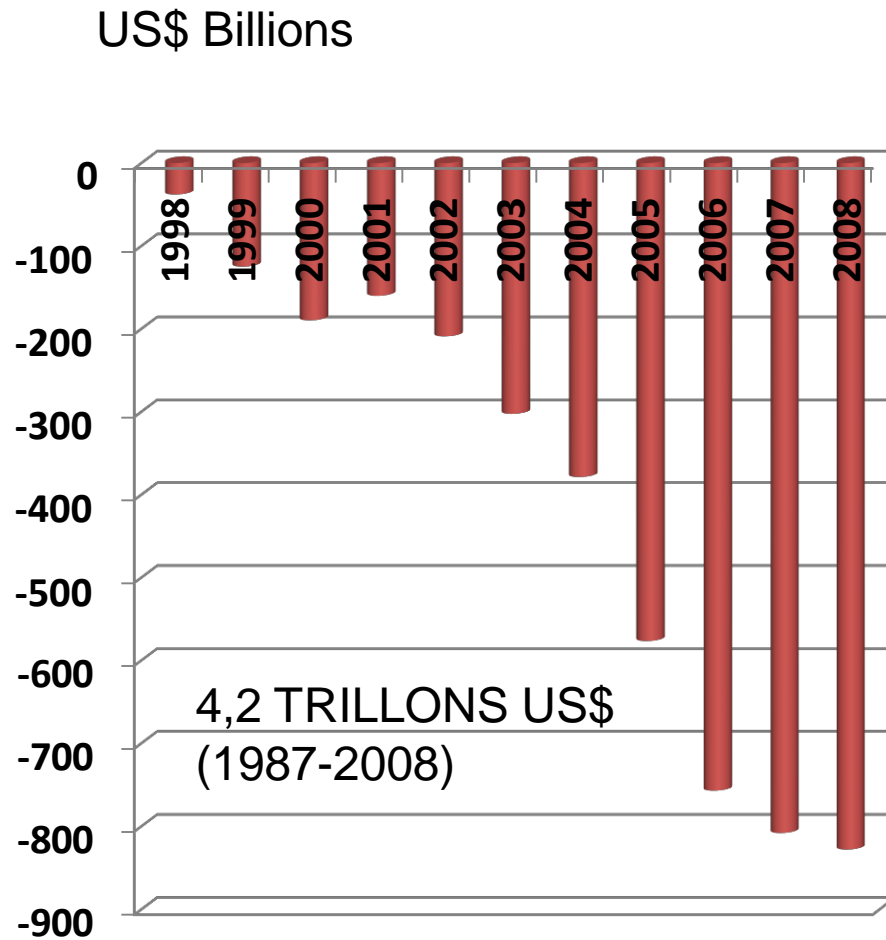
Lines show total value of cross-border investments between regions*
 Figures in bubbles show size of total domestic financial assets, \$ billion



* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

Source: McKinsey Global Institute Cross-Border Investments Database

Profit rates recovery based on net transfers from the South (trade, FDI, interests and dividends)



Source: World Bank

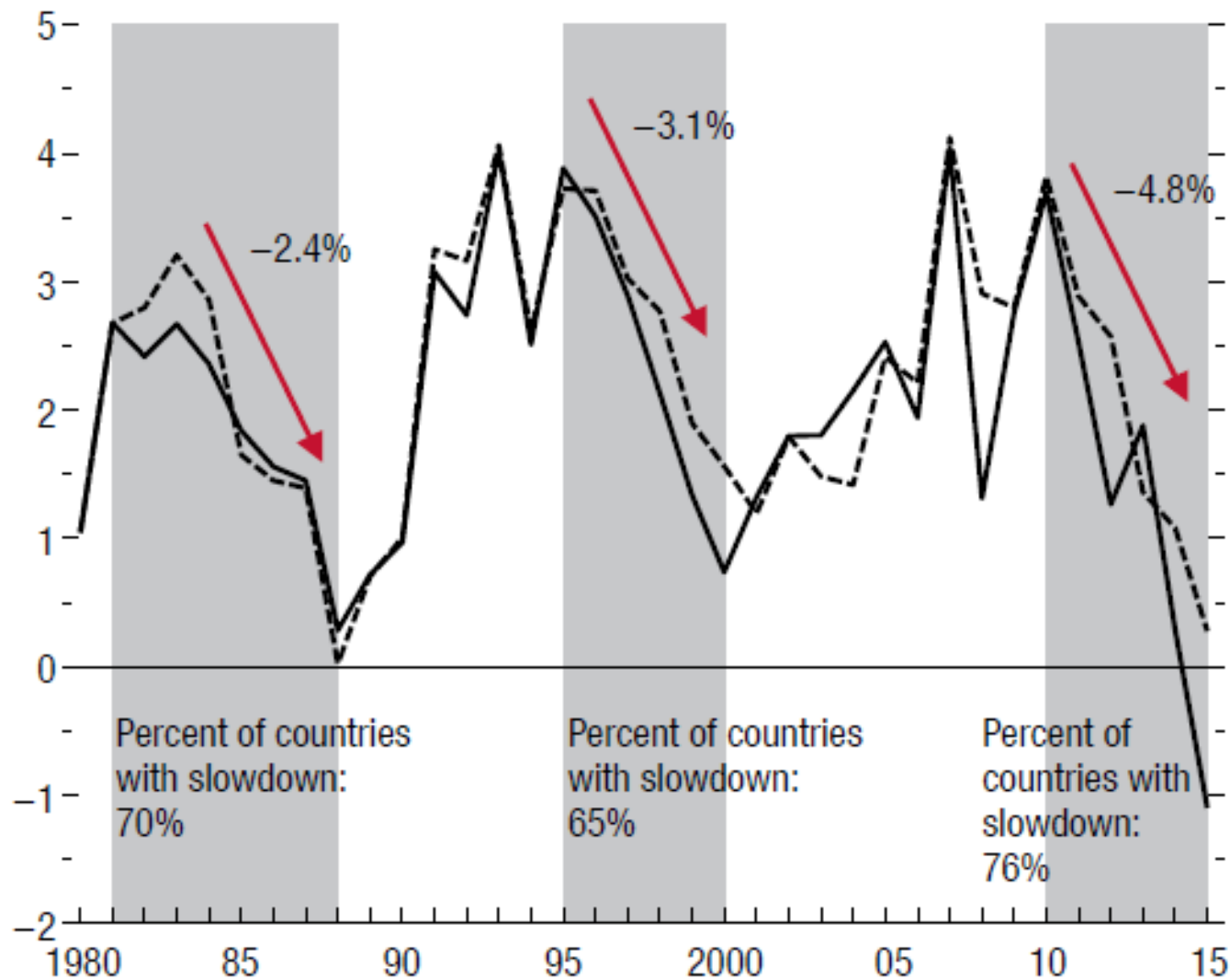


Figure 2.10. Three Major Net Capital Inflow Slowdown Episodes
(Percent of GDP)

The recent net capital inflow slowdown episode was similar to previous episodes in terms of the magnitude and breadth of the slowdown.

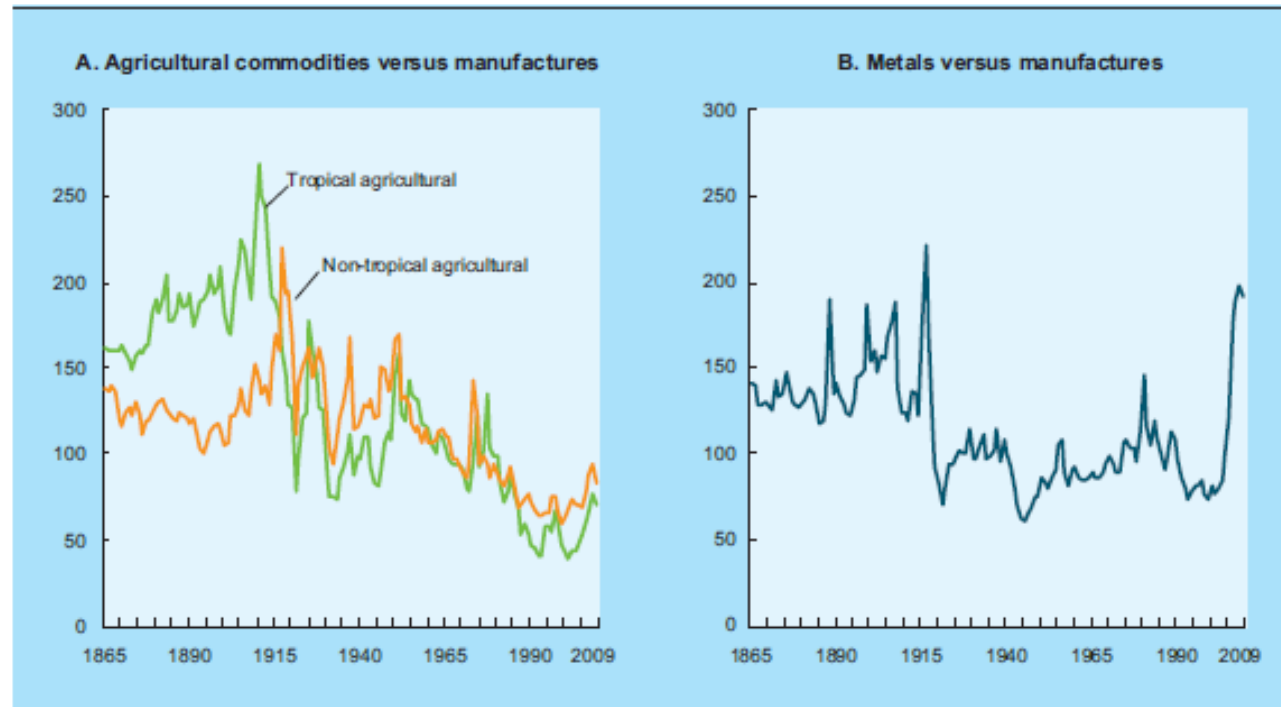
- Weighted mean excluding China and Russia
- Weighted mean

Sources: CEIC Asia database; CEIC China database; Haver Analytics; IMF, *Balance of Payments Statistics*; IMF, *International Financial Statistics*; World Bank, World Development Indicators database; and IMF staff calculations.

Note: Calculations are based on a sample of 45 emerging market economies. The observation for 2015 refers to the first three quarters. See Annex 2.1 for the complete list of sample countries.

TRENDS IN THE TERMS OF TRADE, SELECTED PRIMARY COMMODITY GROUPS VERSUS MANUFACTURES, 1865–2009

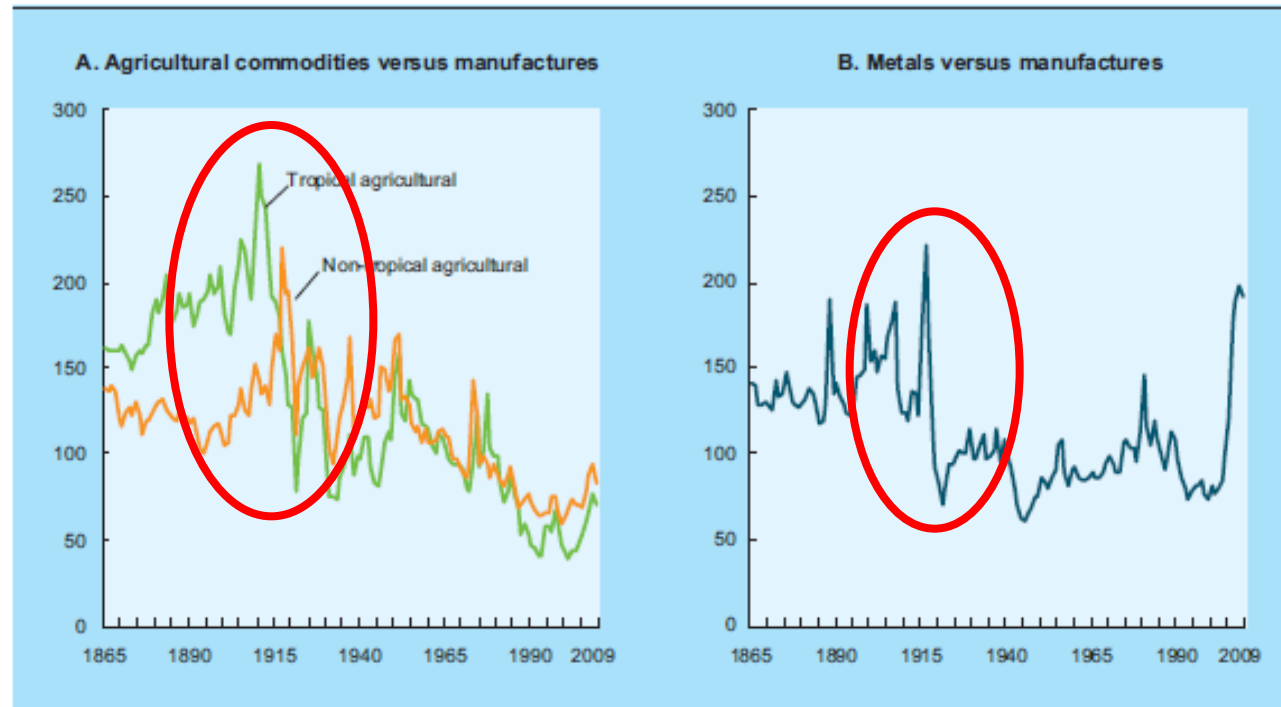
(Index numbers, 1970–1979 = 100)



Source: Ocampo and Parra, 2010.

TRENDS IN THE TERMS OF TRADE, SELECTED PRIMARY COMMODITY GROUPS VERSUS MANUFACTURES, 1865–2009

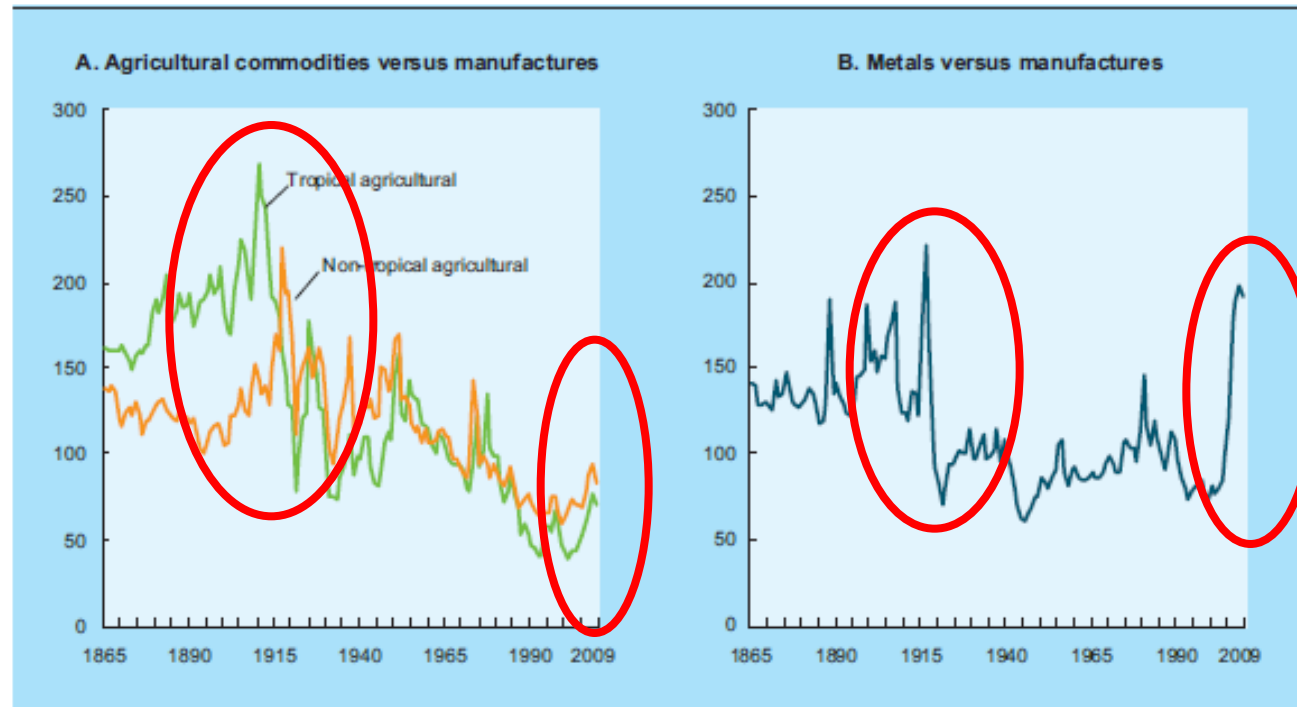
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Source: Ocampo and Parra, 2010.

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Thanks