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Intereconomics

*Suggested Citation:* Nölling, Wilhelm (1986) : Combating capital flight from developing countries, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 21, Iss. 3, pp. 117-123, <https://doi.org/10.1007/BF02925281>

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# Combating Capital Flight from Developing Countries

by Wilhelm Nölling, Hamburg\*

**The flight of capital from the highly indebted developing countries undoubtedly constitutes one of the most serious problems that are making the international debt crisis difficult if not impossible to resolve. Dr. Nölling outlines some suggestions for action which could limit capital flight significantly in the short term.**

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For many years the problem of capital flight was disregarded in academic and political discussions of ways of preventing the dangerous rise in developing countries' external debt from becoming a crisis that would envelop the entire international financial system;<sup>1</sup> it is only recently that the subject has begun to be raised publicly,<sup>2</sup> and even then it was initially defined simply as "the acquisition of foreign capital assets by individuals" from developing countries.<sup>3</sup> These are the terms used to describe the fact that a substantial part of the capital flowing into developing countries in the form of foreign loans has been diverted to finance capital investment abroad by individuals from the recipient country. Admittedly, it is often difficult to draw the dividing line between private and public investment and not every investment of capital abroad should be branded as capital flight, but this qualification does not negate the fundamental statement. It would be correct to speak of capital flight as soon as the trickle of resources lost from capital flows became a flood of outward investment and passed a certain level, which will vary considerably from one country to another. By its very nature, capital flight is difficult to quantify reliably, as it is often effected outside "normal" business channels and is not necessarily evident from the official balance of payments statistics.

Flight capital seeks many ways of leaving the country and there seem to be no bounds to the ingenuity employed in this respect. The best-known way is probably to carry it in suitcases, a method that is definitely not confined to capital that has been acquired illegally. From the point of view of debtor countries, an equally widespread practice is to invoice exports at less than their true value (underinvoicing) and to do the

converse in the case of imports (overinvoicing). The foreign business partner then transfers the difference to an appropriate account. A similar effect is achieved by falsifying the stated purpose of the payment; this method works particularly well with associated companies abroad.

The studies of this problem carried out hitherto have based their estimates of the scale of capital flight on the consideration that a heavily indebted developing country's current account deficit, its deficit on errors and omissions and its need to replenish its official foreign exchange reserves generate a borrowing requirement that must be matched by corresponding net capital inflows in order to bring the balance of payments into statistical equilibrium. If new external borrowing exceeds this figure, it must be supposed that foreign loans have been used for other purposes, in particular for outflows of private capital.

The International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements (BIS) and the governments of creditor and debtor countries have long been reluctant to address the problem of capital flight. Only in the last few years has this situation changed. In its 1984 Annual Report, the BIS estimated private outflows of capital from Latin

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<sup>1</sup> Compare the comment by the Mexican Minister of Finance J. Silva Herzog that "evidently capital flight . . . is a phenomenon that has only been discovered in the last six months", in: Handelsblatt, 26th March 1986.

<sup>2</sup> Recently the US Under-Secretary D. Mulford called on debtor countries to carry out economic reforms "to reverse the capital flight", but without making any concrete suggestions; see his statement to the Sub-committee on International Development Institutions and Finance, US House of Representatives, 20th March 1986, reprinted in: Deutsche Bundesbank, Auszüge aus Presseartikeln, No. 27, 10th April 1986.

<sup>3</sup> D. Duwendag: "Baker-Plan": Absicherung gegen Kapitalflucht?, in: Zeitschrift für das Gesamte Kreditwesen, No. 2, 1986, p. 57.

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**Table 1**  
**Summary of Estimates of the Scale of Capital Flight from Latin America**

Author:	Duwendag <sup>1</sup>		Erbe (HWWA) <sup>2</sup>		Morgan Guaranty <sup>3</sup>	Wallich <sup>4</sup>	World Bank <sup>5</sup>		BIS <sup>6</sup>	Dillon et al. <sup>7</sup> (Team of IMF authors)
Period:	1970-83		1976-82		1976-85	1974-82	1979-82		1978-83	1980-82
	in \$ bn	as % of net foreign loans	in \$ bn	as % of net foreign loans	in \$ bn	as % of foreign liabilities outstanding at end-1982	in \$ bn	as % of gross capital inflows	in \$ bn	as % of net external borrowing
Argentina	33.2	77	23.2	81	26	65	19.2	65		Developing countries in the western hemisphere
Brazil	8.6	10	7.8	13	10	—	3.5	8		
Chile	-2.4	-19	—	—	-1	-5	—	—		
Colombia	1.9	20	0.3	4	-0	—	—	—		
Mexico	24.4	28	35.6	54	53	over 40	26.5	48		
Peru	3.4	29	0.9	15	0	—	—	—		
Venezuela	30.7	89	11.0	65	30	91	22.0	137		
<b>Total</b>	<b>99.8</b>	<b>35</b>	<b>78.8</b>	<b>42</b>	<b>118</b>		<b>71.2</b>	<b>49</b>	<b>50</b>	<b>37</b>

<sup>1</sup> D. Duwendag: Kapitalflucht aus Entwicklungsländern: Schätzprobleme und Bestimmungsfaktoren, in: A. Gutowski (ed.): Die internationale Schuldenkrise, Ursachen – Konsequenzen – historische Erfahrungen, to be published shortly by Duncker & Humblot, Berlin.

<sup>2</sup> S. Erbe: The Flight of Capital from Developing Countries, in: INTERECONOMICS, No. 6, 1985, p. 271.

<sup>3</sup> Morgan Guaranty Trust Company of New York: World Financial Markets, March 1986, p. 13.

<sup>4</sup> H.C. Wallich: Financing Developing Countries, in: International Debt and the World Economy: A Discussion, Proceedings of a Conference, New York 1983.

<sup>5</sup> World Bank: World Development Report 1985, Washington, D.C., 1985, p. 75.

<sup>6</sup> Bank for International Settlements: 54th Annual Report, Basle 1984, p. 113.

<sup>7</sup> K.B. Dillon et al.: Recent Developments in External Debt Restructuring, Occasional Paper 40, International Monetary Fund, Washington, D.C., October 1985, p. 6.

America at around \$50 billion between 1978 and 1983.<sup>4</sup> The World Bank's estimate, made in 1985, is rather more concrete;<sup>5</sup> it puts outflows between 1979 and 1982 at around \$26.5 billion from Mexico, \$22.0 billion from Venezuela and \$19.2 billion from Argentina. As a proportion of each country's gross capital inflows, this represented 137 % in the case of Venezuela, 65 % in that of Argentina and 48 % in that of Mexico. The fact that the IMF, the OECD and a number of central banks have set up a working party to fill the gaps in balance of payments statistics can be attributed to the growing awareness of the problem. If they are successful, it will be easier to determine the scale of capital flight.

Hence precise data are not available, but estimates by various individuals and institutions have recently been collated, although they are not always comparable (see Table 1). Not only do they cover different countries and periods, but they also use widely differing methods of calculation. Nevertheless, they do allow certain general conclusions to be drawn.

### Countries of Origin and Countries of Refuge

In past years, capital flight has led to the outflow of tens of billions of US dollars from the highly indebted developing countries; but for this, many of them could be almost free of foreign debt. Among the debtor countries of Latin America, Argentina, Venezuela and Mexico have suffered particularly badly from capital flight in terms of both the absolute level and the ratio of flight

capital to outstanding debt. However, the problem of capital flight is not confined to Latin America; it also occurs on a substantial scale from other debtor countries, and even the highly indebted Eastern European states. According to a study by the Morgan Guaranty Trust Company, capital flight from the ten largest debtor countries in the years 1983-84 was half the level of previous years;<sup>6</sup> however, this finding cannot be taken as proof that the problem is not as serious as it once was, for the inflow of "fresh money" into these countries has also been dramatically reduced since 1983.

Nor is it easy to say to which country flight capital has ultimately flowed. The BIS suspects some connection between the level of capital outflows from Latin America and the surplus on errors and omissions in the US balance of payments, which is supposed to reflect unrecorded capital transactions, among other items.<sup>7</sup> The errors and omissions showed a surplus of more than \$40 billion in 1982 but dropped back to \$7.1 billion in 1983, possibly owing to the decline in inflows of flight capital, particularly from Latin America. According to the

<sup>4</sup> Bank for International Settlements: 54th Annual Report, Basle 1984, p. 113.

<sup>5</sup> World Bank: World Development Report 1985, Washington, D.C., 1985, p. 75.

<sup>6</sup> Morgan Guaranty Trust Company of New York: World Financial Markets, September/October 1985, p. 4.

<sup>7</sup> Bank for International Settlements, op. cit., p. 97.

latest estimates, Latin American investors held assets in the USA worth more than \$30 billion in 1985.<sup>8</sup>

In addition, the increase in the liabilities of Swiss banks towards South American countries indicates that Switzerland has been a target of flight capital, although here too it is impossible to make a direct link. The other industrialised countries were probably also recipients of flows of flight capital, partly as a result of a diversification strategy that can be assumed to have been taking place and partly owing to their importance as centres of trade and finance.

### Causes

As a point of departure for an investigation of the causes of capital flight, it can probably be taken for granted that the indigenous businessman operating in the developing country will normally be more successful there than elsewhere owing to familiarity with his country, his family roots and his business connections, so that in principle he will also be prepared to invest there. To be set against that is the fact that, for example, in some South American countries a proportion of private capital has traditionally been invested abroad and the excesses of recent years are attributable to special circumstances that can be considered to have triggered the flight of capital in general.

As a rule, the factors that trigger capital flight lie in the political and economic instability of the debtor countries. The political motivation behind action to transfer domestic wealth to a "safe haven" abroad is fear of a change of government, nationalisation or restrictions on capital movements. Other primarily economic factors are unrealistic exchange rates and inadequate or even negative real interest rates, so that the expected returns on money invested abroad are not only more secure but often also higher than the yield that can be obtained at home. The World Bank considers that the most frequent and most important cause is an overvalued currency – and the expectation of a drastic exchange rate adjustment.<sup>9</sup> Beyond a certain point, a real devaluation appears to be inevitable, thus encouraging speculative outflows of capital which exert additional pressure on the exchange rate. In addition, high and fluctuating inflation rates cause uncertainty and in certain circumstances may lead to negative real interest rates, thus again making it more attractive to invest abroad from the point of view of yields. Tax motives or the fear of restrictive adjustment measures such as price controls may also be a decisive factor. In many cases, the mere

expectation of particular occurrences is enough to trigger capital flight, such as the expectation of a further increase in already high external borrowing. It is noticeable that countries with heavy foreign indebtedness also suffer a high rate of capital flight.<sup>10</sup> Private holders of capital are clearly concerned that sooner or later the government will be obliged to take severe adjustment measures that could erode their wealth, reduce the rate of growth in their assets and generally hamper their business activities. The substitution of foreign investment for holdings of domestic assets as a precaution may then either trigger the process of capital flight or reinforce it.

### International Financial Merry-go-round

The flight of capital from the highly indebted developing countries undoubtedly constitutes one of the most serious problems that are making the international debt crisis difficult if not impossible to resolve. After capital flight has occurred, the counterparts to borrowers, who are mostly public agencies, are in effect wealthy private holders of foreign investments. Interest accruing abroad is also generally reinvested abroad, thereby doing nothing to reduce the debtor country's current account deficit. Viewed globally, capital flight is one element in an international "financial merry-go-round", in which banks in industrialised countries grant loans to developing countries, a not insubstantial part of which flows back to them in the form of flight capital and is used to grant further loans, and so forth. It therefore seems increasingly important that the industrialised countries as well as the developing countries become more aware of the problem than in the past, call it by its proper name and seek ways of curbing it.

It is astonishing that no-one has yet given serious thought to influencing capital flight by political means. This is attributable partly to the lack of awareness of the problem and partly to the tremendously complex ramifications, which may make a policy to curb capital flight seem a hopeless enterprise, at least in the short term. However, the problem is much too important for the world to continue either to resign itself to the situation or to rely on pious hopes. It is time to move to concrete action and to discuss measures that seem likely to help, however difficult they may be to implement politically and however intractable the problem may appear. The remarks that follow are intended to serve these objectives by stimulating thought on the problem. They are based on the assumption that it is in the

<sup>8</sup> Morgan Guaranty Trust Company of New York: *World Financial Markets*, March 1986, pp. 13 ff.

<sup>9</sup> World Bank, op. cit., p. 74.

<sup>10</sup> D. Duwendag: *Kapitalflucht aus Entwicklungsländern: Schätzprobleme und Bestimmungsfaktoren*, in: A. Gutowski (ed.): *Die internationale Schuldenkrise, Ursachen – Konsequenzen – historische Erfahrungen*, to be published shortly by Duncker & Humblot, Berlin.

interest of lending countries and institutions as well as that of the developing countries to draw benefit from such considerations.

### **The Fields of Battle**

Action to combat capital flight can be taken in the debtor countries, the creditor countries or even the banking centres in which flight capital takes refuge. The main responsibility lies with the *developing countries*. Their first priority must be to try to pursue a policy that will eliminate political and economic instability. This entails primarily reducing budget deficits, setting realistic exchange rates and achieving lower rates of inflation. These are the objectives of the adjustment programmes agreed jointly with the IMF and which have helped produce noteworthy improvements in current account balances. Inadequate progress towards the other objectives and, not least, the high social costs of the adjustment programmes have raised doubts whether such policies of austerity are the only path to success. Nevertheless, it is beyond dispute that more stable economic and economic policy conditions are essential if citizens' confidence in the economy of their own country is to be restored and hence capital flight curbed.

If action on this front is to be successful, institutional changes also seem to be necessary, such as giving the

central banks of debtor countries greater independence in monetary and exchange rate policy.<sup>11</sup> Such reforms would allow a more effective campaign to be waged against inflation as a prerequisite to reducing capital flight. Whether political conditions in the countries concerned make such far-reaching reform appear feasible at the present moment should not deter us from repeating the suggestion.

A policy that sets the country on the road to lasting stability takes time, in any case. Hence realistically, second-best solutions must be sought in order to limit capital flight significantly in the short term; exchange controls of the kind already applied to a greater or lesser extent in all debtor countries are undoubtedly at the top of the list. Their use may be abhorrent to the out-and-out proponents of market forces, but in our imperfect world it is not always possible to do without them, as the experiences of the European Community up to the present day have shown; even the Federal Republic of Germany was obliged to impose temporary restrictions on capital movements in the early seventies.

The advocates of exchange controls expect them first to bring a great reduction in illegal capital outflows. If yields are adequate, the capital retained in the country in this way could be used to finance higher investment, to the benefit of growth and employment. If inflation were also brought under control, the first steps would be achieved along the road to an orderly economic

<sup>11</sup> Handelsblatt, 29th January 1986.

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environment. The temporary nature of such measures would have to be stressed from the outset. Once signs of an economic improvement began to emerge, the controls should be gradually reduced and eventually dismantled altogether. In this process, there may even be grounds to hope that capital transferred abroad previously would return home.

### **Problems of Exchange Controls**

In judging exchange controls it is important to avoid conceiving of a uniform pattern to which each affected country should adhere. The political institutions and administrative machinery differ markedly from one country to another, so that the nature and severity of controls must be tailored to the situation in each debtor country. The fact that even today the Mexican Finance Minister can declare that "in Mexico... we have no administrative machinery at our disposal to prevent capital flight"<sup>12</sup> must seem strange and significantly highlights the problems of implementation.

I do not intend to discuss the technical shape of possible measures here, but it should not be overlooked that in practice controls on capital flows have repeatedly caused greater difficulties than had been imagined or expected. Even the distinction between undesirable financial loans and tolerable trade credits is not easy to make. Experience has shown that flight capital constantly seeks new loopholes, so that increasingly fine-meshed controls would be necessary, leading ultimately to the sealing of the country's borders in the interests of absolute efficiency. Draconian exchange controls also have serious adverse effects on foreign trade, precisely the activity that must be encouraged in order to improve the economic performance of the debtor country.

Finally, when introducing, maintaining or modifying exchange controls one must be fully aware that while they endure the voluntary inflow of foreign capital will certainly not be encouraged, either in the form of loans or direct investment. What lender will enter into commitments in a "mousetrap" currency one can enter but may not be able to leave again? Exchange controls need to provide some let-out for this contingency. In addition, consideration should be given to a measure that would initially appear to be out of the question on grounds of justice, namely an amnesty for the repatriation of funds illegally transferred abroad, to see whether it might not have a beneficial effect.

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<sup>12</sup> J. Silva Herzog, *op. cit.*

<sup>13</sup> In 1985 voluntary lending by private banks to the highly indebted developing countries practically came to a standstill; see Geschäftsbericht der Deutschen Bundesbank für das Jahr 1985, p 81.

All proposals for action in the debtor country must be so designed that the authorities – in many cases the ruling elite – have an interest in the efficiency of these controls and take steps *to curb unauthorised access to inflows of foreign currency, with its harmful effects on development.*

### **Measures by Creditors**

Apart from measures to be taken in the debtor countries, the battle against capital flight also entails action at the source of the capital flowing into the developing countries, in other words measures concentrating on the *creditor countries*. As a general rule, the more firmly loans are tied to specific purposes, the less the opportunities to divert the funds abroad. This would suggest that greater emphasis should be laid on governments and international development banks granting loans tied to particular purposes or projects, as is already practised.

Even where loans are granted by *private* banks, with the help of the creditor countries it is perfectly feasible to monitor the use to which they are put. After all, it is in the interest of the lending bank to see that the borrowed resources are invested productively and thus generate the means of paying interest and repaying the principal. Monitoring of the use of resources is perfectly normal in credit business, in any case. Supervision should not be restricted to investment loans but should also extend to working loans or even loans to governments for balance of payments financing. Joint commissions working in the debtor country would have to be given the task of obliging the government to provide information on the use of resources. This would open up the possibility of releasing funds for projects in step with the progress achieved.

The drawbacks with excessive tying of inflowing capital on the one hand and monitoring of its use on the other are obvious. Apart from well-founded objections on the grounds of efficiency owing to the cost of supervision, there is certainly a fear that the sovereignty of recipient countries may be infringed and perhaps that initiative will be stifled. Are these fears justified? Can one really envisage more stringent constraints on sovereign countries than a credit freeze imposed by private banks<sup>13</sup> virtually overnight because international confidence in a debtor country has collapsed or is in the process of evaporating? Moreover, it is ultimately a question of protecting the money of the working, tax-paying and interest-paying population in the creditor countries if such protective measures are proposed, and hence are considered essential, in order to get bank loans flowing again.

### Direct Investment

Direct investment in the developing countries constitutes another form of capital inflow that is not freely accessible. Of course, there is no point in expecting that stable economic conditions in debtor countries will generate a larger volume of such resources, for the very objective is to restore economic stability, partly by using foreign equity capital. Interested foreign investors are looking for a return that is both attainable and adequate by international standards and also wish to know that profits can be used according to business criteria, which may include transferring them abroad.

Since many firms consider that the risks hanging over the generation and use of profits are too great in developing countries, measures to reduce these risks could help sustain or increase interest in direct investment. The most important weapons in this connection, which have been tried frequently in the past, are state guarantees provided by lending countries as well as recipient countries and forms of so-called co-financing, such as that practised by the International Finance Corporation or regional development banks. As part of the Baker initiative, this kind of capital inflow is to be expanded by the Multilateral Investment Guarantee Agency (MIGA), which operates under the auspices of the World Bank.<sup>14</sup> Its job will be to guarantee investments against non-commercial risks and to advise on investment opportunities. As a rule it is the foreign investor who will be taken under the wing of this agency, but the new guarantees can be extended to nationals from developing countries if flight capital is to be transferred back home. This sensible extension of the scheme and other confidence-building measures can be regarded as one of the most hopeful initiatives to repatriate capital held abroad.

### Defensive Cartels

A third point at which capital flight from debtor countries could be tackled would be in the *host countries*, in other words the refuges to which flight capital flows. Until now it has been hardly conceivable that banks in the host countries should form a defensive cartel – or could be forced to form one – in order to repulse investible capital from debtor countries; if they were prepared to join such a cartel at all they would undoubtedly do so only if they could rely on one another, if there were plausible business advantages and if flight capital could be readily identified. This would appear to

be difficult if not impossible, for investors from capital flight countries would only need to invest their capital in off-shore centres (which it can be assumed would be the last of all banking centres to be brought into such a cartel), where the international banks would “launder” it and channel it anonymously back to the cartel banks.

It is difficult to discern direct microeconomic advantages in turning capital away; indeed, it is probable that the rejection of investible funds would tend to have an adverse effect on the liabilities side of their balance sheets. From the banking point of view, the acceptance of flight capital might even be desirable, as it would, for example, allow them to finance a greater volume of lending to borrowers with a good credit rating, such as those in industrialised countries.

In present circumstances, action on this third front is therefore reduced to very little. Nevertheless, I would make a plea that it should not be written off or abandoned out of hand as being completely impervious to political influence.

If one views the situation from a rather higher vantage point than the individual banking business generally seems able to do, there can be no doubt that the banking community as a whole would benefit from turning away flight capital, for capital flight works against their interest in more stable economic conditions in debtor countries and the accompanying reduction in their external risks.

It should also be noted that monetary policy in host countries can also play a part in reducing capital flight. If the state of the domestic economy demands or allows, the monetary authorities have to ensure a low level of interest rates. This would reduce the yield on flight capital and drive away that part that was geared towards income. However, to reduce interest rates without regard to the domestic economic situation in order to limit capital flight would run counter to the main objective of a monetary policy geared towards stability; that being so, the effect of relatively low interest rates in repelling flight capital can be seen only as a desirable side-effect that could be borne in mind if circumstances permitted.

### Dirigiste Measures

*Dirigiste* restrictions on capital flight are an alternative to these more indirect measures. For example, to prevent the production of false invoices consideration might be given to instituting checks at customs offices in the importing countries, in other words in the industrialised countries. A check would be made to see that the imported goods tallied with the consignment shown on the invoice. In addition, price comparisons would show whether the level of the invoice was

<sup>14</sup> See for example J. Shihata: Bringing MIGA to Birth, in: Euromoney, November 1985, pp. 14 f.

appropriate, given the size and quality of the consignment. These would have to be random checks, as otherwise the administrative cost could not be kept within bounds. Nevertheless, the danger that such punishable offences would be discovered would increase, so that the importer, whose complicity is essential, might be persuaded not to play along and to lose interest in such falsification; it would also make this type of capital flight less attractive to the exporter in the developing country.

Controls on inflowing foreign exchange in the host country similar to exchange controls in the debtor country could be tried as a means of deflecting flight capital or the banking supervisory authorities could forbid banks to accept flight capital. Quite apart from the recurring problem of establishing whether capital offered for investment originated in one of the debtor countries, the benefits of introducing such dirigiste measures should be weighed against the advantages of a liberal system of banking supervision. Perhaps more subtle influence brought to bear on the banks through moral suasion might prove to be an acceptable middle path.

### **The Marcos Case**

The tussle over the Marcos billions throws a spotlight on practices whose reprehensibility is without doubt and which would not have been possible without assistance from the banks. Why should it not therefore be possible to draw up a code of conduct which, as a first step, would oblige the banks to examine the origin of such funds? The Marcos case has demonstrated that the authorities in both the USA and Switzerland have established legal principles with which the banks must comply. In principle the question therefore appears to have been answered, but the difficulties of applying it to many thousand similar cases should on no account be underestimated. The attempts to seize the Marcos flight capital also show that steps to reduce banking secrecy have been under way for some time with the aim of uncovering certain socially and economically harmful activities.<sup>15</sup> Much would be achieved if the arguments of interested parties were made more transparent through debate. The banks would be more reluctant to accept funds they suspected were flight capital if they recognised that the general reduction in capital flight was also in their interests. For the sake of completing the picture, and not because it would be quick to implement, it should be mentioned that in theory international banks must be in a position to

erect the first dam against capital flight via their subsidiaries in off-shore centres, thereby considerably easing the problems of attribution.

### **The Situation Today**

In the spring of 1986 the point has again been reached when it seems that efforts to overcome the international debt crisis are making no headway. The recent fall in oil prices brought little relief to the highly indebted developing countries as a whole. The initiative by the US Treasury Secretary instilled greater confidence last year, but the still unanswered questions about implementation have brought a more sober mood in this regard too. Nevertheless, the American initiative must be seen as the most significant attempt at a lasting solution so far, aimed as it is at overcoming debt problems not by means of austerity but by means of growth in the debtor countries.

As so often in the past, the discussion of this approach pays scant regard to the problem of capital flight, even though it poses a serious potential threat to the Baker plan, which can succeed only if new resources are actually invested in full in debtor countries and do not take a further ride on the financial merry-go-round. On the basis of previous performance, it is estimated that around \$10 billion of the planned \$29 billion in additional private and public loans will fall prey to capital flight.<sup>16</sup> When one sees how endlessly difficult it is to turn the Baker initiative into reality, the prospect of one-third of the resources soaking into the sand must be very disturbing, given the desperate need in developing countries.

### **Conclusions**

In the many different ideas on ways of overcoming the problem of capital flight from developing countries one constantly comes up against the need to examine *all* lines of attack, establish responsibility, set priorities for action to significantly reduce the incentives for capital outflows of this kind and above all to seek international consensus, indeed to consider it essential. Until it has been established what is or is not possible, I believe the subject of capital flight must not be allowed to disappear from the agenda. The ideal way of preventing capital flight and drawing back capital that had drained away previously is to create confidence in future economic development in the developing countries by bringing about stable economic conditions. However, we shall not be able to avoid examining and applying the second-best measures mentioned above, not least because in many cases it does not seem possible to find and safely follow the ideal path within an acceptable timespan.

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<sup>15</sup> In the USA, for example, the banks are required to report inpayments of cash in excess of \$10,000 as part of the fight against the drug trade.

<sup>16</sup> D. Duwendag: "Baker-Plan" etc., op. cit.