

From the roots

Curbing rampant illicit trade in India is only achievable by disincentivising the practice

Across the globe, illicit networks are infiltrating and corrupting legitimate business markets, reducing productivity, and hampering investments in research and development, not to mention, jeopardizing public health and eroding the security of our institutions and governments. We are constantly at war with this invisible enemy, which has visible ramifications. Illicit trade has been around for centuries. However, it is the number of products and people involved, and the nefarious intentions that have increased manifolds in the recent years. Substantial profits derived from trafficking have led perpetrators to continuously develop more sophisticated techniques to carry out their evil activities.

Since, smuggling is a secret, hidden, and risky activity, there are several reasons which act as its determinants. The question whether high tariff rates and excessive regulations on goods are key causes for illicit trade has been much debated, but there is no reason to doubt its substantial reality. High import duty on manufactured and other goods increase price differential, and, therefore, provides financial incentives and motivation for engaging in smuggling activities. The empirical findings by *Buehn and Farzanegan* point that higher tariffs are important push factors for smuggling.

A case in point is gold which attracts a high import duty. It is estimated that up to one-fourth of the total volume of gold entering India arrives through illicit trade. During the year 2019-20 itself, smuggled gold valued at Rs 1828 crore has been seized by Indian Customs which is only a small portion of the total quantity smuggled to meet the ever insatiable demand of the people for this item.

A paper by OECD on 'Illicit Trade Converging Criminal Networks' emphasises how markets with the highest excise regimes tend to have greater problems with illicit trade, whether smuggling or counterfeiting. Since, indirect taxes such as customs duty, GST, excise, etc. have the effect to raise the prices of products, the financial rewards for those who avoid paying the taxes can be huge, and markets with the biggest 'tax opportunity' are most targeted. India is definitely a victim on this account.

We find another item, i.e., cigarettes which remains a highly taxed product, is hugely smuggled worldwide. A world customs journal states that experience across both advanced and developing economies demonstrates that the key economic drivers influencing the illicit tobacco trade are excessive tax levels, usually resulting in a sharp decline in the affordability of cigarettes through the licit supply chain. In India, high and constantly increasing tax rates provide a profitable opportunity for tax evasion through illegal trade in respect of both imported and domestically manufactured cigarettes. While legal manufacturers abide by regulations and invest heavily in innovation and product development, with brands serving

as guarantees of quality and safety, It is unfortunate that extreme regulations provide further encouragement to the illegal cigarette trade in India, as they do not comply with tobacco control regulations of the Government.

It is important to note that on items like tobacco products and alcoholic beverages, since tax rates are kept high; there is lesser compliance and higher evasion. A TRACIT study on 'Mapping the Impact of Illicit Trade in Sustainable Development Goals' clearly elaborates how excessive regulations and restrictions on alcoholic beverages have acted as a key enabler for illicit alcohol trade.

India is one of the fastest growing economies of the world. This makes it a target of choice for all those indulging in smuggling and counterfeiting. Combating illicit trade is essential if economies and societies are to be protected and made prosperous. FICCI's Committee Against Smuggling and Counterfeiting Activities Destroying the Economy (CASCADE) has been at the forefront in understanding this complex adversary. Since its inception in 2011, it has been relentlessly working with policy makers, industry, enforcement agencies, and the society at large in generating public awareness on the twin threat of smuggling and counterfeiting. A recent study by CASCADE titled 'Invisible Enemy: Impact of Smuggling on Indian Economy and Employment' has estimated that due to smuggling, Indian economy incurred sales loss of Rs 1,17,253 crore, and further loss of 16.36 lakh livelihood opportunities during 2019-20 in just five key sectors namely - Textiles, Tobacco Products (Cigarettes), Readymade Garments, Capital Goods (Machinery and Parts) and Consumer (Electronics) Durables.

Over the years, several initiatives, collaborations, stakeholder consultations, policy and legislative work has been done to curb this threat. In spite of numerous measures which are being undertaken, India ranks low in the Global Illicit Trade Environment Index and needs quantifiable actions to minimise the risks of illicit trade on the economy. Apart from robust processes in place to catch the criminals who indulge in such activities, having a balanced tax regime and regulations that disincentivises illicit trade is the need of the hour. The government while taking taxation policy decisions needs to take this reality also into account.

For creating deterrence to curb illicit trade, it is necessary that it becomes substantially less profitable. This can only be done through measures such as keeping the indirect taxes at moderate levels; providing more severe penal provisions in the IPR and other concerned laws; ensuring that detection of offences become more certain; awarding of penalty on offenders is expeditious; and enforcement of applicable laws remains a high priority area of work of the government agencies like Police, Customs, Judiciary, etc. There is no escape from this even though it is difficult to achieve.

