

Smuggling: The creepy enemy of a self-reliant economy

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By Rameesh Kailasam

The literal meaning of smuggling is to bring in or take out, secretly, anything that is contrary to the law or even bypassing payment of taxes, duties or violating laws laid down by the Customs.

While the origins of smuggling may not be clear, it should ideally be as old as the time someone may have attempted to flout or bypass any tax or regulation to sneak in or out any goods. Some history exists around smuggling during the late 13th century during the reign of Edward I of England, when wool was brought under a consistently increasing customs duty due to huge demand in Europe. The 18th century was a golden period for smuggling as taxes increased significantly on tea, spices, silk, tobacco and spirits in England and France, and led to widespread illicit trade. The population wanted access to cheaper goods and this led to more smuggling and some sections of the society even gave smugglers the status of heroes. During the same timelines, India witnessed most smuggling around opium going to China where it was banned.

According to the World Economic Forum, illicit trade annually drains the global economy of \$2.2 trillion (or about 3% of the world's economy). According to the UNCTAD, if illicit trade were to be looked at as a country, these would be larger than Brazil, Italy or Canada. A 2019 study by the FICCI states that large-scale smuggling in five key industry sectors alone resulted in a loss of Rs 1,17,253 crore to the Indian economy, and the total livelihood opportunity lost in the economy was close to 16 lakh. Smuggling or illicit trade is a major factor that impedes growth in the manufacturing sector and at times can be as devastating as dumping.

Every year, the Directorate of Revenue Intelligence (DRI) releases its annual report that gives an insightful perspective of what all does India smuggle—an interesting aspect to look at considering its vast coastline, porous borders and the kind of neighbourhoods we share. The answer starts from gold, precious stones and goes on to include various narcotics, drugs, arms, ammunition, currencies (including fake), banned or restricted chemicals and substances, wildlife and their body parts, spices, dates, cosmetics, perfumes, medicines, e-waste, red sanders, vehicles, textiles, consumer electronics, machinery, antiques to even cigarettes. There are also cases of misuse of various trade schemes that include DEEC, DFIA, EOU, SEZ, EPCG, MEIS and SEIS.

The Covid-19 pandemic presented a new challenge in the smuggling sphere, and smuggling syndicates adapting to new modus operandi. Once again ingenious concealment methods for smuggling of gold and narcotics emerged as a major phenomenon in the anti-smuggling front, as per the 64th DRI anti-smuggling report.

For example, if we look at tobacco and cigarettes, the DRI reports over the years have indicated an increase in smuggling of foreign-origin tobacco-related products due to the steady rise in taxes of domestic cigarettes. Many of these used the Middle East and South East Asian sea routes in containerised cargo by mis-declaration of items and also cleared through various SEZs, while the regular route through airports, porous borders and land routes continued. The report states that 65% of the seizures were from container concealment, 23% from vehicles, 5% from air cargo and courier, while town seizures contributed to 7% of the total seizures.

While global bodies have pronounced several days including an anti-trafficking day by the UN, no such day has been dedicated to recognise anti-smuggling. The FICCI's Committee Against Smuggling and Counterfeiting Activities Destroying the Economy (CASCADE) recently took a lead to mark the launch of the Anti-Smuggling Day on February 11, 2022, which is an encouraging and important step to bring visibility and resolve against this creeping enemy.

It is important that the Indian government pushes ahead this initiative to be globally observed as the World Anti-Smuggling Day. With India being a large producing and a consuming economy, it is critical to have further tightening of borders and controls else this can seriously hurt India's aspirations to be a self-reliant manufacturing nation. This may also require a relook at some of the internal taxes and regulations that may inadvertently promote smuggling.

The DRI and the Customs continue their endeavour to ensure smooth flow of legal trade while acting as the gatekeeper to prevent illegal ones. However, with the enemy adopting new technology and innovation, it is equally critical for the gatekeepers to be ahead and be empowered with technology and build intelligence continuously to effectively tackle the growing menace of smuggling. While steps need to be taken to build capacity and have mechanisms for better coordination amongst anti-smuggling agencies in India and globally, it is also important to incentivise local manufacturing in legitimate goods that suffer a demand-supply deficit, besides having business-friendly regulations and appropriate tax rates.

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