

Capital flight to US totalled \$4,423m in '93

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Over-invoicing of imports and under-invoicing of exports has led to capital flight, amounting to a staggering \$4,423 million from India to the USA during 1993, according to a study published by the Indian Institute of Finance, based here.

The study, conducted by Prof John S. Zdanowics, Prof William W Welch and Simon J Pak of Florida International University, USA, raises fears that similar trade financing abnormalities may also exist between India and several

other countries.

The products, whose prices have figured in abnormal trade pricing as found out by the authors, vary: there are over 25 under-priced Indian exports to the USA which include exercise cycles, electric cooking stoves, silk handkerchiefs, granite, rubies, lead acid storage batteries, voltage regulators, facsimile machines and gloves. The over-priced Indian imports include such products as tetracyclines, video cassette recorders, tyres, thermometers, dynamite and explosives, starter motors and generators, radio

transmitters, video disks, paints, varnishes, etc.

The authors have also studied the economic, political and social impact of capital flight. According to them, the capital flight, which refers to outflow of capital from India and USA through abnormal trade pricing, has the impact of destabilising domestic financial markets and efficiency of monetary policies. It may lower domestic investment, erode the tax base and increase the government deficit and affect adversely the foreign exchange position of the country.

Their research focussed on the

development of a global price matrix that allowed them to analyse every India-US import and export transaction and determine estimates of the magnitude of capital flight from India to the USA during 1993 due to abnormal pricing.

"Our estimates of India's capital flight to the USA during 1993 range from a maximum of \$4,423 million to our most conservative estimate of \$370 million. Based on our estimates of capital flight from India to the US, the economic benefits of detecting and deterring the abnormal transaction prices appears substantial".