

The war against illegal goods as India's fight

India's wholesale inflation rate has been declining since July this year but has remained in double digits since April 2021. Last month, the inflation rate was recorded at 12.41%, from 13.93% in July. Consistently high inflation leads to people deferring purchases, purchasing less, going in for reuse and recycling, or just switching to cheaper alternatives. The search for cheaper alternatives kicks up a storm – markets are flooded with cheap inferior goods or spurious and fake brands, giving a dream run to the parallel economy players.

This is where the China angle comes in. The parallel economy dealers need access to seemingly similar functioning cheaper goods which are aptly served by factories humming in China. As we get closer to the festive season, we will see, yet again, bazaars full of Chinese goods – from Deepavali lights, pooja idols, electronic items and bicycles to everything that the consumer needs. Clearly, the Government's response to this situation is centered around its self-reliance or 'Atmanirbharta' agenda, which should place added focus on producing goods in bulk at the lowest possible cost. The Government's intent is certainly taking shape, as was echoed by Piyush Goyal, Minister of Commerce and Industry, Consumer Affairs and Food and Public Distribution and Textiles, in a tweet recently. He said: "Our toy manufacturing sector is booming, with Indian toys rapidly filling up shelves in the country and abroad." Such wins would be possible only if India can bring down the cost of manufacturing by addressing anomalies at each stage in the value chain.

A thriving market

The consumer's search for cheaper alternatives gives birth to another menace which hurts even more – a booming, smuggled and illegal goods market. This hurts more because it is done at the cost of taxes to the government, depriving the country of the fuel required to drive social transformation. In this economic activity, the target is not the cheaper category of goods, but rather the more expensive class of goods. According to the Federation of Indian Chambers of Commerce and Industry's Committee Against



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Apart from boosting 'Atmanirbharta', fast collective action rooted in smart taxation, restrictions on profit repatriation and stricter law enforcement are some of the necessary steps the Government needs to take

Smuggling and Counterfeiting Activities Destroying the Economy (CASCADE) – one of the best-known data sources for information on smuggling – the illicit market is thriving in five key Indian industries. This includes mobile phones, fast-moving consumer goods (FMCG) – household and personal goods, FMCG-packaged foods, tobacco products, and alcoholic beverages. The size of the illicit market in these industries was valued at ₹2,60,094 crore in 2019-20.

According to a report by the Economist Intelligence Unit, in 2018 India ranked low in the Global Illicit Trade Environment Index and needed quantifiable actions to bring down the risks of illicit trade on the economy. In relation to three of the four elements, i.e., government policy, supply and demand, and customs environment, India ranks in the third quartile of the 82 countries covered in the index. It ranks 35 in terms of transparency and trade.

The CASCADE report estimates that unlawful trade in the industries mentioned above results in a total estimated legitimate employment loss of 15.96 lakh. The combined FMCG industry (household and personal goods, and packaged foods), due to its illicit market size, accounts for about 68% of job losses. The estimated tax loss to the Government due to illicit goods in these industries has been estimated to be ₹58,521 crore. The report further reveals that two highly regulated and taxed industries, tobacco products and alcoholic beverages, account for 49% of the overall tax loss to the Government.

Rationalise taxes, promote local brands

A lesser-known fact is that the more evolved manufacturing markets subtly support smuggling by only doing lip service and not taking strong action against their exporters and international traders as it does not harm their local economy but helps their manufacturing sector. Therefore, there have been fewer supporters in the developed world and in countries such as China for the war against smuggling. This is India's fight as it is one of the largest consuming countries with porous borders and a weak enforcement machinery to stop smuggling.

The only practical measure to stop smuggling

and illicit trade is if the Government keeps taxes rationalised in the categories where smuggling is high, so as to give lesser cost arbitrage incentive to smugglers as well as aggressively promote local industry to build world-class brands and products. This would reduce the dependence on international manufacturers. There is a common thread in both cases – the need to support local industry by rationalising taxes and providing incentives to local manufacturers so they can make world-class goods that can compete with global brands in India as well as in global markets. Allowing global brands to manufacture in India also remains relevant provided they can offer India-specific pricing and are not allowed to remit royalties and profits out of the country earned from goods being consumed by Indians. China has a very successful policy wherein multinational corporations (MNC) reinvest profits earned by subsidiaries in China. India can make a concession by allowing MNCs to repatriate profits earned from the goods they sell outside India. This will propel India as a global manufacturing destination and MNCs will be able to hit their topline goals. Today, with India's growing heft and attraction as a fast-growing economy, it is time to strike a better bargain.

Use of technology in enforcement

Fast collective action using a mix of strategies that are rooted in smart taxation, restrictions on profit repatriation and stricter law enforcement are steps that will stop the inflow of smuggled, illicit and cheap, low-quality goods into the country. According to CASCADE, enforcement can be improved by using cutting-edge technology such as artificial intelligence, blockchain, and location technology. This will help in increasing the seizure of illegal goods. The Government must also increase consumer awareness so that people boycott smuggled, counterfeit and poor quality goods. The supply of cheap, counterfeit and smuggled goods is only nurturing crime syndicates and a parallel economy, and where the Government and the consumer are the losers. There is no better time than now to give 'Atmanirbharta' yet another dimension to accelerate its progress.