

TRACIT calls on Pakistan to address structural challenges, crack down on illicit trade across sectors

8 November 2023, Dubai – Today, the Transnational Alliance to Combat Illicit Trade (TRACIT) released its latest study examining the situation of illicit trade in Pakistan. The report notes the convergence of structural weaknesses in Pakistan’s economy challenges its ability to sustain recent gains in poverty reduction and undermines objectives for long-term growth in GDP. Since these factors also create fertile ground for illicit markets to strengthen, the report puts forward remedies for consideration by Pakistan’s policy leaders.

In March 2023, the inflation rate in Pakistan reached 35.4 percent, the highest level in 50 years. High levels of inflation can have a disastrous impact on consumer purchasing power and “product affordability,” which is widely regarded as the primary driver for illicit trade.

“Record high inflation is perhaps the most pressing problem,” said TRACIT Deputy Director-General Stefano Betti. “When prices rise faster than incomes, cheaper goods including illicit and black-market products become more tempting to consumers.”

In Pakistan, the shadow economy is already equal to about 40 percent of GDP and significant levels of illicit trade can be found in many key economic sectors, including food fraud, illicit petroleum products, counterfeiting, and trade in falsified and substandard pharmaceuticals.

“These illicit markets have plagued the country for years – perpetuating a vicious circle of associated money laundering, organized crime, corruption, and tax evasion,” said Mr. Betti.

Tax evasion seriously undermines Pakistan’s capacity for fiscal resource mobilization, especially when it amounts to as much as 6 percent of GDP. Tax evasion related to illicit trade in tea, tires and auto lubricants, and pharmaceuticals has grown to about PKR160 billion per year. The unregulated, untaxed illicit trade in cigarettes, which had increased about 10 percent over the last few years, now drains PKR 240 billion from fiscal revenue collections.

Curbing illicit trade will be a crucial factor in achieving Pakistan's healthy economic prospects. To this end, TRACIT calls on Pakistan to implement comprehensive policies that consider the potential impact on all sectors of the economy and work to reduce the incentives for criminals to engage in illegal activities.

About TRACIT: The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

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