Rebuttal of a specific part of the Oxford Report
http://www.dfid.gov.uk/Documents/publications/research/oxford-tax-evasion-report.pdf

See the Tax Justice Network's longer blog for a full rejoinder.

"The traditional approach to estimating annual illicit outflows through trade mispricing has been to simply take all signs as they are and allow them to wash out into a net position. Thus, this method would take the inflows and outflows from the World Bank Residual (based on change in external debt or CED) method and add them to net trade mispricing (net position of export and import mispricing). For instance, if the CED model estimates illicit outflows of 100 but the net trade mispricing (based on Direction of Trade Statistics or the DOTS model) shows inflows of 150 (i.e., -150), then, according to the traditional method, the country has received a net inflow of 50. No economists have questioned this "traditional approach" -- whether it makes sense to have illicit outflows from the balance of payments but illicit inflows through trade mispricing in the same year. About the only explanation that economists have provided on inflows indicated through trade mispricing is that cross-border smuggling can distort trade data and lead to such results. Otherwise, the traditional method simply accepts all "wrong" signs as representing genuine reversals of illicit flows into a country without carrying out in-depth country studies on the nature and composition of such inflows, let alone validating them. Hence, the traditional method seriously understates illicit outflows from developing countries by simply allowing the flip-flopping of signs to wash out whereas one would expect illicit capital to return only if economic agents perceive sustained macroeconomic reform and improvements in governance.

Rather than take all reversals in signs to represent the return of illicit capital, our approach has been to look at the behavior of illicit flows over the entire five-year period and ask whether a country is likely to be an exporter of illicit capital in light of that behavior. Specifically, we impose two conditional filters on the estimates of illicit flows over this period—(i) are illicit outflows indicated in three out of five years studied (whether based on the CED or Trade Mispricing model) and (ii) whether the size of the illicit outflow is at least equal to 10% of exports for a particular year—the rationale here is that the size of illicit outflows must surpass what can be attributed to data issues. Under the first condition, a country can be an exporter of illicit capital through both or only one of the two models (the CED and the DOTS Trade Mispricing). Inflows of illicit capital in two out of five years are not considered as genuine inflows and are set to zero. The assumption here is that a country that is a net exporter of illicit capital cannot simply turn around into a illicit capital importer for two years unless there are genuine and lasting macroeconomic reform and improvements in governance. Moreover, the traditional method yields strange regional distribution of illicit flows—Africa as a whole receives illicit capital (which flies in the face of its continued dependence on bilateral aid). The traditional method would also have us believe that Russia is a net receiver of illicit capital whereas an IMF study in 2000 found evidence of significant capital flight from that country. Economists have not been able to explain the strange regional pattern of illicit flows using the traditional method because there have been no recent studies on illicit financial flows from all developing countries. In comparison, GFI's approach

yields country and regional breakdown of illicit outflows that are not out of line with governance and corruption indices. Until there are in-depth country case studies validating illicit inflows and until the traditional method can explain the strange regional pattern of illicit flows from developing countries, the "normalization" or filtration techniques used in GFI's study offer a much better method for handling flip-flops in signs and estimating these flows realistically.