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CAPITAL FLIGHT IN SOUTHEAST ASIA

by

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Capital Flight in Southeast Asia

Summary

This paper outlines the capital flight movement in East Asia south of Hong Kong, trying to analyze the causes of the flight and describing the technique of flight operation.

The peculiarity of the capital flight in Southeast Asia is a flight from developing to developing countries, unlike the flight from other regions which is more or less from developing to developed countries.

It is likely that the bulk of the flight in Southeast Asia does not enter into any statistical record. Therefore the conventional method of picking up quantitative clues from official records appearing in the international balance of payments is not so reliable as generally believed. The quantitative aspect of the capital involved, if and when mentioned in this paper, is meant for illustration purposes only.

This paper indicates that the flight problem in Asia is more serious than generally known both qualitatively and quantitatively, and suggests that the ultimate remedy should come from the relevant national governments.

This is only a preliminary study. Much more needs to be done in the form of organized field work on an international and on a regional bases. Such field work will demand considerable tact and imaginative technique: reliable information on the subject matter is very difficult to obtain.

I. Capital Flight as a World Phenomenon

Since 1946, capital flight appears to have become a world problem, no more considered as a particular phenomenon of any particular country or region.[1]

In studies of economic development, capital formation through international aid has been emphasized by economists, governments, and international organizations. It is only natural that both economists and statesmen are concerned with the question why there is some domestic private capital fleeing from countries where foreign capital is invited to go in.

The phenomenon has become so disturbing that despite its embarrassment to a number of governments it has been discussed officially in the United Nations and its specialized agencies. On the national level, the central bank of at least one national government has pointed out in its annual report that "capital flight" has caused the over-all deterioration in the balance of international payments of the country.[2]

II. Peculiarity of the Capital Flight in Southeast Asia

Although capital flight is found in both the developed and underdeveloped countries, it is the flight from the underdeveloped (or "developing") countries that has aroused more attention and concern.[3] Studies on capital flight from Latin American and African countries have concluded that such flight is generally from developing countries to the more developed countries such as the United States, France, Switzerland, etc.[4]

This paper is a study on the capital flight in Asia in general, and within the region of Southeast Asia in particular, which is characteristically a flight from one developing country to another developing country, with the British Crown Colony of Hong Kong as the major recipient in particular.

The fact that Hong Kong has been and still is the major recipient of flight capital from other Southeast Asian countries, has been confirmed by Hong Kong Government publications. A report of a bank-economist appointed by the Government of Hong Kong to study the Hong Kong banking system and financial market covering 1956-61 deserves particular attention. The rapid growth of banking in Hong Kong as evidenced by thetremendous increase of deposits (time deposits grew over eight-fold and savings deposits nearly five-fold in six years) is mainly ascribed inter alia to "substantial inflow of funds from neighboring territories...(which) are thought to come, in the main from overseas Chinese who for one reason or another, consider that Hong Kong represents a safer or more profitable haven than their country of residence."[5] A review article on the 1964 capital market of Hong Kong also mentions that the annual "enormous amount of capital inflow from overseas Chinese" has substantially strengthened the "free market" foundation of Hong Kong.[6]

After Hong Kong, Singapore comes next as the haven for flight capital from nearby countries, especially from Indonesia. The surplus in "invisible transactions and adjustments" in the Singapore international balanceof payments has registered more than 10% either of total imports or total exports. The Central Bank of Malaysia in its 1963 Annual Report has referred to the surplus as "a notable feature of the balance of payments structure of Singapore."[7]

As Singapore and Hong Kong are essentially trading ports, the invisible and adjustment item may include many other conventional service payments. The question is: how much therein may have been flight capital? The question is hard to answer. According to the official estimate, the national income of Singapore for 1963 was equivalent to US $876,667,000, while the "invisible transaction and adjustment" item was a net receipt of US $182,067,000 approximately 21% of the national income.[8] For comparison, the inflow of capital to Hong Kong during the period 1948-55 was estimated to have reached 39% of the Hong Kong national income.[9] Although it may be everybody's guess as regards the percentages of flight capital in these items, both are large enough to warrent further study.

III. Factors Causing Capital Flight

Capital flight is a planned action of an owner of wealth to transfer assets out of a country legally or illegally, because of fear of loss if the assets remain. In Southeast Asia, the following factors, one or more, are responsible:

A. War or the threat of war.

This cause will be specially compelling, if the war, domestic or internationl, involves the possibility of a drastic change of government economic policy; for example China 1945-50.[10]

B. Inflation.

Where there is fear of inflation, and no adequate stock market facilities to use as a hedge, domestic private capital will flow into hoarding gold or jewelry, or other durable property and, probably in large amounts, escape abroad.[11] In countries where inflation is rampant, all private purchases of foreign equities and foreign currencies can be classified as capital flight. Table 1 (Comparison of Inflation from 1955-64) reflects a fairly accurate picture of capital flight in relation to the degree of inflation (with the exception of Taiwan for particular reasons).[12]

C. Disparity of Exchange Rates.

Continuing inflation causes disparity between the official fixed rate of exchange and the black or free market rate (Table 1).

Taking the disparity between local currency and U.S. dollars as a measure, figures in Table 1 reflect fairly well the degree of capital flight from those countries whose currencies depreciate most in terms of free exchange, e.g., Indonesia on the side of out-flight and Hong Kong on the side of in-flight (see section V following). When a national currency is overvalued officially,[13] and a domestic resident obtains foreign exchange through some concealed measure such as under-invoicing of an export, he will probably keep the whole or part of the foreign exchange abroad, thereby effecting a capital flight.[14]

D. Policy of socialization.

Socialization means converting privately-owned capital into publicly-owned. In Asia, this has been done with or without compensation, with or without endangering the persons of the owners. To the owners, socialization means a loss. In recent decades, all countries in Asia have gone through drastic changes of government and political structure, and the majority of the emerging political parties claim to be socialist. Whether the campaigning parties actually get elected or not, the threat of socialization has caused flights of capital.

The owners have sold their properties outright or methodically mortgaged them and managed to transfer the money out. In so doing, they gradually relinquish the ownership of property in their own countries and become non-resident owners of capital in other countries.[15] The owners often accept a bookkeeping loss in effecting the transfer, but they reason, better some loss than the risk of losing all.

E. Limiting ownership rights of foreigners (Policy of Nationalism)

Often foreigners are legally forbidden to own or control certain categories of capital (including land) or have their rights limited.

The policy aims at effective control of capital by local citizens. The policy may cover all kinds of capital and all sectors of industries, or it may be selective, covering certain categories and certain sectors only. In Southeast Asia only a few years ago most business capital was either owned by foreigners or by establishments registered in foreign countries.[16] In the Philippines, for example, as soon as a "nationalization policy" was adopted (1954), there started and continued "an unending flight of capital", for which there was still evidence through 1964.[17]

F. Discrimination against minorities.

In all the countries within the region of Southeast Asia, there are racial and religious or language minorities who appear richer than the majority group. These minorities may have resided in the countries for generations, but for one reason or another, have not become citizens. Due to the apparent or implied discrimination against them, particularly after 1946, these minorities have been trying to transfer some or all of their capital out of the land, thereby contributing to the capital flight.[18]

G. Tax evasion.

This is an old and general factor causing capital flight from many countries, high income and low income, in all parts of the world. In Southeast Asia, the effect worked out curiously due to the newness of the income tax system and the traditional structure of the local business organization. First, many businessmen did not report fully their income when income tax systems were set up until it was realized that heavy penalties would be imposed if their un-reported wealth was discovered. They therefore adopted the policy of transferring some part of their capital regularly out of the country to avoid both the current tax and the risk of penalties, including expensive and embarrassing law suits, confiscation, and imprisonment. In time the capitalists discovered that such evasion had closed the door to recalling their flight capital because if recalled, the Income Tax Authority would ask "how did you get such money from abroad"? Second, many business units in Southeast Asia are organized on sole-proprietorship or partnership patterns, and many are family concerns. Such organizatinns do not possess as a rule accurate cost accounting systems; and, from their traditional records, the taxable income or profits may often appear larger than it is in fact. After a certain amount of profits or capital had been concealed or underreported, it is difficult for them to report later, because it will invite a host of enquiries, with endless troubles, not only concerning the amount but also the source of the capital. The way out is "flight".[19] Hong Kong has become the conspicuous haven of flight capital because the government never questions the source of capital, and the tax on income is much lower than elsewhere (e.g., 12-1/2% as compared to 40% in Malaysia-Singapore).

IV. Capital Flight and Official Records

For many reasons, governments very seldom officially admit that there is capital flight either into or going out of the country. All the governments in Asia have foreign-exchange controls. Capital flight, in or out, if it is included in official records at all, is hidden somewhere amongst the many items of the country's international balance of payments. It has been stated in official quarters that the over-all residual item called "errors and omission" reflects capital flight.[20] But flights can leave no mark at all in the statistics on which the balance of payments is based.[21]

Table 2 depicts the international balance of payments of some Asian countries, which can be considered as an official view of capital movement, recorded plus unrecorded. But these data may or may not help us to form any valid judgment. It is everybody's guess as regards, first, the accuracy of the statistics; second, their relation to capital flight; and third, the proportion of flight capital contained therein if any.[22]

Despite the "see-no-flight, hear-no-flight and talk-no-flight" attitudes of the governments, however, all of them know there is flight and some try to do something about it.[23]

V. Capital Flight and Unofficial Estimates

All estimates on flight capital are unofficial and subject to dispute. For instance, unofficial estimates on flight from Latin America as a whole during the past decade, had put it as an average one billion U.S. dollars per annum. This was challenged as exaggerated: a United Nations report suggested instead U.S. dollars 300 million per annum.[24] On the other hand, a special study had estimated that the net capital outflow from Venezuela for the year 1960 alone had added up to U.S. $483.6 million.[25] The real question is: how much "flight" is contained therein?

There is yet no such estimate for Asia or Southeast Asia. On the national level, a figure which may or may not serve as a reference has been given by the Central Bank of the Philippines: that the net capital outflow from the Philippines had reached U.S. $23 million in 1963 and U.S. $41 million in 1964, which may include some capital flight.[26]

If this Philippine flight can be detected from the international balance of payments items in Table 2, it might be reflected from the large proportion of minus entries in "errors and omissions," which averaged a net U.S. $48 million per annum.

Table 3 is compiled and presented with the view of, hopefully, detecting some of the unrecorded capital movements; those reflected in black market dealings for goods, gold and remittances. But these data can point to only a part of capital flight, since the bulk of it is believed to have been concealed by "operation invoicing" as described in Section VI below. The Table can be treated only as a faint shadow of the flight operation.

Comparing Table 2 and Table 3, however, the following analysis helps to confirm the general impression of the flight direction in Southeast Asian countries:

First, the following countries are probably the recipients of the flight capital:

(a) Thailand: Table 2 shows considerable amounts of net errors and omissions with plus signs, in addition to the consistent minus sign under the monetary authorities item.

(b) Japan: Table 2 depicts the same favorable indications as those for Thailand.

(c) Taiwan: The same favorable picture, but to a lesser degree (see note 12).

(d) Hong Kong: It is believed that the largest recipient as well as the most important transit country of flight capital is Hong Kong, whose dealings in U.S. currency alone has reached U.S. $3 million per day (see Table 3).

(e) Malaya and Singapore: They are considered recipient and transit countries. The Malayan data in Table 2 are complicated because they are interrelated with Singapore whose data are not included.

Second, the following are probably the countries from which there was capital flight:

(a) Indonesia: Whose item of net errors and omissions averaged a negative U.S. $20 million per annum in addition to the average positive transactions by monetary authorities of U.S. $40 million, making a total of about U.S. $60 million per annum (Table 2).

(b) The Philippines: Same as Indonesia, only to a lesser degree. The combination of the two items produced an annual average outflow of U.S. $33 million during the 1959-63 period, with an abnormally large proportion of negative errors and omissions (Table 2).

(c) Ceylon: The monetary authorities item indicates a large proportion of outflow. As this item is duly recorded, it may reflect capital flight to other Sterling countries (see Note 16).

(d) India: Table 2 shows an annual average during the five-year period of minus U.S. $25.2 million net in errors and omissions, and a decrease of U.S. $32.7 million in monetary authorities, making an average total of U.S. $58 million per annum which may reflect some outflow.[27] Referring to Table 3, it is believed that the bulk of the black market currency dealings is for payment of the unlicensed gold imported for private hoarding.

(e) Burma: The fluid situation in Burma makes any assessment doubtful. After the socialization of international trade, "operation invoicing" becomes limited if not impossible. As flight is meant primarily that sector of private capital flowing out with a view to escaping loss, it is only logical to conclude that a socialist country becomes a flight country where private capital is being repatriated legally or illegally.[28]

(f) Viet Nam: The war in Viet Nam also makes any estimate of capital flight doubtful. It is believed there is considerable capital flight at the same time as considerable foreign funds are flowing in. Since the inflow can be a sum as large or even larger than the outflow, it is therefore difficult to detect the flight from its international balance of payments.

In conclusion, it is necessary to point out that there is a paucity of information. For instance, neither Table 2 nor Table 3 can indicate the position of Pakistan. Knowing the techniques of "flight operation", this paper is wary of suggesting any quantitative conclusion at this stage.[29]

VI. The Forms of Capital Flight

There are different methods known to be employed in flight operation which change according to circumstances. The following are the main ones:

A. "Operation Officiele"

Certain flight, though under different names, is officially recorded and legally known, whether the government losing the capital likes it or not. This is found in particular among countries belonging to the same currency-bloc where capitalists can transfer their funds freely at the official rate of exchange. For instance, Hong Kong and London have been the recipients of flight capital from many Asian Sterling bloc countries. But, how much of the flight capital remains in Hong Kong and London is another question.[30] "Operation Officiele" may also include a certain portion of "flight capital in transit". For example, capital from Indonesia, the Philippines, and the former Indo-China States which has escaped to Singapore, Bangkok, Hong Kong, etc. may turn up in London, Amsterdam, Switzerland, Paris, Tokyo or New York.[31]

B. Smuggling

This category of operation has been known to exist for a long time. However, compared to other operations, the amount of flight capital involved, as defined herein, may be insignificant. Capital employed in smuggling is used primarily as working capital in the purchase and sale of contraband. Consequently, it is not generally motivated to "escape". For the following reasons, flight capital will resort to this operation only as the last measure:

(a) Smuggling local banknotes of the country is not very useful for effecting capital flight: banknotes are bulky; while the physical risk involved is enormous, not so much from discovery in customs as from theft.

(b) Smuggling foreign banknotes out of the country is also limited for the same reasons, in addition to the fact that the holding of foreign banknotes is usually illegal in the countries of residence.

(c) Smuggling of gold and jewelry out is limited for the same reasons, and it is difficult to dispose of as a regular operation for flight purposes.[32]

C. Operation Handpayment

This operation transfers the funds from hand to hand at both ends. The transferer pays the intermediary in local currency according to the prevailing black market rate of exchange, while the transferee receives it at the other end in local currency. To ensure that this transfer will leave no trace in any record of capital movement, both currencies are handled in cash from hand to hand, hence the name.[33] Because the cash involved at both ends is the legal tender, there is no risk of confiscation, even if caught red-handed. This operation can reach a million dollars in one deal.[34] The technique of operation varies, but the payment information is transmitted usually through codes specifically designed for the operation. Such codes can be transmitted through the regular channels of communication including post, cables, radio and telegrams or telephones.[35]

D. Operation Invoicing

This technique is the king pin of the whole operation and is responsible for the largest value of capital flight. It may or may not leave any trace of capital movement in the balance of international payments. As long as there is international trade employing the procedure of invoicing, there will be such a facility available for flight.

Exporters can arrange flight out of the country by under-invoicing their exports. Such flight will neither be recorded in the errors and omissions item, nor leave any trace in international payments under the trade item. The net results are: (i) the export statistics of the country are "underrecorded", and investment by residents abroad is "underrecorded", while (ii) the import statistics of the recipient country are also "underrecorded". The only fact which may reflect the flight is the assets remaining in the recipient country either in the form of cash, gold bars soundly tucked away in safety boxes, deposits in various banks in various forms under various names (or various numbers), securities, or real estate and other forms of capital.

Importers can arrange flight out of the country by over-invoicing the goods imported from abroad, thereby transferring the over-invoiced amount to the country exporting the goods. The transfer is made through normal banking procedures by paying the amount stipulated in the inward bill. The official import statistics record, for instance, an imported value of 10 million dollars while the actual value of the imported goods amounts to 9 million dollars. The over-invoiced difference of a million dollars can be kept abroad as flight capital.[36] Both methods of invoicing can be done singly and independently or severally and jointly, at the same time or at different times. The official trade statistics appearing in the international balance of payments will therefore present an inaccurate picture of the true value of imports and exports,[37] and capital flight will not appear.

It is to be noted that these methods of operation are not exclusive of each other. Professional intermediaries are well organized, utilizing the most appropriate combination of techniques to arrange inward or outward movement as the situation warrents. On the whole, official efforts to stem the flow are to little avail.

VII. Can International Agencies Help to Mitigate Capital Flight?

International agencies providing aid and investment in the form of capital inflow to developing countries often find the paradoxical phenomenon of domestic capital flowing out at the same time. In the case of Latin America, capital flight is believed to have reached as high as one-third of the foreign capital flowing in.[38] In Southeast Asia, the flight proportion may be higher because while there is a sign of continuous flight, yet there are no signs indicating that the former colonial European powers are willing to finance the region.[39]

When international agencies borrow from international markets to finance some economic development projects in Southeast Asia, it is a paradox to discover that purchasers of the international bonds had included some banks which were either originated in Asia or whose main operating theatre is in Southeast Asia.[40]

From the analysis of the factors causing capital flight, it is fairly evident that the remedy lies with the national governments: if they can manage to create political stability, stable economic policies that do not threaten segments of the population, realistic exchange rates, freedom to transfer capital, and taxes well-enforced and at levels near those of relevant other countries--if all these pleasant conditions are achieved, then capital flight will decrease.

Table 1: Comparison of Inflation Experience, 1955-65
(Compiled up to March, 1965, unless specified)

	Purchasing Power of National Currency						
	Domestic		International				
Country	Over-all estimate 1955-65	Price Index 1963 (base 1958)	Free rate exchange to U.S.$	U.S. $ free rate premium on March 31, '65	$\frac{A + C}{2}$	Offical de-valuation of nation-al currency (times)	Age of currency since last de-valuation (years)
	A	B	C	D	E	F	G
Indonesia	-99%	1,254	-99%	3,500%	-99%	8	11/12
Taiwan	-53	148	-41	18	-47	5	3
South Korea	-81	140	-81	54	-81	7	1/12
Viet Nam	-31	119	-63	386	-47	3	3
India	-38	116	-37	79	-38	0	15
Burma	-11	99	-54	263	-33	0	15
Ceylon	-10	104	-49	215	-30	0	15
Philippines	-18	117	-30	96	-24	2	4
Cambodia	N.A.	130	-60	214	---	1	9
Laos	N.A.	256	-50	358	---	2	5/12
Pakistan	-21	105	-25	84	-23	1	9
Japan	-28	127	12	5	-8	0	15
Thailand	-22	105	4	0	-9	1	10
Malaya	-2	103	-2	2	-2	0	15
Singapore	-2	103	-2	2	-2	0	15
Hong Kong	-2	105	3	0	1	0	15
U.S.	-14	-----	self	self	-14	0	31
U.K.	-25	-----	3	2	----	0	15

Compiled from Pick's Currency Yearbook, 1964-65 (New York: Pick Publishing Company, 1965); except (B) from Economic Survey of Asia and the Far East (Bangkok, U.N., ECAFE, 1964), p.273; and (E) which is only for rough reference.

Table 2: International Balance of Payments of Selected Asian Countries
1959-63 (selected items)

Country	Year	Trade Balance (Goods)	Private Transfer	Private Capital N.I.E.	Commercial Bank Assets	Monetary Authorities	Net Errors & Omissions
Burma	1959	124	-13	17	2	-121	-14
(million Kyats)	1960	8	-13	4	-8	30	3
	1961	93	-15	-13	-31	46	-45
	1962	182	-4	-2	-22	-225	22
	1963	231	-----	-68	-46	-101	22
Ceylon	1959	-183	-56	2	13	96	3
(million Rupees)	1960	-203	-31	-5	-10	188	30
	1961	-83	-30	7	7	106	-20
	1962	-145	-30	-2	4	70	31
	1963	-163	-30	1	-4	88	3
Taiwan	1959	-107	10	29	----	7	1
(million US$)	1960	-122	6	45	----	-19	1
	1961	-134	14	35	21	-38	2
	1962	-110	15	13	25	6	-2
	1963	-24	14	40	-63	-53	12
India	1959	-3,098	490	-108	40	-430	-321
(million Rupees)	1960	-4,304	390	-34	2	357	-107
	1961	-3,576	349	-48	6	278	42
	1962	-4,118	338	582	-45	684	-89
	1963	-3,950	386	124	17	-110	-408
Indonesia	1959	235	----	1	-32	-110	-23
(million US$)	1960	132	----	20	-28	-68	-3
	1961	-290	----	-11	-63	231	4
	1962	-26	----	12	122	46	-42
	1963	99	----	10	-33	98	-38
Malaya	1960	902	-240	150	-11	-346	-139
(million M$)	1961	528	-235	108	64	-149	-89
excluding	1962	311	-204	156	-61	-7	-3
Singapore	1963	305	-214	104	10	13	10
Pakistan	1959	871	4	25	22	-390	16
(million Rupees)	1960	792	-3	38	31	-101	48
	1961	-1,184	9	138	-12	288	-33
	1962	-1,365	8	100	-9	-31	-50
	1963	-2,137	40	345	-23	-197	-123
Philippines	1959	6	81	58	-22	-48	-59
(million US$)	1960	-44	80	73	5	-25	-35
	1961	-112	75	-24	12	70	-31
	1962	-31	78	-47	-12	-9	44
	1963	109	22	-3	-12	-66	-161

(Continued next page)

Table 2 (continued)

Country	Year	Trade Balance (Goods)	Private Transfer	Private Capital N.I.E.	Commercial Bank Assets	Monetary Authorities	Net Errors & Omissions
Thailand (million US$)	1959	-67.0	3.1	1.8	-2.3	-6	9.9
	1960	-42.4	2.5	0.3	-3.9	-41	28.4
	1961	-6.6	4.7	35.7	-10.1	-83	9.6
	1962	-86.8	5.1	71.9	1.6	-69	16.6
	1963	-142.7	7.0	77.4	-13.5	-52	28.8
Viet Nam (million US$)	1961	-201	8.2	0.7	-6.4	41	1.8
	1962	-220	9.5	12.3	-2.8	22	-0.3
	1963	-224	14.2	1.6	0.7	-22	0.5
Japan (billion Yen)	1959	131	15	-29	-43	-175	20
	1960	97	20	-36	-73	-179	12
	1961	-201	21	-7	-83	146	7
	1962	145	20	92	-31	-82	2
	1963	-55	14	212	-158	-87	22

Source: Economic Survey for Asia and the Far East (Bangkok: U.N., ECAFE), Annual 1962 for 1959 and 1960 data, pp.218-220; and Annual 1964 for 1961-1963 data, pp.267-268. Note: The ECAFE data do not include Hong Kong and Singapore.

Table 3: Unrecorded Capital Movement in Selected Asian Countries (reflected in [illegible] dealings in currency, remittances and payment for goods and gold), Annual Average based on 1962-64 Estimates"

Country	Estimated Value U.S.$million	Related to Items of Movement	Capital Flight (U.S.$ million)
Burma	$ 6	Currency and imported gold.	Knownto have increased after 1962 (value not known)
Ceylon	$ 8 (10 for 1961)	Payment for imported gold and capital flight.	
India	$ 48 $100	Payment for imported gold. Dealings in currency.	Believed to have reached $50 million to US alone for one time (exact value not known).
Indonesia	$ 3 ($25 for 1961)	For currency only. (Other not included.)	Believed considerable, had reached $40 million to US alone at one time.
Korea (South)	$ 4	For import-export only.	(not known exactly)
Pakistan	$ 30	Currency and gold imported.	(Not known).
Philippines	$ 60	Currency and gold imported.	Not knownexactly, but Central Bank reported net outflows reached $41-56 million for 1964.*
Viet Nam	$ 14	Currency, imported gold, and capital flight.	

Source: Pick's Currency Yearbook 1964-65 (New York: Pick Publishing Company, 1965), except from the 1964 Annual Report of the Central Bank of the Philippines, pp.6 and 98. In addition, active movements are known to exist in Cambodia, Laos, Taiwan, Bangkok, Japan and Singapore. Hong Kong is generally considered to be the "recipient" country whose daily dealings in U.S. currency averaged U.S. $ 3,000,000 and gold U.S. $ 500,000 (Pick, op. cit.) Officially recorded Hong Kong gold imports as quoted by the 1965 Hong Kong Economic Annual (in Chinese), Part I, p. 186, amounted to a daily average of approximately U.S. $90,000 in 1964 (Hong Kong Economic Herald, 1965). Bangkok, Singapore and Japan are also the "recipients". It is believed there is considerable private capital flight from Southeast Asians in Switzerland, U.K., France and the U.S. Taiwan reported that the overseas Chinese investment (essentially outflow from other Southeast Asian countries) came in 1965 to U.S. $8,800,000 (Chinese Ministry of Economic Affairs).

*Converted to U.S. $ based on free market rate of exchange.

Notes:

1. Capital flight is considered as that portion of private capital outflow that leaves the country with the purpose of "avoiding an anticipated loss": i.e., that which possesses an "escapist" motive. Capital remitted out for financing normal trade, debt payments, etc. is not included, nor are overseas residents' remittances back home to support families included. (E.g., such remittances from Singapore and Malaya to India and Ceylon were recorded in 1956 at U.S. $7,000,000 and to Mainland China at about U.S. $4,000,000, although remittances from Indonesia to China were not recorded and, as a rule, went through the same channels as flight capital.) Flight capital may be originated from within or without the owner's country of residence. Regardless of whether or not it is recorded, as long as its owner prefers to transfer the capital abroad just to avoid possible loss, it is treated as flight capital. Cf. Arthur Bloomfield, Speculative and Flight Movements of Capital in Postwar International Finance (Princeton: Princeton University Press, 1954), See also Note 2 below.

2. See, International Monetary Fund, Flow of Private Capital From Developing to Developed Countries, prepared for the United Nations Conference on "Trade and Development," Geneva, March-June, 1964 (E/CONF. 46/20). The document concludes with a passage from the Fund's 1963 Annual Report:

> "The recent rise in the flow of total financial resources from the industrial countries to the less developed countries appears to have been offset, to some extent, by increased outflow of domestic capital from these countries, which in some instances has had the character of a capital flight. This problem has reached substantial proportions only in some of the overseas franc area countries and in Latin America. In both groups of countries, the outflow of capital seems often to have been related to political events or uncertainties, although, of course, inflation in some countries has also been an important factor. The establishment of national governments in some of the former French colonies has been accompanied by a large-scale emigration of Europeans, but there is no statistical basis for appraising the magnitude of the capital movements accompanying this migration. The outflow of capital from Latin America has aroused much public attention, and there have been some very high estimates of the total. The information available to the Fund suggests that this outflow (much of which has been in spurts) may have averaged about $300 million annually during the fifties (or about one third of the inflow of new private investment capital). It seems to have been somewhat larger during the last few years."

See also: Poul Host-Madsen, "How Much Capital Flight from Developing Countries," Finance and Development (March 1965). The author, an officer of the Research and Statistics Department of the Fund, notes, "the magnitude of the flow of private capital from the developing to the developed countries is one of the most difficult questions in the field of international payments. Nodoby would question that this flow has in some periods and in some areas of the world been very large, or that it deserves serious consideration..." (p.25). 1964 Annual Report of the

Central Bank of the Philippines, Manila. For the year 1964, the "net capital outflows" were estimated to be U.S. $41 million, and for 1963, U.S. $23 million. There was a net foreign "disinvestment" about U.S. $3 million for 1964 (pp.98-99). Reasons given for the "capital flight" and outflows included speculative flurries, invisible disbursement and payment for smuggled goods (p.6).

3. For instance, it is said there is considerable U.S. capital remaining abroad in nature of flight. But this is considered helpful to the recipient and developing countries. Dr. Franz Pick, author and publisher of Pick's Currency Yearbook (see Table 1 and Table 3), has estimated in 1965 that the total capital flight (not including normal investment) from the U.S. might have reached U.S. $18-20 billion. From personal discussion with him, I gained the impression that the recipients of such U.S. capital included Mexico, Burmuda, Lebanon and Western Europe. The causes of the U.S. capital flight included, in particular, tax evasion. See, Stanley Penn, "Money on the Run", The Wall Street Journal (July 14, 1966).

4. In addition to documents (1) and (2) mentioned in Note 2, see also M.F. Hassan, "Capital Flight: Venezuela 1958-60," Inter-American Economic Affairs, Vol. 17, No. 2 (1963).

5. H.J. Tomkins, Report on the Hong Kong Banking System (Hong Kong: Hong Kong Government Printer, 1962), p.1. Similar views are found in Hong Kong Commerce, Industry and Finance Directory 1964 (an annual official publication of the Hong Kong Government). The analysis of the balance of trade of Hong Kong began with the statement: "Hong Kong's consistently adverse balance of visible trade is not a matter of concern because, in a sense, the Colony has no payment boundaries...the adverse balance is necessarily made up by income on invisible account--remittances from Chinese people resident overseas, exchange, shipping and insurance profits, expenditures by tourists and military personnel either stationed in the Colony or on leave, and in recent years a substantial inflow of capital from other Far Eastern territories" (p.11). Also see, The Hong Kong 1965 (an annual Government Report for the year 1965, published by the Hong Kong Government, 1966). Chapter 1, in reviewing the general situation, pointed out that incidents such as a run on the two local banks in January 1965 could not harm "the Colony's reputation overseas as a banking and business center", as evidenced by the fact that "money was continuing to come in from Southeast Asia and from elsewhere." (p.8)

6. Special Edition on 1965 Hong Kong Banking (Hong Kong; Economic Herald, December, 1965 in Chinese), p.3. Further evidence includes the financial news published daily by Singapore Nanyang Siang Pau and Hong Kong newspapers (in Chinese), "Quotations in the Hong Kong market at the closing hour of business on 19 February (Saturday) 1966 included the following: To US TT $100 at HK $574.75; spot (banknotes) U.S. $100 at HK $573.50; gold (bar form) of 945 at HK $263.37 per ounce; to Amoy (Mainland China) TT U.S. $100 at HK $563.50." "Hong Kong offered a secured refuge for nervous capital, a steady flow of money from center after center kept entering the Colony as unrest kept breaking out in other countries," and "the existence of the open market (for U.S. dollars) in

Hong Kong contributes to the maintenance of the Colony's position as the foremost banking center and entrepot of the Far East". From Hong Kong Business Symposium: A Compilation of Authoritative Views (Hong Kong: South China Morning Post Ltd., 1957), pp.63 and 260 respectively.

7. Annual Report 1963 (Kuala Lumpur: Central Bank of Malaysia, English Edition). From the statistics of the Government of Singapore covering the four years of 1960-63 inclusive, Singapore's total imports were equivalent to U.S.$4,814,000,000; total exports were U.S. $4,016,200,000; while the total invisible inflow amounted to U.S. $499,700,000 being 12.4% of exports or 10.4% of imports. As the total trade deficit amounted to U.S. $797,800,000, the invisible capital inflow had reduced the deficit by 62.6%. (The U.S. dollar conversion is by official rate of U.S. $1 to Singapore $3).

8. According to the Government of Singapore's Economic Development Board Annual Report 1963 (p.3), the total national income estimated for 1963 was local currency $2,630,000,000. For receipt of invisibles, see the Central Bank's Report cited in Note 7, p.22, which gives an estimate of $546,200,000 (U.S. $182,067,000) for 1963.

9. According to E.F. Szczepanik, The Economic Growth of Hong Kong (Oxford: Oxford University Press, 1958), p.183, the total Hong Kong national income covering the seven year period of 1948-55 was about HK $18.1 billion, while during the same period Hong Kong had received a total of HK $7.1 billion as "inflow of capital from abroad plus net balance of invisible earnings plus net balance of governmental and private transfers". However, this is supposedly the "recorded" capital inflow.

10. The "refugee capital" from Mainland China to Hong Kong during 1949-50 was estimated to have reached at least U.S. $167 million in that one year, Wong Po-Shang, The Influx of Chinese Capital into Hong Kong Since 1937 (Hong Kong: Kai-Ming Press, 1958), p.5. There are many different estimates on the capital flow to Hong Kong during 1946-60, but all the estimates include capital from different countries as well as the normal family remittances. All estimates agree that there is a continuous inflow of capital from overseas Chinese to Hong Kong more or less in the nature of flight capital, but "in the absence of many statistics, it is not possible to assess at this moment...while the range of magnitude of the sums involved is knwon, the precise amounts (of flight capital) are yet to be revealed or may never be," T.C. Lee, "The Economy of Hong Kong Since World War II," Symposium on Economic and Social Problems of the Far East, edited by E.F. Szczepanik (Hong Kong: Hong Kong University Press, 1962), p.176.

11. A systematic treatment of the subject of inflation, capital flight and gold movements can be found in Pick's Currency Yearbook (New York: Pick Publishing Co., 1955-65). The relation of stock market to domestic capital accumulation can be found in Richard Hooley, Savings in the Philippines 1950-60 (Manila: University of the Philippines, 1963), pp.65 ff.

12. The reasons may be attributed to the following: (i) the rapid rehabilitation and development of Taiwan after 1952, with an average annual

7% growth in national income recorded in the past decade; (ii) the economic and political stability due to the island's geo-politics and U.S. policy; (iii) protective and positive policy to invite foreign investment along the conventional capitalistic lines; and (iv) as an outlet (haven) for some of the flight capital owned by overseas Chinese from other Southeast Asian countries. The Ministry of Economic Affairs announced that from 1951 to 1964, the total investment capital in Taiwan industrial projects coming from abroad was U.S. $176.3 million, of which $114.6 million was from "overseas Chinese". See 1966 Yearbook of Far Eastern Economic Review (Hong Kong), p.320.

13. For example, the following market analysis was reported in a Singapore paper (Nanyang Siang Pau) on 13 February 1966: "Due to the official over-valuation of Indian rupees, India was losing her gunny-sack market to Thai exporters in Singapore, the price quoted was local $1.35 (Indian) versus $1.28 (Thai) per unit." It was also reported that "due to the disparity of official versus free exchange rates of the rupees, there have been more and more Singapore imports of gunny-sacks through special arrangement from India, therefore, a slight drop of the official Indian quotation has not influenced the local market." On 20 February 1966, the same paper reported: "Due to inflation in India thereby causing the increase of domestic cost of production, while the black market rate of rupees depreciates further, more and more Indian exports are reaching Singapore market via concealed and indirect routes. By official rate, the Indian CIF quotation should be $1.51. They have, however, lowered it down to $1.30-1.32, but still cannot compete with the Thai quotation at $1.26-1.28". In June 1966, India devalued the rupee, 4.76 to 7.50 per U.S. dollars, and has officially declared: "the whole purpose of devaluation was to increase exports." See Indiagram No. 83, a news letter issued by the Embassy of India, Washington, D.C., June 16, 1966.

14. The following statement is a reflection of such a situation: "Some Pakistani industrialists were stated (and accused by the Government of Pakistan), no doubt correctly, to be holding in Swiss banks foreign exchange earned by under-invoicing exports, over-invoicing imports and other subterfuges. Later, it seemed, some of the money would be transferred to London or Hong Kong, there to be sold for Pakistan rupees around Rs.23 to the pound as against the official rate of about Rs.13". 1966 Yearbook of Far Eastern Economic Review, Hong Kong, p.91.

15. It will be interesting to find out the nonresident accounts kept in countries such as Switzerland, Lebanon, Hong Kong, U.S. etc. known to be the havens of flight capital. According to one estimate for the U.S. alone, bank deposits and short-term investments, held by "private foreigners" amounted to U.S. $11.6 billion in October 1965, in addition to the fact that American stocks and bonds are "widely held abroad." First National City Bank, Monthly Economic Letter (February, 1966), p.23. See also Note 31 of this paper.

16. For instance, the flight from Ceylon to U.K. etc. (recorded) during 1956-59, was mainly due to this factor (Pick, op. cit., 1962, p.94). It is to be noted that some "repatriated" funds which are legally taken out of a country when the owners choose to leave (e.g., pension funds) c

are not considered as flight capital. However, regarding other categories of investment capital, the amount which can be legally repatriated is usually limited (even within the same currency bloc). It is believed the portion left behind becomes flight capital in due course. Moreover, many foreign capitalists wish to take out their money after the repatriation period has expired, or after a new situation has developed. See The Annual Report of the Central Bank of Ceylon, inter alia, 1954, 1957 and 1959, pp. 27, 36-37, and 47 respectively.

17. Benito Legarda, "Stages of Growth and the Philippine Experience," Symposium on Economic and Social Problems of the Far East, edited by E.F. Szczepanik, op. cit., p. 182. Also see Note 2.

18. The minorities being discriminated against are not only the Chinese, Indian or other racial groups, but also some nationals that originated in neighboring countries. The United Nations has mentioned in the Economic Survey of Asia and the Far East 1960, that "speculative psychological tendencies" have led to "capital flight" in Indonesia in 1959 (p.45). This general statement may be interpreted to include all the three factors mentioned under socialization, nationalization and discrimination. Up to 1963, the Dutch properties confiscated by the Indonesian government were estimated to be worth U.S. $1.3 billion, while the confiscated Chinese properties about the same value, of which the properties of Kian Guan Company alone (known as the Sugar King) reached U.S. $75 million. See Overseas Chinese Economy Yearbook 1963 (Taipei: Overseas Chinese Commission, 1963), p.272. Racial discrimination against both the Chinese and the Dutch in Indonesia during 1949-63 caused capital flight from Indonesia to Singapore and Malaya, while at the same time there were signs of capital flight from Singapore and Malaya to London and Hong Kong. Such discrimination may be based on either national (citizenship) or racial (ethnic) distinctions. To a lesser degree it may also take the form of "protection" by reserving certain privileges or special rights exclusively for certain races. For instance, certain categories of land and agricultural pursuits and/or certain industries and trade are reserved for certain races. Such policies have sometimes caused capital flight because the discriminated minorities decided thereupon to pack up due to being denied "equal opportunity" inthe country of residence. However, because of the special privileges (often times monopolistic), thereserved trade/industries are profitable, and more often thannot, develops in due course a peculiar economic system. The "privileged race" becomesa sleeping partner, or even a sort of parasitic capitalist class, that reaps profits without effort, because it is being "paid off" by the discriminated race that runs the business in all respects except in name. (The privileged race nominally owns the business.) This practice is known in many countries in Southeast Asia, for instance: (i) The Deputy Premier of Malaysia officially announced that the Malaysian Government has established an aboriginal trust bureau (probably the Majlis Amanah Ra'ayat, known as MARA, translated to mean the Council of Trust for the Indigenous People), to buy up the 8,000 acres of palm plantations reserved for Malays with a view to preventing any "Ali-Baba" or "Ali-John" scheming (Malaysia Nan-Yang Siang Pau, (27 April 1966)). In Indonesia there is also operation known as "Ali-Singh". "Ali" represents the legal title of the firms. (ii) Benito Legarda, op. cit., p.187, when analyzing

the capital investment in the Philippine industries, mentioned that "some Chinese (capitalists) veil their participation in economic activities by placing their business in the names of Filipinos." Naturally this "Ali-Whatnot" business has contributed to the country's capital flight because such schemes are not expected to last.

19. The chairman of the Singapore Chinese Chamber of Commerce has written an article appealing to the Singapore government that such "returning capital" remitted from abroad should be exempted from all tax enquiries and assessment so that Singapore could compete with Hong Kong as a recipient country of flight capital. Sun Peng Yam, Nanyang Siang Pau (January 1, 1966). It appears that all governments are aware of this, for example, the government of India promulgated its "national defense remittance scheme" in October, 1965 with the following clause: "Recipients of such remittances (from abroad) are not liable to income tax thereon. The income tax authorities will not question the sources of such remittances received from abroad through banking channels". In February, 1965, the Indonesian government legalized private bank accounts held abroad, apparently with a view to inviting some of the flight capital to return home.

20. In addition to the two articles mentioned in Note 2, the following explanation is found in the Economic Survey of Latin America 1963 (New York: United Nations), p.238: "...errors and omissions represented a negative sum of nearly U.S. $1,300 million for Latin America... The very fact that errors and omissions are so large obviously reduces the scope of any analysis of capital transactions between Latin America and the rest of the world, and therefore raises the question of their exact significance... the most significant of the unregistered outflows correspond to new short- or long-term investment abroad effected by private persons resident in Latin America (flight of capital). Thus, in spite of the fact that the amount of errors and omissions does not provide an accurate measurement of the flight of capital, changes in their level give a rough idea of the trend of flight. In other words, it may be assumed that the flight of private capital accelerates whenever negative errors and omissions are shown or increase, and slackens off whenever the errors and omissions are positive, provided that no other factors have intervened..."

21. See the following section on "Flight Operation".

22. In addition to the three documents mentioned in Note 20, see also Poul Host-Madsen, "Balance of Payments," Finance and Development (March'66).

23. For instance, United Nations, Economic Survey of Asia and the Far East 1964, notes that: (i) in Burma after the socialization policy, Burmese production declined by one-tenth in 1963-64, and the government attributed this to the obstructive actions of foreign and national capitalists who gave up maintaining industrial equipment or closed factories, hoarded vast sums as cash and smuggled money out of the country (p.208). (ii) In Indonesia measures were taken by the Indonesian government to "reverse outflows of capital from the country" by exempting from price control those imports financed from private holdings of foreign

exchange (abroad) whether "legally or illegally acquired" provided that a one percent "redemption charge" was paid, and also by lifting the ban on private holding of foreign exchange. Despite all these measures, the Indonesian imports did not improve as traders were cautious in "exposing their assets or in converting them into rupiah even at apparently high profits." (p.205). The Central Bank of the Philippines in its 1964 Annual Report put is as follows: "The outflow of capital from the Philippines which atarted to assume considerable proportion, particularly after the institution of decontrol, continued to increase in 1964... Significantly, the over-all tone of restraint in the fiscal and monetary sectors (by the government) failed to stem the outflow of capital..."(p.98). The United Nations Economic Commission for Asia and the Far East (ECAFE) in a review article on the regional "Problems of External Payments and Finance" covering 1953-60, notes that the annual average of the aggregate current account position of the eight countries (Burma, Ceylon, India, Indonesia, South Korea, Pakistan, the Philippines and Thailand) experienced a marked deterioration, namely, from a modest annual deficit of U.S. $330 million (1953-55 average), to a deficit of U.S. $1,200 million (1959-60 average), Economic Survey of Asia and the Far East, pp. 106-118. However, there is no mention in the review that such a deterioration has anything to do with capital flight, nor has it hinted that the deterioration might not have been so marked if the Singapore-Malaya and Hong Kong accounts (considered as the recipient countries of the flight capital) were included.

24. See references in Note 2.

25. M.F. Hassen, Capital Flight: Venezuela 1958-60, op. cit. It was Bs.1,620 million, converted into U.S. dollars by official rate of Bs. 3.35 to U.S. $1. The official rate was devalued to 4.50 bolivars in 1964 which was only to confirm the black market rate (being 4.50 since 1960). In addition to the recorded capital outflow, Hassan gives the following figures as the "unrecorded" capital outflow: for 1958, U.S. $211 million; 1959, $65 million; and for 1960, $199 million. According to Pick, op. cit., the Venezuelan political unrest in 1958 led to "capital flight" which amounted to almost one billion dollars net for the three years of 1959-61, and for 1961 alone the flight might have reached as high as U.S. $500 million (pp.500-504).

26. The Bank's Annual Report, 1964, op. cit., p.98. On page 6 of the same Report, it was pointed out "there was substantial short-term capital flight". The Report did not specify the amount of flight, however.

27. The official rate of exchange is used for converting all monetary authorities' data (U.S. $1 = Rp. 4.76), but data in errors and omissions are converted by the average black market rate of U.S. $1 = Rp. 7 (the range during 1959-63 was Rp. 5.00 to 7.72). If both items are converted into U.S. currency by official rate, the total is U.S. $69.7 million instead of $58 million. For all the exchange rates, Pick, op. cit.

28. There was an agreement made between the Burmese and Indian governments regarding the repatriation of Indians from Burma. The Burmese government however, has attributed the decline of Burmese production in 1964

to the illegal flight of capital.. Economic Survey of Asia and the Far East 1964, p. 208.

29. To repeat, all data cited in this paper in relation to capital movements are meant only for illustration purposes, as it is difficult to pass judgement on unofficial estimates in general, and the flight portion contained therein in particular. The following are typical: (i) The 1966 Yearbook of Far Eastern Economic Review comments, "how such unofficial estimates could be made was not at all clear", but nevertheless reproduces the following unofficial estimates of unrecorded capital inflow to Hong Kong during the period of January-July, 1965 (p.91): HK $100 million from Indonesia and Malaysia, HK $70 million from Indochina and Thailand, HK $40 million from the Philippines, HK $30 million from Taiwan, the U.S., Australia, India and Japan. Most of this come via associated Hongs (firms) from countries which prevent remittances through normal banking channels. The Yearbook also reports that during the past decade, the monthly inflow of capital to Hong Kong from Southeast Asian countries ranged from HK $30 to 80 million. (ii) 1965 Hong Kong Economic Annual (in Chinese), presents estimates covering the whole year of 1964 of capital inflows to Hong Kong as follows, including family remittances: HK $200 million from Indonesia and Malaysia; HK $200 million from Indochina and Thailand; HK $120 million from the Philippines; HK $70 million from U.S., Australia, Taiwan, Japan, South Korea and India; HK $30 million from Great Britain as family remittance by 2,000 Chinese restaurants and 35,000 overseas Chinese employed there (pp.225-226 of Part I). (iii) An expert from the Bank of England, has also concluded that there was considerable inflow of capital to Hong Kong but "no statistics are available". See H.J. Tomkins, op. cit., p.2.

30. For instance, it was estimated, circa 1957, that about 70% of overseas remittance to Hong Kong remained in Hong Kong. See Wong Po-Shang, op. cit., p. 9. However, how much of this 70% was flight capital is unknown.

31. Reviewing "Asia's Imports from Western Europe and Problems of Import Financing", the United Nations ECAFE concluded, "During the post-war period, the role of Western Europe as a provider of capital funds to the region has been minimal. Since the war, more often than not there has been a net outflow of capital from the region to Western Europe. This is indeed regrettable in view of the political and economic links which for so long existed between the two regions and of the large trade surplus which Western Europe has enjoyed with the region. The future outlook does not look promising..." Economic Survey of Asia and the Far East 1962, p. 118. Analyzing the international capital market of 1965, the First National City Bank pointed out: (i) a large portion of foreign capital issues publicly offered in the U.S. capital market had been purchased by investors who were not U.S. residents; (ii) funds in the European capital markets do not come from Europe alone, but also from other parts of the world, particularly the Middle East and Latin America; (iii) London generally acts as an entrepot for capital of third countries (Monthly Economic Letter, May 1966, p.57). A news report printed in Nanyang Siang Pau on April 7, 1966, read as follows: "Hong Kong Associated Press news release dated April 6, reported that Hong Kong banking circles believed that President Soekarno of Indonesia possesses personal savings abroad of at least

U.S. $60 million, of which $41 million is in Swiss banks and $20-21 million is in Japanese banks, and it is believed that all these savings were accumulated after the independence of Indonesia in 1949-50".

32. Smuggling motivated by evasion of custom duties (smuggling in and out) or by beating export control, etc. are looking for profits and therefore does not involve capital flight in the sense defined herein. Moreover, profits and proceeds obtained through such smuggling are usually employed for other economic activities and therefore may be recorded in the balance of payments when they come back. Although the smugglers may keep part of the sales proceeds in foreign countries for "rainy days", this is incidental and insignificant. For example, according to one estimate, Singapore could still obtain "smuggled rubber" amounting to about 40,000 tons per year from Indonesia despite the Indonesian confrontation (normal Singapore imports from Indonesia were previously about 350,000 tons per year), 1966 Yearbook of Far Eastern Economic Review, p. 71. In banking circles, it is generally known that Indonesian exports somehow reached Malaysia (Singapore and Penang in particular) in 1964 "by indirect routes" despite the confrontation, Annual Report of the Hong Kong and Shanghai Banking Corporation 1964, (Hong Kong, 1965), p.41. Bank Indonesia (the National Central Bank) noted in its Annual Report 1956-57, p. 15 that the Indonesian central government's decline in export proceeds (foreign exchange) was due to, inter alia, "political difficulties:" whereby the regional governments refused to cooperate (implying therein a sort of armed-escort smuggling). However, such operations usually end up as barter trade, and consequently do not cause capital flight.

33. According to Pick, op. cit., payment Rangoon has markets in Bangkok, Hong Kong, Tokyo, Pakistan and India (p.98); payment Cambodia has markets in Viet Nam, Laos, Hong Kong, Paris, Bangkok and Singapore (p. 103); payment Colombo has markets in Madras, Calcutta, Bangkok, Hong Kong (p. 115); payment India has markets in Hong Kong, Kuwait, Bangkok, Rangoon, Tokyo, Karachi, Beirut, New York and Milan (p. 258); payment Indonesia has markets in Singapore, Bangkok, Hong Kong, Tokyo, Bombay, Amsterdam, Zurich and New York (p. 226); payment Laos has markets in Hong Kong, Paris, Singapore and Bangkok (p. 320); payment Pakistan has markets in Bombay, and Calcutta (p.378); payment Philippines is largely done in Hong Kong (p. 396). Payment Bangkok is fairly centralized in Hong Kong (p. 461).

34. This is one reason why there have been millions of units of hard cash stored (hoarded) in private rented safety boxes in bank vaults. I have seen operators carrying enormous amounts of cash to and from various banks in one operation. This operation is well known to the governments, and at least one government tried to challenge it by reducing the value of banknotes overnight as a measure of "reform". Indonesia enacted a "monetary reform" on 25 August 1959: (i) banknotes of Rupiah 500 and 1,000 were reduced in value by 90% and to be withdrawn from circulation, and to be replaced by newly printed notes in due course; (ii) bank deposits of over 25,000 Rupiahs were frozen to 90% and could be utilized only to purchase government bonds of which 2 billion Rupiahs were issued. The Economic Survey of Asia and the Far East 1960 reported: "...there was sign of flight in Indonesia before a proposed currency reform, and persons

dealing in illegal transaction avoided placing money in deposit accounts liable to official inspection and investigation and hoarded the money..." (p. 45).

35. In such an operation, the transferors of the flight capital are generally known to the intermediary personally, but the transferee may or may not know the agent of the intermediary at the receiving end. The transferee will be paid after comparing codes. Codes or identification can be carried by couriers or by the regular postal service--which have been known to be transmitted by post cards. As a rule, all the intermediaries are fairly well-established who have agents at many ports, or are importers-exporters themselves.

36. Over and under-invoicing is apparently well known to the authorities. See, for instance, the ECAFE analysis of the reduction of the Indonesian government receipts both in foreign exchange and trade tax revenue. The decline was in part attributed to "the presence of illegal trade in violation of export, import and domestic regulations." Economic Survey of Asia and the Far East 1959 (Bangkok: ECAFE, 1960), p. 45. See also Note 14.

37. For example, when a country's actual exports are $10 million but only $9 million is recorded, while actual imports are $9 million but officially recorded as $10 million, then a trade deficit of $1 million will appear in the official international balance, instead of a $1 million surplus. It is possible that there are other operations which may offset these imbalances, but suffice it to say that over and under-invoicing can vitiate the official trade statistics. Those who suspect there is, or who are puzzled by the divergence of statistics between capital accounts and trade accounts might well look for the reasons concealed under Operation Invoicing.

38. See Note 2.

39. The following statement summarizes the situation: "On the whole in many Asian countries the stream homeward (to Western Europe) of private capital from underdeveloped countries has probably been somewhat larger than new foreign investment, and definitely so if the fleeing capital of their own citizens is added to the calculation. The Latin American countries seem, on the whole, to have fared better, though there are great differences between the various countries." Gunnar Myrdal, An International Economy, Problems and Prospects (New York: Harper & Row, 1956), p. 108. See also Note 31 of this paper. Incidentally, it is interesting to analyze the sources of foreign capital financing Singapore development during 1959-63 period: which shows only 17% from Western Europe, including only 4% from Great Britain. The total foreign investment in "pioneer industries" during the period, was U.S. $29,520,000; with Japan's $9,077,000 and U.S. $6,100,000 accounting for more than half of the total. The rest included: Western Europe's $5,017,000 (with the U.K. $1,227,000 being 4% of the total investment which was less than the Swiss $1,767,000); Hong Kong $2,667,000; Taiwan $737,000; Australia and New Zealand $866,000; and IBRD $5,067,000. Economic Development Board Annual Report 1963 (Singapore: Government of Singapore, 1965), p.16. (The above values in U.S. dollars are

converted by official rate of local three dollars to U.S. $1.)

40. For instance, according the IBRD's Annual Report 1964-65 (Washington: IBRD, 1966), p. 74, the Hong Kong and Shanghai Banking Corporation and the chartered bank have subscribed to the IBRD's bond financing of a Malayan project. It is possible therefore that those international bonds financing national projects floated in the U.S., Switzerland, etc. are being bought by the flight capital from the countries being financed. See also Note 31. Finally, the following concluding remark of a study on international capital markets by the First National City Bank is worth quoting: "There is irony here. For the new international capital market is the product of restrictions and regulations of private capital investment. Yet, at the same time, the market is a practical answer to controls and regulations--an answer that, along with the international short-term market, is effectively loosening the constraints in domestic financial markets." Monthly Economic Letter (May 1966), p.58.