

# [The smuggling problems in the philippines](https://assignbuster.com/the-smuggling-problems-in-the-philippines/)

Raymond Palatino (2008), reports “ The extent and impact of smuggling in the Philippines” that Smuggling is a serious problem that hurts the country in many ways. It deprives government of revenues from uncollected taxes and customs duties. It affects local industries by distorting prices of commodities. Smuggling causes production slowdown, which leads to mass lay-offs, reduced consumer spending, bankruptcies, and lower tax collection. Smuggling has especially benefited from weak governance and chronic political instability.

The author further added that when the government reduced the tariff rates on imported articles, many economists and merchants expected a decline in smuggling activities. They believed the tariff reduction would have discouraged illegal importation of goods since there will be fewer taxes to pay on the part of importers. But even with reduced tariff rates, smuggling persists up to this day. From used clothing to shoes, second-hand and luxury cars, agricultural products, garments, ceramic tiles and jewelries, cheap smuggled contraband are flooding the local market, which wipes out the earnings of small honest traders.

The author compared the import-export data; Data show the disparity of import-export figures between the Philippines and its trading partners. In 2000, trading partners reported that they exported $45-billion worth of goods to the Philippines, but government figures registered only $34-billion worth of imports. This means that more than $10-billion worth of goods were unaccounted, undervalued or misdeclared.

In 2002, China exported 3. 9 million square meters of ceramic tiles to the Philippines, but only 600, 000 square meters were recorded in the Bureau of Customs. The following year, 4 million square meters of ceramic tiles were exported to the Philippines, but only 300, 000 square meters were recorded in the BOC.

From January 2001 to June 2003, authorities confiscated a total of 1, 517, 387 bags of smuggled rice worth P1. 18 billion. Since 2006, a total of 100, 000 smuggled vehicles were shipped into Subic Bay Freeport. Last year (2007), 4 billion liters of oil were lost to smuggling.

The author concluded that Smuggling clearly destroys the local economy and exacerbates poverty in the country as manifested by the closure of local industries, decline in agricultural production, uncompetitive agricultural products, loss of jobs, unfair competition, loss of government revenues, heightened corruption in the bureaucracy, and risks in consumer welfare.

Milton Ayoki (2003), explained in his Paper “ The hidden costs of doing business in Uganda” that the problem of smuggling has been particularly serious for goods like petroleum fuels, cigarettes, sugar and other highly taxed or potential revenue sectors such as steel, leather, wood, textiles, bicycles and chemicals as major deterrents.

The author further added that apart from the huge revenue losses involved, smuggling is killing local businesses and causing great inequality and other effect is that illegally imported goods are steadily displacing some locally produced goods in the market place. This is adversely affecting both employment and profit margins in domestic industries.

Luk Joossens (2003), written in his article “ Vietnam: smuggling adds value” that

Internal British American Tobacco (BAT) documents have been explicit about the knowledge of cigarette smuggling into Vietnam. 555 cigarettes is the major smuggled brand and there is no doubt it has a tremendous image and sales potential in the country.

The author added that BAT documents describe in a detailed way the smuggling route for 555: cigarettes were produced in the UK, shipped to Singapore, sold to importers and traders in Cambodia, and then transported illegally across the border to Vietnam.

Joossens argued that the industry has always claimed that smuggling is the result of taxes being too high.

UNDP (1995) viewed the taxes on opium exports to the mainstay of Taliban income and their war economy. It revealed that Afghanistan-Pakistan drugs exports were earning some 50 billion rupees (US $ 1. 35 billion) a year. Alongside the drug trade, the traditional Afghans smuggling trade through Pakistan and now the Gulf States, expanded under the Taliban, creating economic havoc for the neighboring states. This trade was estimated be the largest trade source of official revenue for the Taliban and generated an estimated US $ 3 billion annually for the afghan economy; UNDP disclosed that through the customs officials in Kandahar, Kabul and Herat refused to disclose their daily earnings, but with some 300 trucks a day passing through Jalalabad and Kabul to the north, daily earning were considerable. The illegal trade in consumer goods, food and fuel through Afghanistan crippled industries, reduced state revenues and created periodic food storages in all neighboring countries.

The World Bank (1997) report on “ Afghanistan – Pakistan Trade Relations” as a part of its “ watching brief” strategy for Afghanistan, accounts for the total trade between Afghanistan and Pakistan at $2. 5 billion in which the unofficial re-export from Afghanistan to Pakistan has the loin’s share. The study assessed that the long and porous border between the two countries, the need for basic goods in Afghanistan’s warn-torn economy, weak border controls, high import tariffs in Pakistan on goods prone to smuggling and the low cost risks were important reasons behind the large and growing unofficial trade between the two countries. This report further added that there was an evidence of expansion of official and unofficial trade in locally produced goods between the two countries, which was likely to increase substantially if there was peace and post-war reconstruction in Afghanistan. In Pakistan, the imports competing industries have been harmed. The study also estimated that the government of Pakistan had been loosing substantial revenues due to tax evasion and fungibility of routes through which un-official imports enter the country.

Rashid (1999) in his book Taliban, recorded that the smuggling trade to and from Afghanistan became the most devastating manifestation of the losses being sustained by the government of Pakistan during the Taliban regime. According to him, this trade, which now extends to central Asia, Iran and Persian Gulf, represented a crippling loss of revenues for all these countries, but particularly Pakistan, where local industry has been decimated by the smuggling of foreign goods. Rashid elaborates further, “ What is euphemistically called the afghan transit trade (ATT) has become the biggest smuggling racket in the world and has enmeshed the Taliban with Pakistani smugglers, transporters, drug barons, bureaucrats, politicians, police and army officers. This trade became the main source of official income for the Taliban even as it undermined the economies of neighboring states”.

Rashid also points out that the border post between Chaman, in Balochistan province, and Spin Boldak, in Afghanistan, is a prime location for watching the rackets at work. His estimates accounts for 300 trucks crossing from Afghanistan to Pakistan on a good day. The goods which these trucks carry, have no invoice and cross up to six international frontiers without having route permits, driving license or passports. The consignments on these trucks range from Japanese camcorders to English under-wear and Earl gray tea, China silk to American computer parts, Afghan heroin to Pakistani wheat and sugar, East European Kalashnikovs to Iranian petroleum and nobody pays custom duties or sales tax.

Inter press service, a news agency (2001), found Indian drugs to have found ways to Pakistani markets, adding yet another dimension to the cross border illegal trade to and from Afghanistan. The agency named aspirin, Amoxiline, Ampiciline, Corimaxazole, Laxotanill, Cyprafloxine, Renitidine, Fametidine and Cemedtidine to be selling in prominent medicines shops of the province. The agency further disclosed that unlike the settled areas, where the sale of Indian drugs was banned and those found guilty of conduct were liable to severe penalties, the tribal areas were quite immune to such repercussions. Like all other duty free smuggled goods, Indian drugs were evaluated by the agency to be 10 times cheaper than the drugs of the same brand and effect, produced by multinational companies (MNCs) in Pakistan.

Citing reasons for this price disparity, the agency added that unlike India, where the MNCs were bound to use raw materials from India, the government of Pakistan allowed them to import raw materials from their parent countries which entailed heavy tariff duties. Similarly, quoting the findings of international regional office for Asia and pacific, the agency counted 26 commonly consumed drugs to have very high prices in Pakistan as compared to India.

The agency while discussing the transportation of drugs, revealed that along with other goods, Indian drugs were smuggled into Afghanistan, to Pakistan’s tribal areas and then finally to Peshawar. The report also disclosed that Afghanistan received thousands of US dollars worth of medicines, each month, from Indian, under a bilateral agreement, but some unscrupulous agencies in Kabul were apparently making huge profits from selling them in tribal areas.

The report further discovered that due to the mutual collusion of the MNCs, health department functionaries, and other government officials, the measure of the government to import drugs from china, Bangladesh, Bulgaria, Poland and Yugoslavia to counter the smuggled and low priced Indian drugs, has miserably failed.

Awan (2001) put the Pakistan bound transit goods to Afghanistan at Rs 14. 97 billion during 1998-99. Prominent among these goods were safety razors, worth Rs 120 million, cosmetics Rs 150 million, minerals water, Rs 200 million, electronics worth Rs 300 million and telephone sets worth 160 million. The report pointed out that this trade, which has been conducted for the last 50 years, fetched billions of rupees to the tribal traders, related to the afghan counterparts and as much to the Pakistani customs and other law enforcing agencies, who facilitated this black trade.

Awan also disclosed that previously, for decades, these Afghanistan bound transit goods were leaked into Pakistani markets before reaching Afghanistan. Owing to strict regulations imposed on the transit trade, it was very recently that the Afghanistan bound goods, at least, started crossing the border and then re-exported illegally to Pakistan. Awan pointed out that due to the high financial stakes of various interest groups, law, customs and state machinery have lost their efficacy.

Keeping the adverse fall out of the abuse of afghan transit trade agreement on the industrial sector of Pakistan, Awan suggested that other neighboring countries with sea-coast should also shoulder the responsibility of transit facilities to Afghanistan.

The News, in its march 2, 2002 issue, reported that there has been an unprecedented increase in the smuggling of tea, spices and other utilities, through the afghan transit trade, during the last two years. This rise has been attributed to the massive under-valuation of these items at the country’s dry ports, especially Lahore, Gujranwala, Faisalabad, Quetta and in other cities, which were basically established for providing facilities to the local traders at their door steps.

The report added that “ these smuggled items are now openly sold at the Jodia bazaar, the traders from various parts of the country have opened their offices, which deal exclusively in smuggled items, mostly tea and spices through Quetta dry port into the city” the dry ports established in various parts of the country have become a major source of smuggling, mis-declaration, under-invoicing, tax evasion and theft, detrimental to the government treasury, it alleged.

The repot revealed that since 1988, the smugglers switched to smuggling of eatable products as they found this proposition to be highly lucrative. The smuggling of items originates from Dubai, via port Bandar Abbas in Iran, to Afghanistan and ends up into Pakistan. Probing the matter, the report discovered five percent increase in the custom duty during the 2001 budget, plus the total tax increase of 70 percent, to be the main reasons for the rise in smuggling.

Daily Aaj, on 16 July, 2009 reported that during the year 2008-09, eight hundred million kg of tea is smuggled into the country, only 4. 9 million kg smuggled tea is less then from the total imported tea. This year government losses Rs 5 billion in shape of tax evasion due to smuggling of tea.

Through reliable sources, Afghan Transit Trade (ATT) is the main source of tea smuggling in the country. The total import of tea was 10 million kg during the period of July 2007 to June 2008. This was imported in one year from Kenya about 53. 9 % while in previous year that was 61% from the same country. Which was 7% dropped in tea imports.