

## MEDIA RELEASE

### TRACIT warns Pakistan that counterfeiting and illicit trade stifle growth, economic development

**6 May 2024, Islamabad** – Today, the Transnational Alliance to Combat Illicit Trade (TRACIT) presented policy recommendations to government officials and industry stakeholders participating in a forum hosted by Pakistani think tank, the Policy Research Institute of Market Economy (PRIME). The report highlights the impact of Pakistan’s ongoing economic problems with a staggering 25 percent inflation rate. High levels of inflation have had 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 Director-General Jeff Hardy. “When prices rise faster than incomes, illicit and black-market products become more tempting to consumers desperately seeking cheaper alternatives.”*

Speaking on this occasion, Executive Director of PRIME, Dr Ali Salman explained that *“the 68 Billion Dollar black and gray markets are fueled by high taxes, tariffs and duties, because in these times of crippling inflation, citizens have nowhere else to go”*.

*According to Dr Salman, “Unless we minimize barriers to legal trade, the government of Pakistan has no chance of generating enough growth to raise required tax revenues and is set on a clear path towards bankruptcy”*.

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, pesticides, counterfeiting, and trade in falsified and substandard pharmaceuticals. Discussants at the forum delineated the challenges faced in tackling illicit trade across sectors.

- It is estimated that 40 percent of the medicines sold in the country are counterfeit or substandard. Illicit trade in pharmaceuticals will need to be addressed from different angles, including amending the existing regulatory framework and undertaking aggressive law enforcement measures.
- Manufacturers of illicit pesticides have recently been the target of government investigations, with recent seizures of large quantities of illicit pesticides and fertilizers worth millions of rupees. Efforts by the Department of Plant Protection (DPP) to establish a special anti-pesticide adulteration campaign can usefully shut down the production and distribution of illicit pesticides and can also improve agricultural production and economic development.

- More than half of the cigarettes consumed in Pakistan are sold without the payment of taxes, leading to annual losses of tax revenues of around USD 860 million. Since the recent imposition of federal excise taxes, the share of illicit cigarettes has jumped to about 67 percent of the market. Government efforts to implement track and trace systems have been somewhat effective but have only captured a fraction of the tobacco market. Greater enforcement of the track and trace system can help ensure that tax revenues due to the government will be collected.
- While historically most of the fast-moving consumer goods purchased in Pakistan were imported from China, there has been a noticeable increase in local manufacturing of counterfeits in Pakistan. This makes counterfeiting far easier and has increased the magnitude of counterfeit products in the market. Pakistan needs to look at counterfeiting and illicit trade as a serious criminal issue. And, unless the circumstances are dealt with, counterfeiting and illicit trade will continue to be the biggest hurdle in the revival of the Pakistan economy.

*“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. Hardy. “We are pleased that the government is stepping up law enforcement against smuggling, money laundering and black marketers.”*

Tax evasion is also a major problem in Pakistan, undermining its 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.

*“Improving enforcement and tax collections can help mobilize domestic revenues without the need to raise taxes, which could stifle growth and the fragile economic recovery,” said Mr. Hardy. “Additional revenues resulting from tighter compliance with existing taxes and track and trace systems can help preserve economic stability and enhance debt sustainability.”*

TRACIT and the Prime Institute also signed a Memorandum of Understanding establishing a framework for cooperation to mitigate illicit trade in Pakistan. Among the agreed areas for collaboration will be the development of a new, in-depth investigation of the size, scope and associated negative impacts of illicit trade on the Pakistan economy.

*“One of the main takeaways from today’s meeting is the urgent need for more information and a better understanding of the drivers of illicit trade in Pakistan,” said Dr Ali Salman, Executive Director of the Prime Institute.*

*“We look forward to working with the Pakistan government and will leverage on the international expertise of TRACIT to start a research and advocacy agenda 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.”*

*Dr Ali Salman highlighted that “Smuggling is growing faster than legal trade and presently stands at 20% of GDP, indicating that formal markets are unable to meet the increasing demand of the Pakistani middle class. who are willing to take high risks to avoid the excessive cost of taxes and tariffs.*

**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.

**About PRIME:** The Policy Research Institute of Market Economy (PRIME) is an independent economic policy think tank based in Islamabad.