



INVISIBLE ENEMY

Impact of Smuggling on
Indian **Economy** and **Employment**

Objectives of the Study

India ranks 49 among 84 Countries in the Global Illicit Trade Environment Index 2018 and needs quantifiable actions to bring down the risks of illicit trade on the economy

- Identify and select five key industries that are significantly affected by smuggling
- Quantify the levels of smuggling in these industries during the period 2015-16 to 2017-18
- Estimate direct livelihood opportunities in these industries due to output foregone because of smuggling
- Estimate total livelihood opportunities in the economy due to linkage of these industries with other sectors of economy



Key Industries Under Consideration

Basis of selection of the five key industries for the study:

Key Indicators for Identification and Selection of the Key Manufacturing Industries				
Industry	Seizure Data (₹ Crore)	Total Number of Enterprises (Lakh)	Total Output (₹ Crore)	Total Employment (Lakh)
Machinery and Parts	44.71	0.926 (86.9 %)	313935 (8.7 %)	12.73 (42.9 %)
Tobacco Products (Cigarettes)	162	32.79 (99.9%)	59666 (20.6%)	44.55 (88.6 %)
Textile Products (Silk, Yarn, Fabric)	41.48	26.21 (99.3 %)	448449 (16.4%)	65.43 (76.1 %)
Ready-made Garments	(included in textiles)	56.20 (99.8 %)	123397 (38.7 %)	89.48 (87.9 %)
Consumer Electronics	19.76	0.148 (96.0 %)	95170 (1.7%)	1.12 (32.3 %)

Research Approach and Methodology

1. Estimates of Smuggling and Output Loss

Methodology based on mirror trade statistics of the UN Comtrade database

- Identification and mapping of 4 digit HS codes of key Industries in the UN Comtrade database
- Exports reported by all the partners countries for product A to India, data cross checked with DGFT database also
- Imports reported by India from all the partner countries for product A
- Checks for unreported/ missing data exports by partner countries and adjustment for CIF/ FOB valuation @1.1 on imports reported by India

2. Assessment of Direct Livelihood Opportunity

Methodology based on nature and productivity of the industry

- Mapping of the key Industries in the formal sector (Annual Survey of Industries, MoSPI) and Informal Sector (NSSO 73rd round, MoSPI)
- Analysing output and livelihood of informal and informal sector of the key industries
- Derive direct livelihood opportunities in the formal and informal sectors due to output foregone in these industries because of smuggling

3. Assessment of Total Impact on the Economy

Methodology based on multiplier effect of an industry on the economy

- Mapping of the key Industries in 130*130 matrix of the Input-Output table for year 2013-14 prepared by National Council for Applied Economic Research (NCAER), publicly available for usage from 2015-16
- Estimation of Output and Employment multipliers by methodology originally developed by Nobel laureate, economist Wassily Leontief
- Total livelihood opportunities in the economy due to smuggling can be ascertained by multiplying livelihood opportunity in an industry with their calculated employment multipliers

Data Sources and Reports

- UN Comtrade data from UN Statistics Division (UNSV)
- Report No.5 of 2016 - Union Government (Indirect Taxes - Customs), CBEC,
- DRI data in NCRB Annual Reports, Ministry of Home Affairs, Govt. of India
- Parliamentary Questions and Reports
- Annual Survey of Industries, Ministry of Statistics and Programme Implementation (MoSPI)
- NSSO 67th Round Survey on Unemployment and employment Situation in India, (MoSPI)
- NSSO 73rd Round Survey on the Unincorporated Non-Agricultural Enterprises (Excluding Construction) in India, MOSPI
- NCAER Input-Output tables, 2013-14 publicly available from 2015-16 / NSSO Input Output tables 2007-08

Smuggling and Output Loss to Key Industries

Smuggling and Output Loss : Textiles Industry

Smuggling and Output Loss to Domestic Textiles Industry					
Year	Smuggling (Rs. Crore)	Imports (Rs. Crore)	Smuggling as Percentage of Imports	Total Industry Output (Rs. Crore)	Smuggling as a Percentage of Industry Output
2015-16	5417	26172	20.7%	448449	1.21%
2016-17	6717	29077	23.1%	470160	1.43%
2017-18	5276	30233	17.5%	492922	1.07%

Smuggling and Output Loss : Readymade Garments Industry

Smuggling and Output Loss to Domestic Readymade Garments Industry					
Year	Smuggling (Rs. Crore)	Imports (Rs. Crore)	Smuggling as Percentage of Imports	Total Industry Output (Rs. Crore)	Smuggling as a Percentage of Industry Output
2015-16	3780	3668	103.0%	201271	1.88%
2016-17	4594	4031	114.0%	209407	2.19%
2017-18	5509	4437	124.1%	217871	2.53%

Smuggling and Output Loss : Tobacco (Cigarettes) Industry

Smuggling estimation using consumption based approach

Smuggling and Output Loss to Domestic Tobacco (Cigarettes) Industry				
Year	Smuggled Cigarettes (Million Sticks)	Smuggled Cigarettes (Rs. Crores)	Industry Total Output (Rs. Crores)	Smuggling as a Percentage of Industry Output
2015-16	8792	7183	50381	14.26%
2016-17	9531	7729	46831	16.50%
2017-18	10870	8750	43531	20.10%

Smuggling and Output Loss : Capital Goods Industry

Smuggling and Output Loss to Domestic Capital Goods (Machinery and Parts) Industry

Year	Smuggling (Rs. Crore)	Imports (Rs. Crore)	Smuggling as Percentage of Imports	Total Industry Output (Rs. Crore)	Smuggling as a Percentage of Industry Output
2015-16	17556	197005	8.9%	313935	5.59%
2016-17	17900	204551	8.8%	352076	5.08%
2017-18	18425	217345	8.5%	394850	4.67%

Smuggling and Output Loss : Consumer Electronics Industry

Smuggling and Output Loss to Domestic Consumer Electronics Industry					
Year	Smuggling (Rs. Crore)	Imports (Rs. Crore)	Smuggling as Percentage of Imports	Total Industry Output (Rs. Crore)	Smuggling as a Percentage of Industry Output
2015-16	1423	143739	1.00%	951700	0.15%
2016-17	14904	143159	10.40%	117852	12.65%
2017-18	9059	180210	5.00%	145940	6.21%

Smart phones are one dominating segment with share of 56 % percent share

Smuggling and Livelihood Opportunities in the Economy

Smuggling and Direct Livelihood Opportunities

Direct Livelihood Opportunities in Key Industries (Lakh)					
Year	Textiles Industry	Readymade Garments Industry	Tobacco Products (Cigarettes)	Capital Goods (Machinery and Parts) Industry	Consumer Electronics Industry
2015-16	0.79	1.68	0.89	0.71	0.016
2016-17	0.93	2.06	0.95	0.69	0.16
2017-18	0.7	2.49	1.06	0.68	0.08
Opportunities in Informal Sector	76.10%	87.90%	88.60%	42.90%	32.30%

Multiplier Effects of Key Industries

Industries	Output	Total Employment Backward Linkage (Per lakh Output)	Industry Employment (Per lakh Output)	Employment Multiplier
Textiles Industry	2.395	0.495	0.156	3.172
Readymade Garments Industry	2.635	0.853	0.617	1.381
Cigarettes	1.844	0.391	0.124	3.146
Capital Goods (Machinery and Parts) Industry	2.849	0.270	0.030	8.970
Consumer Electronics Industry	2.368	0.196	0.013	14.872

Multiplier Effects and Total Output Loss to the Economy

Total Output Loss (Rs. Crore)					
Year	Textiles Industry	Readymade Garments Industry	Tobacco Products	Capital Goods (Machinery and Parts) Industry	Consumer Electronics Industry
2015-16	12974	9960	13248	50035	3370
2016-17	16087	12105	14256	51015	35293
2017-18	12636	14516	16138	52511	21452

Multiplier Effects and Livelihood Opportunities in the Economy

Total Livelihood Opportunities (Lakh)					
Year	Textiles Industry	Readymade Garments Industry	Tobacco Products (Cigarettes)	Capital Goods (Machinery and Parts) Industry	Consumer Electronics Industry
2015-16	2.51	2.32	2.8	6.39	0.25
2016-17	2.96	2.85	2.98	6.22	2.31
2017-18	2.21	3.44	3.34	6.12	1.25

In Conclusion

- Overall quantum of smuggling is increasing over the years except consumer electronics which shows no linear trends
- Seizure data shows that penetration of smuggled products specially tobacco and readymade garments is increasing
- Direct livelihood opportunities in these five industries are increasing and stands at 5.01 lakh for year 2017-18 if output foregone due smuggling is accounted into these industries
- About 3.55 lakh direct livelihood opportunities (71 percent) are alone available in the readymade garments and tobacco industry, where informal sector accounts for 88 percent of total livelihood
- Capital goods and consumer electronics, where country is still largely import dependent, are forward looking industries having higher employment effect on economy

Way Forward

Way Forward





Thank You

