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Trade-related Illicit Financial Flows in Developing Asia (2013–2022)



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ACKNOWLEDGEMENTS

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1 | Introduction

Illicit financial flows (IFFs) are most commonly understood as money or value that crosses borders and is illegal in its source, transfer, or use. These flows matter for development and governance because they can weaken domestic resource mobilization, reduce tax revenue, and constrain the fiscal space required for public services and infrastructure investment. The international policy community has increasingly treated the reduction of IFFs as a concrete development objective. For example, Sustainable Development Goal target 16.4 calls for the significant reduction of illicit financial and arms flows, strengthened recovery and return of stolen assets, and the combating of organized crime by 2030. Against this backdrop, trade is a critical lens for analyzing IFF risks because large shares of cross-border value move through routine commercial transactions, making abuse difficult to detect without systematic, data-driven methods.

A prominent channel for trade-related IFF risk is trade misinvoicing, which is defined as the fraudulent misreporting of key invoice information (including price and quantity, among other attributes) for the purpose of facilitating illicit cross-border financial flows. One widely used approach for identifying misinvoicing risk at scale is “mirror trade” or partner-country analysis, which compares what two trading partners each report about the same trade flow and flags persistent discrepancies (value gaps) as potential indicators of misinvoicing. This approach is particularly useful because it can be applied across many countries and products using large administrative datasets. At the same time, official trade data are not a perfect record of economic reality: differences in valuation conventions, timing, partner attribution, and other factors can create discrepancies even when there is no illicit intent. For that reason, value gaps are best treated as risk indicators that help policymakers prioritize investigations and reforms, rather than as precise measurements of criminal proceeds.

This risk lens is especially relevant for Developing Asia because the region sits at the center of modern trade and supply chains. Global trade volumes are vast: estimates suggest that the value of global trade in goods and services reached about US\$32 trillion in 2022, following the post-pandemic rebound. Developing Asia, as used in this report, follows the World Economic Outlook country grouping for “Emerging and Developing Asia”, which includes several of the world’s most trade-integrated economies. The region’s scale is illustrated by the continued dominance of key exporters such as China, which remained the top merchandise exporter in 2022 with a world export share of about 14 percent. In an environment where high volumes of legitimate trade move across numerous jurisdictions, products, and counterparties, even relatively small mispricing rates can translate into very large absolute value gaps.

This report therefore examines trade-related IFF risks in Developing Asia through the lens of trade value gaps derived from partner-reported discrepancies in official trade data. The analysis draws on GFI’s longstanding value gap approach, which uses United Nations trade statistics to estimate the order of magnitude of trade misinvoicing risks across large samples of countries and years. In the Developing Asia results used for this report, estimated trade value gaps are substantial and appear to have increased over the 2013 to 2022 period, reaching approximately US\$1.69 trillion in 2022. The same results underscore that these gaps are not marginal relative to the size of trade: average value

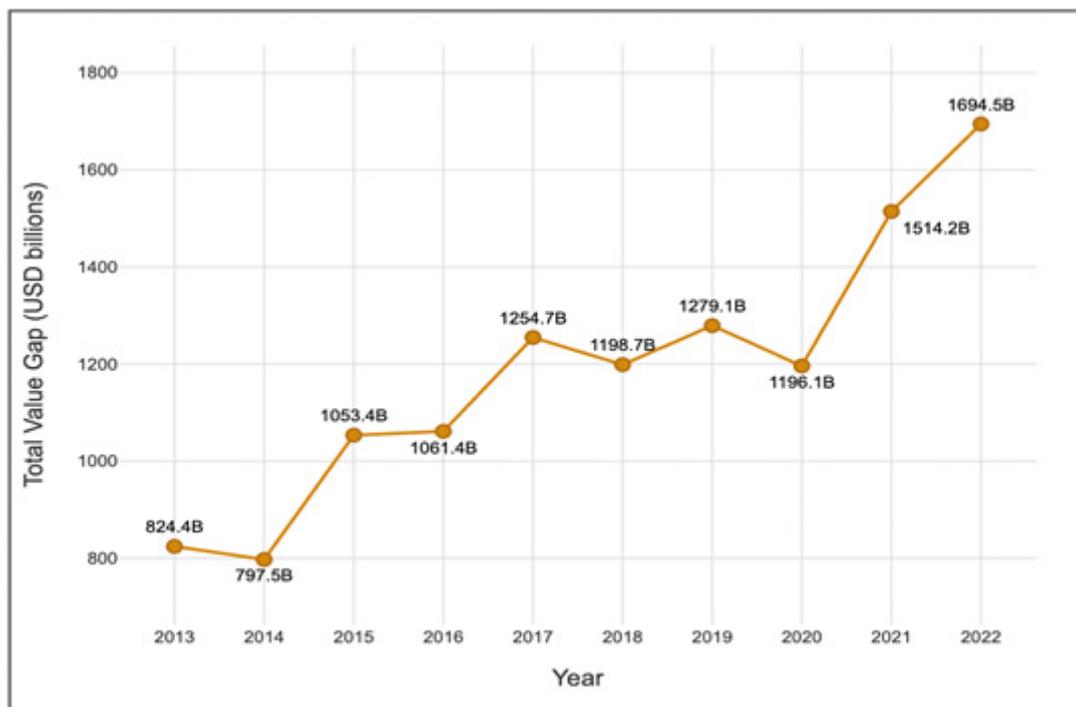
gaps for many countries are on the order of one-fifth of total trade, and a concentrated set of high-volume trading economies contributes a large share of the region's cumulative discrepancies. Consistent with international guidance, the findings should be interpreted as an empirically grounded indicator of exposure to misinvoicing and associated financial crime risks, not as a direct measure of proven illicit proceeds.



2 | Regional and Country-Level Findings (2013-2022)

Recent analysis of Developing Asia’s trade data reveals pervasive and rising trade-related IFFs over the 2013–2022 decade. The estimates show that illicit outflows via misinvoicing have remained entrenched at high levels, with no clear downward trend and in fact reached record peaks by the end of the period. Below we discuss the overall trends and highlight the countries most affected, both in absolute dollar terms and relative to their trade.

Figure 1: Trade Value Gaps in Developing Asia (2013-2022), all Trading Partners



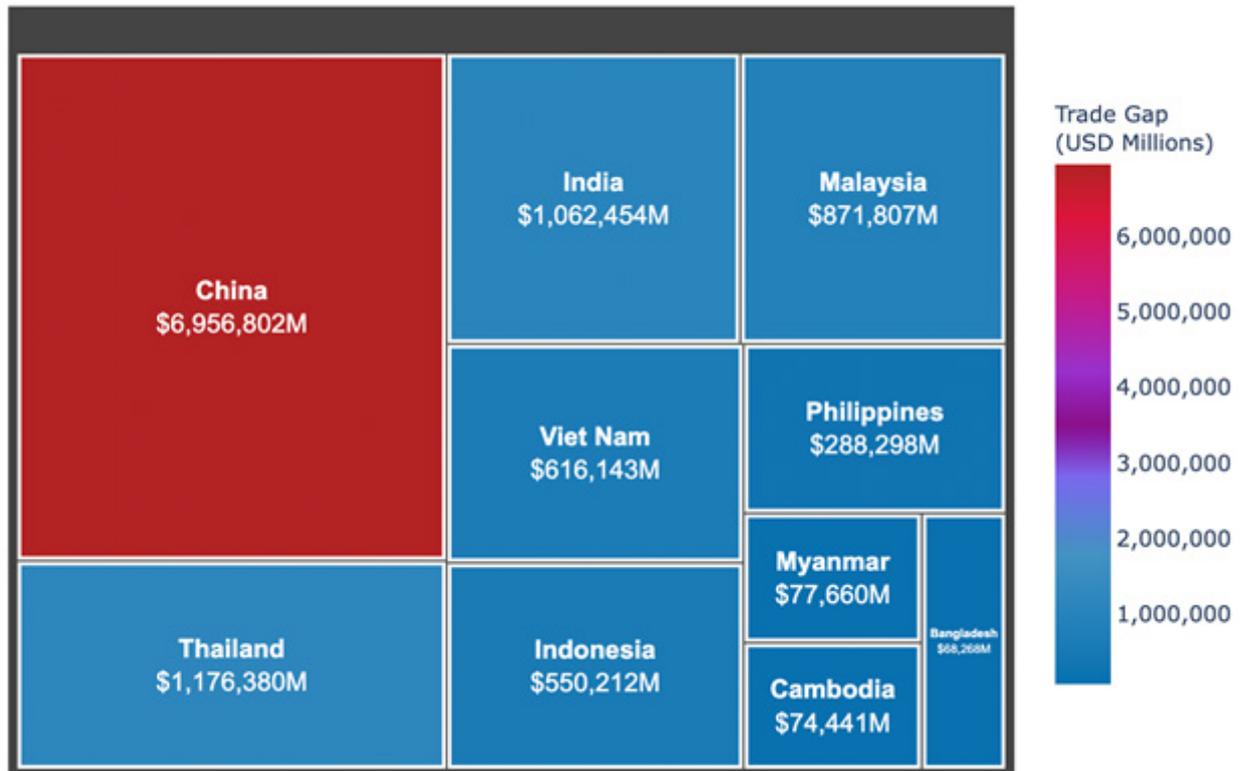
As shown in Figure 1, Developing Asia’s trade value gaps were already on the order of hundreds of billions of dollars per year at the beginning of the period and roughly doubled over ten years. In 2013, the region’s combined trade gap with the world stood at about \$824 billion. This was followed by a slight dip in 2014 (~\$797.5 billion) before an upward trajectory took hold. From 2015 through 2019, yearly gaps fluctuated roughly between \$1.05 trillion and \$1.28 trillion, with no sustained improvement: for example, a moderate decline in 2018 was offset by a rise in 2019. In 2020, the trade gap contracted to around \$1.20 trillion (likely reflecting the global trade downturn during the COVID-19 pandemic that year) but this respite was short-lived. By 2021, as trade rebounded, Asia’s estimated gaps surged to \$1.51 trillion, and in 2022 the region hit a new high of approximately \$1.69 trillion in trade value discrepancies. This post-2020 spike suggests that longstanding structural vulnerabilities, combined with pandemic-related disruptions and commodity price swings, led to an even greater hemorrhage of capital via trade once economic activity resumed. Over the entire decade, there is no discernible downward trend that would indicate systemic progress in combating misinvoicing; if anything, the problem has worsened in absolute terms. The persistence of such large gaps underscores that trade misinvoicing remains deeply entrenched in Asia’s cross-border commerce.

To put these figures in context, the 2022 trade gaps (~\$1.69 trillion) amount to roughly 5.68% of Developing Asia's GDP: a huge hidden leakage. Cumulatively over 2013–2022, the region's trade value gaps with all partners sum to well over \$10 trillion. While not all of this represents outright capital loss (some portion corresponds to import tax evasion rather than cross-border outflow), the scale indicates that illicit financial leakages through trade are a first-order economic challenge for Asia. The opportunity cost is enormous: funds on the order of trillions that could have been used for development have instead been smuggled out, laundered, or lost to governments. These findings mirror patterns observed in other developing regions (for example, similar GFI studies found no significant improvement in Africa or Latin America over the same period), highlighting that much stronger policy actions will be needed to disrupt the status quo.

Figure 2: Developing Asian Countries Cumulative Trade Value Gap With all its Global Trading Partners, 2013 to 2022 (USD Millions)

Countries	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Geometric mean
Bangladesh	15.43%	N/A	15.80%	16.72%	16.71%	14.75%	N/A	N/A	N/A	N/A	15.86%
Bhutan	N/A	N/A	N/A	N/A	19.67%	17.54%	12.98%	13.38%	N/A	11.98%	14.83%
Brunei Darussalam	12.86%	14.33%	14.94%	17.48%	21.94%	21.91%	20.47%	23.26%	17.72%	20.37%	18.19%
Cambodia	17.65%	15.75%	13.57%	16.24%	11.03%	12.21%	17.42%	17.84%	24.45%	27.04%	16.71%
China	22.57%	21.62%	27.32%	27.06%	26.29%	24.37%	25.42%	24.60%	24.99%	25.35%	24.90%
Fiji	19.24%	18.99%	19.92%	20.64%	22.56%	19.81%	19.70%	22.95%	21.71%	19.45%	20.45%
India	21.35%	19.76%	21.10%	23.07%	23.02%	21.87%	22.10%	21.65%	21.80%	22.77%	21.83%
Indonesia	19.44%	19.02%	20.75%	21.52%	22.60%	20.50%	21.20%	20.95%	21.03%	23.77%	21.04%
Kiribati	18.01%	14.54%	15.28%	12.40%	26.18%	22.44%	N/A	22.03%	17.65%	N/A	18.06%
Lao People's Democratic Republic	15.73%	13.80%	12.37%	17.24%	15.98%	16.92%	24.50%	24.75%	20.67%	23.16%	18.03%
Malaysia	21.41%	22.20%	23.35%	24.53%	23.54%	22.63%	24.44%	24.22%	24.81%	24.93%	23.58%
Maldives	25.09%	23.01%	24.03%	25.06%	22.87%	25.91%	26.25%	23.23%	24.94%	18.45%	23.78%
Mongolia	17.36%	17.87%	20.62%	17.43%	27.08%	28.65%	26.81%	30.21%	28.15%	23.07%	23.22%
Myanmar	18.61%	23.86%	25.10%	20.03%	18.69%	19.34%	21.69%	20.56%	22.12%	24.04%	21.29%
Nepal	19.98%	17.88%	19.07%	19.27%	16.84%	15.63%	13.47%	12.49%	11.85%	11.53%	15.49%
Papua New Guinea	N/A	N/A	N/A	N/A	N/A	N/A	21.85%	23.42%	23.84%	22.47%	22.88%
Philippines	26.77%	27.39%	28.57%	26.42%	26.94%	25.69%	22.26%	23.48%	23.18%	25.96%	25.59%
Samoa	21.82%	27.78%	16.74%	19.56%	19.13%	22.37%	22.47%	N/A	20.11%	23.63%	21.31%
Solomon Islands	19.99%	20.76%	6.91%	6.97%	35.83%	16.40%	N/A	N/A	N/A	N/A	15.08%
Sri Lanka	16.63%	18.65%	19.96%	18.10%	22.03%	N/A	21.81%	22.38%	22.29%	23.92%	20.51%
Thailand	19.89%	19.62%	24.81%	24.58%	24.24%	23.54%	25.15%	24.57%	24.24%	24.21%	23.40%
Timor-Leste	21.83%	N/A	N/A	N/A	23.95%	25.66%	24.60%	21.90%	23.09%	26.03%	23.81%
Tonga	20.68%	18.26%	N/A	N/A	20.09%	21.54%	19.34%	20.45%	17.22%	16.74%	19.22%
Viet Nam	16.18%	16.38%	17.41%	19.45%	19.49%	17.23%	18.26%	17.93%	18.62%	24.59%	18.43%

Figure 3: Top 10 Developing Asia Countries by Cumulative Trade Value Gaps With all Trading Partners, 2013-2022 (USD Millions)



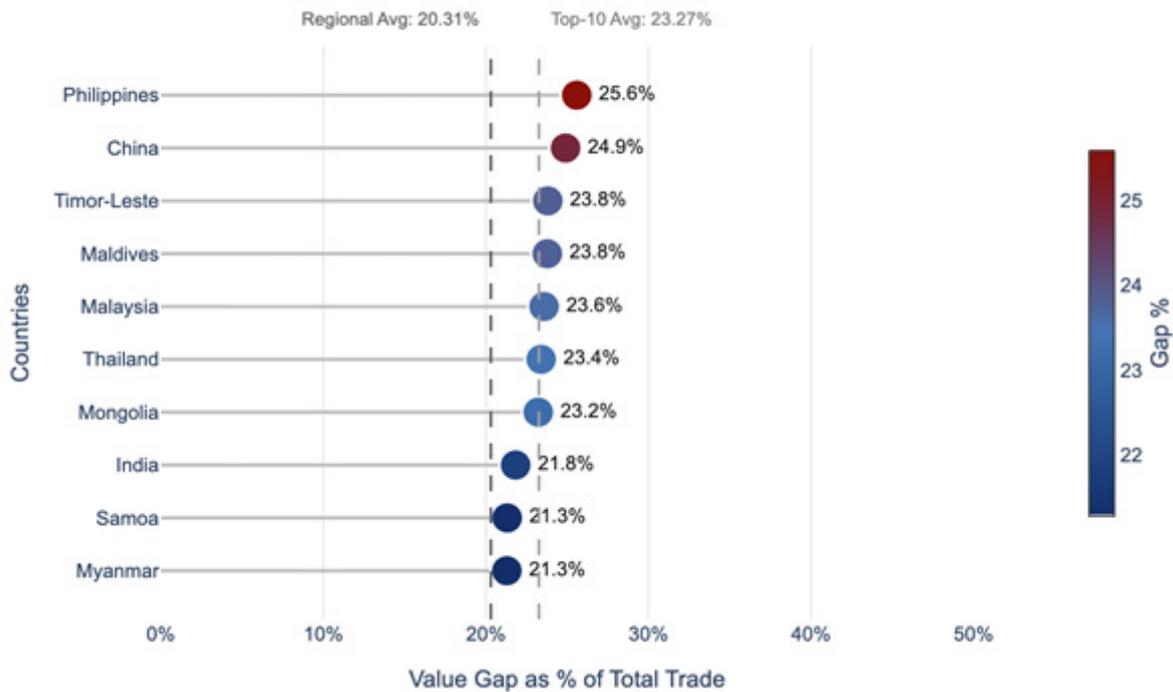
Not surprisingly, the largest economies with high trade volumes tend to show the biggest absolute illicit outflows in dollar terms. As Figure 3 illustrates, China by far eclipses all other countries in the region, with an estimated \$6.96 trillion in cumulative trade gaps (2013-2022). This staggering number reflects China's status as the world's largest trading nation and indicates that misinvoicing is occurring at massive scale across its supply chains. Any regional or global response to trade-based illicit flows must involve China as a central player, given that China alone likely accounts for well over half of Developing Asia's total gaps. The next-largest contributor, a distant second, is Thailand (~\$1.18 trillion in cumulative gaps). Thailand's high ranking is notable (despite a smaller economy than India, Thailand is deeply integrated in global manufacturing and also has significant illicit trade issues (e.g. cross-border smuggling in the Mekong region), which may drive its large gaps. India is close behind with about \$1.06 trillion in estimated gaps over the decade. India's outflows are consistent with its known challenges in curbing capital flight and customs duty evasion.

Following those leaders, other major Southeast Asian trading nations appear: Malaysia (~\$872 billion) and Viet Nam (~\$616 billion) each saw substantial illicit outflows, reflecting both high trade volumes and considerable misinvoicing ratios. Indonesia (~\$550 billion) also ranks among the top six, likely owing to its commodity-driven exports (coal, minerals, palm oil) where underpricing is common, as well as significant import schemes. Mid-sized economies like the Philippines (~\$288 billion) still registered large aggregate gaps, illustrating that no country is untouched by trade misinvoicing. Rounding out the top 10 are a few smaller economies: Myanmar (~\$77.7 billion), Cambodia (~\$74.4 billion), and Bangladesh (~\$68.3 billion). The widespread presence of high gaps across diverse economies (from industrial powerhouses to developing nations) confirms that trade-

based IFFs permeate trade relations across Asia, cutting across different sectors and levels of development.

To assess the intensity of trade misinvoicing relative to the size of each country's trade, we calculate each country's average trade value gap as a percentage of its total trade. This metric highlights countries that, regardless of absolute size, are most afflicted by misinvoicing in proportional terms.

Figure 4: Top 10 Developing Asia Countries by Trade Value Gap as a Percentage of Total Trade, 2013-2022 (All Trading Partners)



As shown in Figure 4, several smaller and mid-size economies actually top the list by this relative measure. Philippines ranks first, with trade value gaps estimated at 25.6% of its total trade value due to misinvoicing. In other words, for every \$4 of goods Philippines traded, over \$1 never properly entered the official financial system: a striking indication of systemic leakage. Close behind is China at 24.9%. Despite (or rather, in addition to) its huge absolute losses, China also suffers one of the highest relative illicit outflow rates. This underscores that misinvoicing is not only a problem for small states or niche commodity exporters; even the region's economic giant sees roughly a quarter of its trade value unaccounted for, reflecting pervasive export under-invoicing to spirit money out (given China's capital controls) and import mispricing schemes.

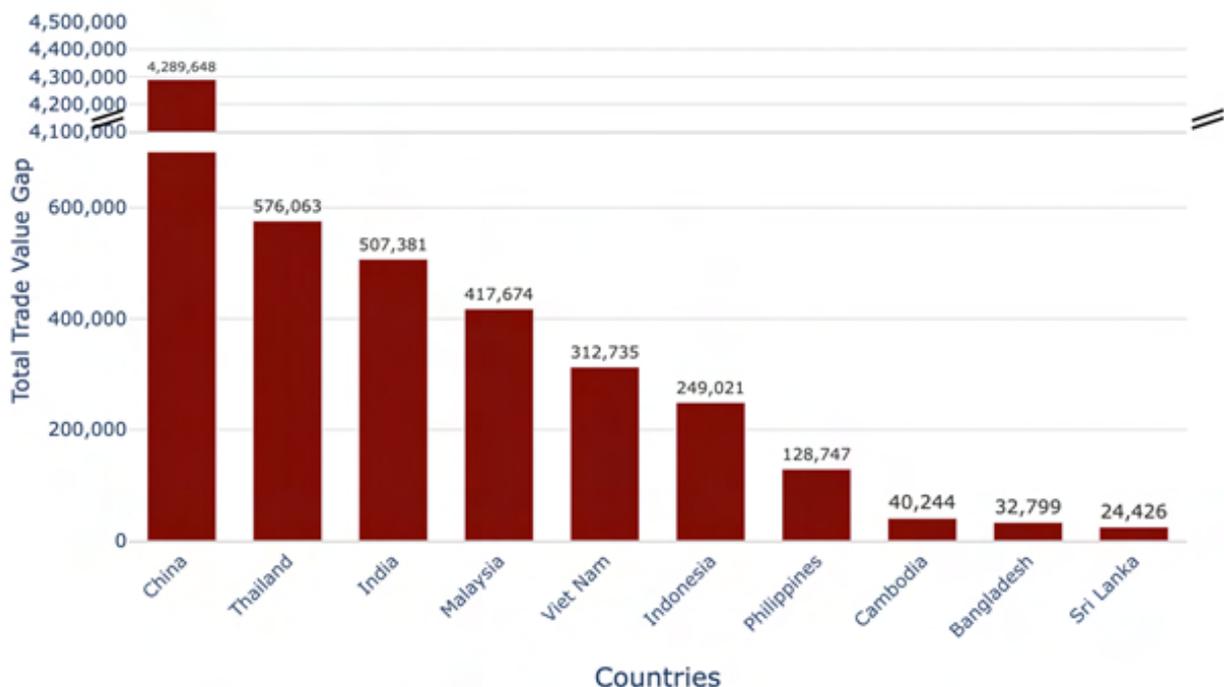
Several small economies appear next: Timor-Leste (~23.8%) and Maldives (~23.8%) are tied, and Malaysia (23.6%) and Thailand (23.4%) are not far behind. Timor-Leste's high ratio likely stems from its narrow export base (oil and coffee) and governance challenges, while Maldives (an island nation dependent on imports for most goods) may be experiencing extensive import under-invoicing (to evade duties) and some export tourism revenue leakage. The presence of Malaysia and Thailand around 23-24% signals that even relatively more advanced developing markets have persistent misinvoicing amounting to nearly a quarter of trade (possibly due to profit-shifting by multinationals (in

Malaysia's electronics and oil sectors) and longstanding smuggling networks in Thai trade). Next on the list, Mongolia (23.2%) faces illicit outflows largely via under-valued exports of minerals to partners like China, exacerbated by limited oversight capacity.

Rounding out the top 10, we see India (21.8%) and two small economies at ~21.3% (Samoa and Myanmar). India's percentage, while a bit lower, is still around one-fifth of trade, significant for such a large economy and consistent with decades of capital flight issues. Samoa's inclusion suggests Pacific island states can be exploited as transit points or suffer high levels of misreported trade (perhaps related to fisheries or duty-free imports). Myanmar at 21.3% likely reflects both rampant smuggling (e.g. of jade, timber, and gold, often under-reported) and the effects of sanctions/evasion driving illicit flows. It's notable that the regional average gap was about 20.3% of total trade, and the top-10 average was ~23.3%. That the top performers cluster in the 21-26% range indicates severe structural issues. Such high ratios signal chronic patterns of mispricing: e.g. systematic under-valuation of exports to evade taxes and export controls, and over-valuation of imports to enable capital flight or inflate expenses for tax avoidance. In all cases, the high percentages mean a significant share of economic activity is effectively off-the-books, with corresponding losses to public coffers and potential links to criminal activity.

It is instructive to examine how much of the illicit flow problem involves trade with advanced economies (generally, the U.S., EU, UK, Japan, Canada, Australia, and other high-income partners). These North-South trade relationships are often where large-scale corporate trade occurs and where the temptation for profit shifting or duty arbitrage may be high. They also shed light on whether misinvoicing is primarily an "external" problem (with rich countries) or also prevalent in South-South trade. The analysis for Developing Asia indicates significant illicit gaps with advanced economies, though the patterns of top countries shift slightly compared to the all-partner view.

Figure 5: Top 10 Developing Asia Countries by Cumulative Trade Value Gaps with Advanced Economies, 2013-2022 (USD Millions)



Note: The y-axis is broken to improve readability given the large disparity between China and other countries. Values are shown in absolute terms.

As shown in Figure 5, China still utterly dominates in trade with advanced economies, with about \$4.29 trillion in cumulative gaps involving its trade with the G7 and other OECD partners. This reflects China's massive trade volumes with the West and the extent of misinvoicing in those flows (for example, Chinese exporters under-invoicing shipments to the U.S. or EU to stash funds abroad, and Chinese importers over-invoicing purchases from advanced countries to move money out). Other major Asian economies also register large gaps with advanced partners: Thailand (~\$576 billion) and India (~\$507 billion) each had over half a trillion in trade discrepancies with advanced economies over 2013-22. Malaysia (~\$418 billion), Viet Nam (~\$313 billion), and Indonesia (~\$249 billion) follow, all reflecting significant illicit outflows in their trade with the likes of the U.S., EU, and Japan.

Further down the top 10, we see Philippines (~\$129 billion), and then a drop to much smaller values for Cambodia (~\$40 billion), Bangladesh (~\$33 billion), and Sri Lanka (~\$24 billion). Notably, some countries that featured in the all-partner top 10 do not appear here, for instance, Myanmar and Timor-Leste are absent, while Sri Lanka enters the advanced-economy top 10. This implies that countries like Myanmar (which had sizable overall gaps) conduct much of their misinvoiced trade with other developing countries (e.g. regional partners like China, Thailand, or India) rather than directly with advanced economies. In contrast, Sri Lanka's trade-based IFFs, though smaller in absolute terms, are more oriented toward Western partners (perhaps via its garment exports and related financing). Such differences point to the geography of illicit flows: some Asian illicit trade circuits are primarily South-South, while others are linked to North-South trade. Indeed, a few nations in Asia had very high value gaps but do not appear among the top advanced-economy gaps; this suggests their illicit flows involve regional trade partners instead. Conversely, countries like Bangladesh and Sri Lanka show up here, indicating their IFF issues are significantly tied to trade with advanced nations (like apparel exports to the West, which might be under-invoiced by local firms working with foreign buyers).

Aggregating across countries, the total trade value gaps between Developing Asia and advanced economies over 2013-2022 amounted to several trillions of dollars; the top 10 countries alone account for roughly \$6.6 trillion in gaps with advanced partners. This highlights a massive loss of taxable trade income and capital flight from the region vis-à-vis high-income markets. It also underscores that advanced economies bear responsibility as counterparties: for example, the U.S. and EU are China's largest trading partners and implicitly host the other side of China's misinvoicing (i.e. the missing money often lands in bank accounts or investments in advanced economies). Curbing these flows will require cooperation and transparency from the advanced economies as well, a point we return to in the policy section.

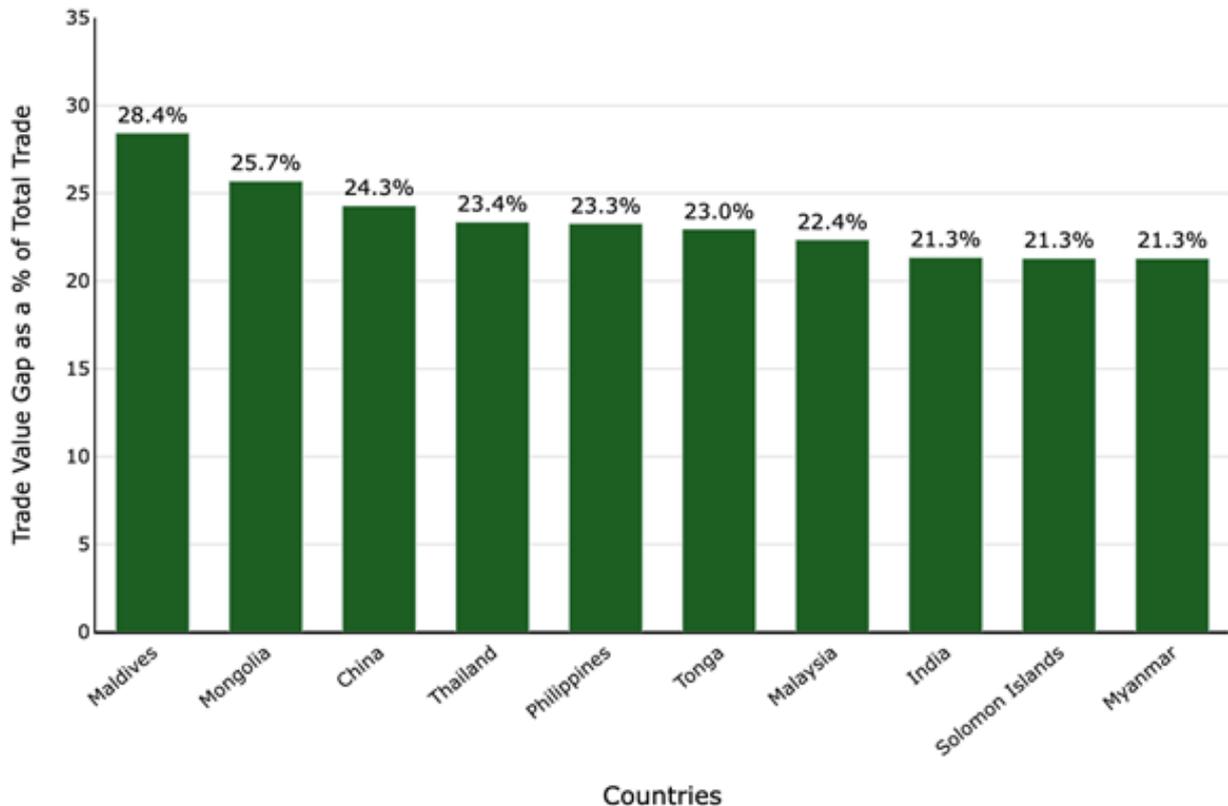
What drives these advanced-economy trade gaps? Often it is structural factors in the Asian countries, combined with opportunities presented by global markets. For instance, capital controls in China (strict FX controls) have driven Chinese firms to use over-invoiced imports from advanced countries to smuggle money out. High import tariffs or taxes in countries like India and Indonesia create incentive to under-invoice imports from advanced manufacturing exporters (to evade duties). Commodity exports from Asia to advanced economies (e.g. Malaysian oil to Japan, Indonesian coal to OECD countries) can be underpriced to evade resource rent taxes. Additionally, some Asian financial centers (such as Singapore or Hong Kong) act as intermediaries in trade misinvoicing schemes, providing transit hubs or booking centers for illicit trade profits. The presence of Cambodia on this

list (with ~\$40B in advanced-partner gaps) may be related to its role as a transshipment and manufacturing hub for exports to the US/EU (garments, footwear) where foreign firms and local corrupt networks can collude on pricing. Each country has its own vulnerabilities: Bangladesh, for instance, has faced issues with trade-based money laundering through over-invoiced imports of capital machinery (subsidized loans diverted abroad), while Sri Lanka has seen trade fraud contributing to its foreign exchange crises (e.g. over-invoicing fuel imports to funnel money out during times of lax oversight).

In sum, trade misinvoicing with advanced economies is a critical subset of Asia's illicit flows. It shows that while South-South trade misinvoicing is significant, the links to G7/OECD markets are profound and cannot be ignored. Any solution will require joint efforts: Asian countries improving their controls, and advanced countries tightening oversight of trade transactions, closing legal loopholes, and sharing data.

We also assessed which countries have the highest relative gaps in their advanced-economy trade, as a percentage of that trade. This reveals whether smaller economies experience particularly acute issues in their trade with rich countries.

Figure 6: Top 10 Developing Asia Countries by Trade Value Gap with Advanced Economies, as % of Trade (2013-2022)



As shown in Figure 6, some smaller Asian economies have extremely high misinvoicing ratios in their trade with advanced partners. Maldives stands out at the top: about 28.4% of its trade with advanced economies (e.g. imports from Europe, Asia’s wealthy hubs, etc.) is illicitly leaked. This may be due to Maldives’ heavy reliance on imports (fuel, luxury goods, etc.) which are susceptible to under-invoicing and its tourism revenues sometimes used in informal value transfers. Mongolia is next at 25.7%, reflecting its exports of minerals to advanced economy markets (like copper to global commodity traders) being undervalued, and possibly some high-value imports (machinery, vehicles) over-valued. China appears with ~24.3% of its advanced trade misinvoiced, slightly lower than its overall 24.9%, but still extraordinarily high given the volume (this suggests that misinvoicing with developing partners might be even higher in some cases, or simply that China’s average is uniformly high across partners). Thailand (~23.4%) and Philippines (~23.3%) also show roughly a quarter of their developed-market trade going missing.

Notably, Tonga enters this list at 23.0% (a small Pacific Island nation that likely trades mainly with Australia, New Zealand, and the US; the high percentage could indicate that a large share of Tonga’s limited trade (possibly fisheries exports or imported goods) is misreported, which in small absolute terms might be easy to overlook but is proportionally huge). Malaysia (~22.4%) and India (~21.3%) follow, then Solomon Islands (~21.3%) and Myanmar (~21.3%) tying to round out the top 10. The appearance of Pacific nations (Tonga, Solomon Islands) underscores that even very small economies can have outsized relative illicit flows when dealing with advanced economy traders (often due to lack of enforcement capacity and their use by illicit networks for transshipment or resource exploitation (e.g. illegal logging or fishing exports underreported to partners like China or the US). Myanmar’s inclusion, despite limited direct trade with the West (especially post-2017 sanctions), suggests that whatever trade did occur was heavily mispriced, or it reflects trade routed through third countries (like Singapore) and ultimately destined for advanced economies.

The broad takeaway is that even large countries like China and India have value gaps of one-fifth or more of their trade with advanced economies to misinvoicing, which is astonishing given their scale, and several smaller states’ value gaps equal close to 25% or more. These percentages far exceed what one would consider “normal” statistical discrepancies, pointing to deliberate and systemic mispricing in many cases. In fact, such high ratios often correlate with known facilitators of illicit flows: for example, Maldives and Solomon Islands are relatively small economies with limited oversight, which can attract trade-based laundering and tax evasion. Mongolia and Myanmar rely on extractive industries where products are easily undervalued. Tonga and some Pacific nations have offshore financial registries or lax corporate regulations that can be abused. China, India, and Thailand each have capital control regimes or tariff systems that make misinvoicing financially attractive for those seeking to circumvent rules. Additionally, the role of free trade zones and secrecy jurisdictions appears important: several of the countries with high advanced-economy gaps either operate or neighbor major free ports. For instance, Malaysia’s trade may be misinvoiced via Singapore (a major financial center); similarly, many illicit flows from South Asia end up parked in Dubai or Singapore through over-invoiced trade. These advanced jurisdictions effectively serve as conduits or destinations for illicit funds, highlighting that combating IFFs is a shared responsibility.

In summary, the data paints a worrying picture for Developing Asia: enormous volumes of illicit financial flows via trade, involving both intra-regional trade and trade with the world's wealthiest economies. The implications of these findings are far-reaching; they point to significant trade-based money laundering activity, tax and customs revenue losses, and capital flight draining the region. We explore these implications next, before turning to policy solutions.

Figure 7. Trade Value Gaps of Developing Asia Countries with all their Global Trading Partners as a Percentage of Total Trade, 2013 to 2022

Countries	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Geometric mean
Bangladesh	15.43%	N/A	15.80%	16.72%	16.71%	14.75%	N/A	N/A	N/A	N/A	15.86%
Bhutan	N/A	N/A	N/A	N/A	19.67%	17.54%	12.98%	13.38%	N/A	11.98%	14.83%
Brunei Darussalam	12.86%	14.33%	14.94%	17.48%	21.94%	21.91%	20.47%	23.26%	17.72%	20.37%	18.19%
Cambodia	17.65%	15.75%	13.57%	16.24%	11.03%	12.21%	17.42%	17.84%	24.45%	27.04%	16.71%
China	22.57%	21.62%	27.32%	27.06%	26.29%	24.37%	25.42%	24.60%	24.99%	25.35%	24.90%
Fiji	19.24%	18.99%	19.92%	20.64%	22.56%	19.81%	19.70%	22.95%	21.71%	19.45%	20.45%
India	21.35%	19.76%	21.10%	23.07%	23.02%	21.87%	22.10%	21.65%	21.80%	22.77%	21.83%
Indonesia	19.44%	19.02%	20.75%	21.52%	22.60%	20.50%	21.20%	20.95%	21.03%	23.77%	21.04%
Kiribati	18.01%	14.54%	15.28%	12.40%	26.18%	22.44%	N/A	22.03%	17.65%	N/A	18.06%
Lao People's Democratic Republic	15.73%	13.80%	12.37%	17.24%	15.98%	16.92%	24.50%	24.75%	20.67%	23.16%	18.03%
Malaysia	21.41%	22.20%	23.35%	24.53%	23.54%	22.63%	24.44%	24.22%	24.81%	24.93%	23.58%
Maldives	25.09%	23.01%	24.03%	25.06%	22.87%	25.91%	26.25%	23.23%	24.94%	18.45%	23.78%
Mongolia	17.36%	17.87%	20.62%	17.43%	27.08%	28.65%	26.81%	30.21%	28.15%	23.07%	23.22%
Myanmar	18.61%	23.86%	25.10%	20.03%	18.69%	19.34%	21.69%	20.56%	22.12%	24.04%	21.29%
Nepal	19.98%	17.88%	19.07%	19.27%	16.84%	15.63%	13.47%	12.49%	11.85%	11.53%	15.49%
Papua New Guinea	N/A	N/A	N/A	N/A	N/A	N/A	21.85%	23.42%	23.84%	22.47%	22.88%
Philippines	26.77%	27.39%	28.57%	26.42%	26.94%	25.69%	22.26%	23.48%	23.18%	25.96%	25.59%
Samoa	21.82%	27.78%	16.74%	19.56%	19.13%	22.37%	22.47%	N/A	20.11%	23.63%	21.31%
Solomon Islands	19.99%	20.76%	6.91%	6.97%	35.83%	16.40%	N/A	N/A	N/A	N/A	15.08%
Sri Lanka	16.63%	18.65%	19.96%	18.10%	22.03%	N/A	21.81%	22.38%	22.29%	23.92%	20.51%
Thailand	19.89%	19.62%	24.81%	24.58%	24.24%	23.54%	25.15%	24.57%	24.24%	24.21%	23.40%
Timor-Leste	21.83%	N/A	N/A	N/A	23.95%	25.66%	24.60%	21.90%	23.09%	26.03%	23.81%
Tonga	20.68%	18.26%	N/A	N/A	20.09%	21.54%	19.34%	20.45%	17.22%	16.74%	19.22%
Viet Nam	16.18%	16.38%	17.41%	19.45%	19.49%	17.23%	18.26%	17.93%	18.62%	24.59%	18.43%

3 | Implications: Money Laundering, Capital Flight, and Crime Risks

The prevalence of large trade value gaps in Asia's trade is not merely a statistical curiosity; it has concrete implications for financial crime and economic development. Trade misinvoicing is a primary mechanism of trade-based money laundering (TBML), which the Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering have long identified as a growing threat. By manipulating invoices, criminals can seamlessly merge illicit funds with legitimate trade payments, making detection extremely difficult for authorities. For example, Chinese underground banking networks have used fake import/export invoices to circumvent China's currency controls, effectively moving billions in dirty money out of the country under the guise of paying for goods. Similarly, South Asian hawala networks often settle accounts via misinvoiced trade (an importer underpays for goods and the difference settles a narcotics debt or terror financing transfer elsewhere. In Asia, this means the huge gaps measured likely correspond to equally huge volumes of proceeds of corruption, tax evasion, drug trafficking, and other crimes being laundered abroad. Law enforcement in the region faces a daunting challenge: unlike cash smuggling, trade-based laundering is opaque and embedded in normal commerce, often escaping traditional AML detection frameworks. Banks have limited visibility into pricing (with around 80% of trade conducted on open account (goods shipped before payment) and banks seeing only the invoices presented, they generally cannot tell if a \$5 million payment for "machinery" is fair value or hiding a \$1 million overpayment. This creates a low-risk, high-reward channel for criminals, as evidenced by organized crime exploiting Asian trade routes (e.g. the massive illicit outflows linked to illegal gold and wildlife trade in Southeast Asia, or the use of shell trading companies in Hong Kong and Singapore to clean money).

From a macroeconomic perspective, the patterns observed indicate capital flight on an enormous scale. When exports are under-invoiced, the undeclared revenue is often retained abroad in bank accounts or investments, representing a loss of domestic capital. When imports are over-invoiced, excess foreign exchange is siphoned out under false pretenses. Either way, the effect is a net drain of wealth from the country. In China's case, earlier GFI reports implied illicit outflows equivalent to around 10 percent of GDP for certain years, contributing to concerns about capital flight and undermining financial stability. For smaller countries, capital leakage of 20-25% of trade can hamstring development: it deprives governments of revenue (through evaded duties and taxes) and often contributes to balance-of-payments pressures (as unrecorded outflows worsen currency shortages). Many Asian countries struggling with external debt and currency depreciation (such as Pakistan, Sri Lanka, Myanmar) could significantly improve their situation if illicit outflows were curtailed, as those funds could instead bolster foreign exchange reserves or be invested locally. Illicit outflows can also deepen inequality: wealthier companies and individuals are typically the ones able to use trade-facilitated schemes to dodge taxes or move capital, undermining the social contract and leaving the tax burden on those who can't evade it. In short, these trade gaps represent not just lost money, but lost opportunities (schools and hospitals not built, infrastructure not financed, and jobs not created, all due to money that has bled out illicitly).

The patterns also highlight governance and security risks. Where misinvoicing is rampant, there is usually a combination of weak customs oversight, corruption, and collusion between unscrupulous traders and officials. This erodes the rule of law. It also means that smuggling of contraband (drugs, weapons, sanctioned goods) can piggy-back on misinvoiced trade routes, posing security issues. For instance, trade-based techniques have been used to evade UN sanctions on North Korea (illicit goods mislabeled through Asian ports), and terrorist networks in South Asia have allegedly funded themselves via fake import-export businesses. The fact that misinvoicing allows large sums to disappear with little trace also makes it attractive for corrupt public officials in Asia (corrupt elites can embezzle funds and mask the money's movement out of the country by overpaying for some import or under-reporting export proceeds).

In summary, the quantitative findings of huge trade value gaps in Asia translate into qualitatively serious problems: billions in laundered money, billions in tax revenue lost, and critical vulnerabilities in the financial system. The evidence presented here should sound an alarm for policymakers in Asia and internationally that trade-based illicit flows must be tackled head-on. The next section discusses specific policy responses that can begin to address this complex challenge.



4 | Policy Recommendations

Reducing trade-related illicit financial flows in Developing Asia will require a multi-pronged strategy, combining strengthened domestic policies, enhanced regional cooperation, and supportive international action. The following are key policy recommendations tailored to the region's challenges, building on global best practices and lessons from other regions:

1. Strengthen Customs Enforcement and Technical Capacity: The first line of defense against trade misinvoicing is an effective customs authority. Asian governments should modernize customs enforcement with advanced tools for risk analysis, valuation, and fraud detection. This includes adopting data analytics (and AI where feasible) to flag unusual pricing patterns in real time (for example, if import shipments are priced far outside global market norms). Training customs officers to recognize trade-based money laundering red flags is essential (e.g. mismatches between shipping documents and actual goods, repeatedly declaring identical values just below inspection thresholds, etc.). National customs, tax authorities, and financial intelligence units (FIUs) should increase collaboration, forming joint task forces to investigate significant trade anomalies. For instance, if customs spots a pattern of under-invoiced exports by a certain firm, tax authorities and the FIU should trace the financial flows and prosecute any connected tax evasion or money laundering. Crucially, corruption within customs must be tackled: many misinvoicing schemes persist due to bribery or collusion with officials. Measures such as rotating customs personnel, conducting background checks, and establishing whistleblower channels can help reduce corruption risk. Countries like Bangladesh, the Philippines, and Indonesia (where customs inefficiency and corruption have been documented, should prioritize these reforms. Technical assistance from bodies like the World Customs Organization (WCO) can be sought to implement international best practices. Political will is paramount: leaders must empower customs to enforce laws even when influential companies are involved, sending a clear signal that trade fraud will not be tolerated. High-profile enforcement actions (e.g. prosecuting large importers for invoice fraud) can have a strong deterrent effect across the trading community.

2. Leverage Regional Agreements for Data Sharing and Joint Enforcement: Developing Asia has a patchwork of regional trade agreements and groupings (ASEAN, SAARC, RCEP, CPTPP, etc.). These frameworks should be harnessed not only to facilitate legitimate trade but also to secure trade against illicit manipulation. In practice, this means implementing customs data exchange mechanisms among regional partners. A successful example from another region is Mercosur's integrated customs data system, which allows member states to share real-time import/export data and perform instant cross-checks. Asia could emulate this: for instance, ASEAN could build on its existing "ASEAN Single Window" (which connects national trade portals) to incorporate an automated mirror trade verification feature. Under such a system, when Country A records an import from Country B, the data could be transparently (and securely) shared so that Country B's customs can verify the corresponding export record. This would make it much harder for traders to exploit information gaps between countries. Likewise, the South Asian countries (e.g. through SAARC or bilateral MOUs between India, Bangladesh, Sri Lanka, etc.) should exchange customs declarations to flag mismatches promptly. Regional bodies can also coordinate joint enforcement operations

(for example, ASEAN or APEC could sponsor multi-country audits focusing on certain high-risk sectors (say, electronics or gold) simultaneously across several ports, sharing results to identify common illicit schemes. Harmonizing trade documentation and valuation standards across the region would further reduce loopholes. If all countries in Asia require detailed, standardized invoices (ideally digitized) and adhere to WTO customs valuation rules strictly, it leaves less room for traders to forum-shop between jurisdictions with lax controls.

3. Enhance Transparency in Free Trade Zones and Transshipment Hubs: The Asia-Pacific region hosts numerous free trade zones (FTZs) (from large ports like Port Klang in Malaysia and Jebel Ali in UAE (West Asia) to special economic zones in South Asia and export processing zones in Southeast Asia. While these zones boost trade and investment, they often operate with relaxed oversight, making them magnets for illicit activity (e.g. false re-export schemes, illicit goods repackaging, etc.). Governments should tighten oversight of FTZs by: (a) Requiring detailed record-keeping and reporting of all transactions in zones, subject to audit. FTZ businesses should report high-value or high-risk trades, especially those involving known tax havens. (b) Embedding customs and FIU officials on-site at major zones. Rather than treating zones as “offshore” bubbles, there should be continuous monitoring of goods and funds moving through them. Some countries are implementing this (e.g. Colombo Port City in Sri Lanka is supposed to have a dedicated regulator, but enforcement must be robust in practice. (c) Limiting certain high-risk activities in FTZs: for instance, prohibit cash transactions above a low threshold, mandate electronic payments for all significant trades, and scrutinize unusual re-exports with no clear business rationale (d).

Adopting international best practices such as the FATF guidance on free zones (which includes conducting background checks on zone operators, screening companies for links to criminal entities, and ensuring zone authorities coordinate with national customs. (e) Improving public transparency: publish annual reports on FTZ trade, including aggregate statistics of imports, exports, and any enforcement actions or seizures in the zones. This sunlight can deter some abuse and build momentum for reform. Given the international nature of FTZ-linked IFFs, Asian nations should also cooperate to share information on suspect FTZ actors. For example, if a company caught misinvoicing in a Malaysian FTZ later pops up in an Indonesian zone, authorities should be alert. A regional forum (perhaps under APEC or ASEAN+ partners) could be established to exchange red flag indicators and jointly blacklist entities found to be systematically involved in trade fraud across multiple countries.

4. Increase Financial Transparency and Beneficial Ownership Disclosure: A cornerstone of combating IFFs is preventing the opaque company structures that facilitate them. Asian countries should enact and enforce laws to require disclosure of the true beneficial owners of companies and accounts. Too often, illicit trade schemes rely on shell companies registered in secrecy jurisdictions (offshore or even domestic) to hide the true actors behind trades. By establishing public beneficial ownership registries (as about 15 African countries have done, for example), Asian nations can make it much harder for perpetrators to hide behind nominees. Transparency in government procurement and contracting is also important: many IFFs occur through over-invoiced government imports or projects (a form of trade misinvoicing that facilitates kickbacks). Publishing contract details and prices (especially in high-risk sectors like defense and infrastructure) can help expose overpricing schemes and deter officials from using public procurement to siphon funds. Additionally, governments should embrace international

transparency initiatives. Joining the Extractive Industries Transparency Initiative (EITI), for instance, would help countries like Mongolia, Myanmar, and Indonesia ensure that the volumes and values of commodity exports are reported openly (reducing opportunities for under-invoicing natural resources). On the tax cooperation front, Asian countries should actively participate in the Global Forum on Transparency and Exchange of Information for Tax Purposes, including the Forum's new Asia Initiative. Utilizing tools like the Automatic Exchange of Financial Account Information (CRS/AEOI) can help Asian treasuries track assets that nationals hide abroad, some of which originate from trade misinvoicing.

5. Promote International Collaboration to Tackle Trade-Based IFFs:

Illicit financial flows are a transnational problem; money may exit one country via trade and end up in another's banks or real estate. Thus, greater international cooperation is essential. One innovative idea championed by the G77 (which includes many Asian countries) is implementing "blockchain in every port" (a system where trade transactions are recorded on a tamper-proof distributed ledger accessible by trading partners). Such technology could enable automatic matching of export and import records and flag discrepancies instantaneously, greatly reducing data gaps (no international rule currently mandates real-time exchange of trade valuations, a loophole that misinvoicers exploit). Asian governments should pilot such solutions, potentially in partnership with tech firms or development organizations. Additionally, regional organizations like ASEAN and the Asian Development Bank can facilitate cooperation by funding joint capacity-building and coordinating policy harmonization.

6. Update Legal Frameworks and Bolster Enforcement Against Trade Fraud:

Many countries in Asia lack specific legal provisions criminalizing trade misinvoicing as a standalone offense. Governments should update their laws to explicitly prohibit trade-based money laundering and trade fraud, with penalties commensurate to the damage (e.g. substantial fines, asset forfeiture, and imprisonment for egregious cases). Trade misinvoicing often involves overlapping offenses (customs fraud, tax evasion, fraud, money laundering, and laws in these domains should be tightened as needed. Just as importantly, enforcement agencies must be empowered and resourced. This means investing in specialized units (within customs, or multi-agency task forces) that focus on complex financial investigations of trade flows. More aggressive prosecution of high-profile cases would send a clear signal. Currently, enforcement is a weak link in many countries: even when suspicious trade is flagged, investigations often stall due to lack of expertise or political interference.

Breaking this pattern will require leadership support (e.g. ensuring anti-corruption agencies and financial crime investigators have independence to pursue cases even if they involve politically connected individuals. Finally, regional cooperation in enforcement can amplify impact: for instance, customs and police from multiple ASEAN countries could conduct coordinated raids on a network involved in carousel fraud (repeated round-tripping of invoices). Agreements to share evidence and intelligence (possibly through INTERPOL or bilateral MoUs), would help in pursuing networks that operate across borders (which is often the case for large trade-based schemes). In sum, Asian countries need to move from recognizing the problem to actively prosecuting it: make examples of offenders, thereby deterring others and gradually breaking the culture of impunity that currently surrounds trade misinvoicing.

5 | Conclusion

Illicit financial flows through trade represent a formidable barrier to Asia's inclusive growth and financial stability. Over the past decade, this report has shown how hundreds of billions (even trillions) of dollars have leaked out of Developing Asia via manipulated trade transactions. The problem is pervasive, affecting virtually every country in the region, and is entrenched across a variety of industries from commodities to manufacturing. These outflows deprive governments of essential revenues, undermine the rule of law, and hamper efforts to reduce poverty and build infrastructure. In effect, Asia's wealth is being partially siphoned off-shore instead of invested at home, at a time when the region still faces significant development needs.

Yet, the findings also point to solutions. The patterns of misinvoicing uncovered here are not inevitable; they are the result of policy and enforcement gaps that can be filled. If Asian nations act decisively (by tightening trade oversight, collaborating across borders, embracing transparency, and holding perpetrators accountable), they can significantly curtail illicit flows. The experience of other regions and the recommendations outlined above provide a roadmap. Encouragingly, awareness of IFFs is growing, and international support is more available than ever.

The challenge of combating trade-related IFFs is daunting, but the opportunity is correspondingly great. By acting on targeted measures (from smarter customs controls to greater corporate transparency and cooperation with international partners), Asian nations can begin to stem the hemorrhage of capital and ensure that the gains of trade and growth benefit their societies rather than vanish offshore. The coming years, leading up to the SDG 2030 deadline, will be critical. With political will and sustained effort, Developing Asia can make major strides in tackling illicit financial flows, thereby safeguarding its wealth and future prosperity for the benefit of its people.



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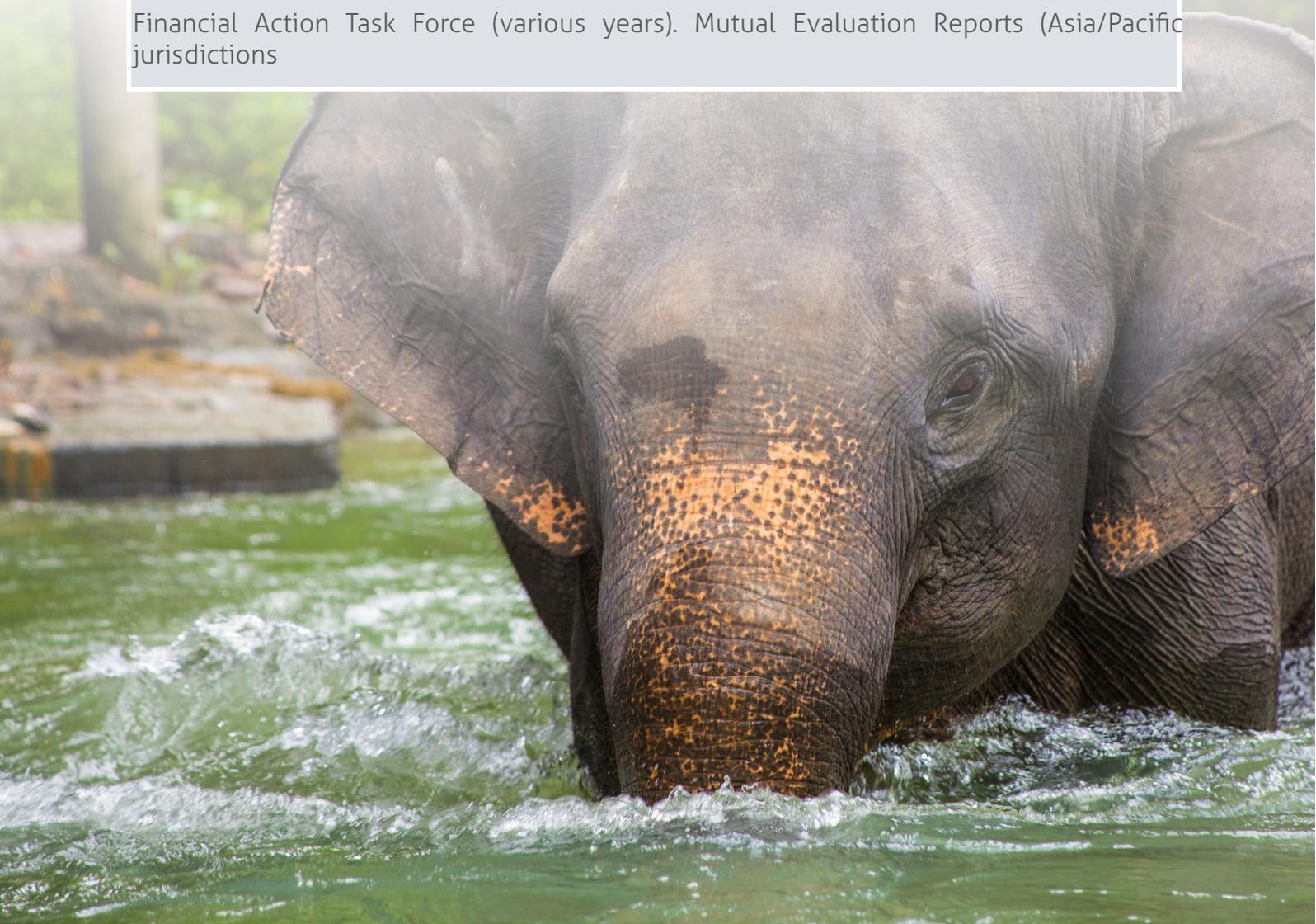
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