

## An Evaluation of the Role of Pakistan Customs as an Anti- Smuggling Agency

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### **Abstract**

Pakistan is sustaining huge economic loss due to smuggling which approximates at 3-6 % of its GDP. Trade and development are promoted when people become prosperous. This environment is created when the dynamics and factors of smuggling are understood in depth and secure trade is ensured for continuous and predictable economic activities. Pakistan customs is a valuable organization working in challenging environments for fostering sustainability through ensuring safe and secure borders of the country. Through introduction of trained human resource, solid IT infrastructure and coordination among different border protection agency; Pakistan customs can achieve its potential to curb menace of smuggling, drug trafficking and money laundering.

**Keywords:** Anti-Counterfeit Agency, the Convention on International Trade in Endangered Species, Intellectual Property Rights, United Nations Office on drugs and crime, World Customs Organization

### **INTRODUCTION**

Due to smuggling of goods, Pakistan is losing around 3-billion-dollar revenue per annum, these smuggled goods are making their way into the country through porous border with Afghanistan and Iran, through cargo in containers and high sea. Afghan transit trade agreement (ATTA) related cargo smuggles the goods from border to urban markets including Karachi and Lahore.

Since the authorization of Pakistan and Afghanistan Transit Agreement, smuggling is demolishing the national economy. Every government in the past have taken measures to handle the issue, yet because of absence of solid political will, incapable anti-smuggling approaches and systems every such exertion lacked fruitful results

Pakistan Customs has the mandate to ensure the following tasks being performed and executed in the legal manner that are; Import & Export of legitimate cargo, trade facilitation, trade Regulation, prevention (Control of contraband Goods) and revenue collection. Pakistan Customs is performing the role as anti-smuggling agency for security, economic prosperity, and environmental protection. Its role and performance also depend on how well it has implemented modern technologies, world best practices and sophisticated tools.

## **ECONOMIC THEORY AND DYNAMICS OF SMUGGLING**

There is a deficiency of research on economics of smuggling; two different approaches are being followed to explain the economics of smuggling. One of the views portrays that smuggling can be described as a financial action that substitutes imports and initially the idea was that it partially improves economic welfare of a small economy as its ramifications are evasion of tariffs or quantitative restrictions. On the other hand, it demonstrated that social welfare is not improved by smuggling, even for a small economy; however assets might be redirected from government to private sector<sup>1</sup>.

The other point of view develops a hypothesis which considers that cost of supply is basic motivating ingredient for smuggling and domestic consumption taxes and import duties are responsible for creating this price disparity. Local producers are able to produce and supply at a lower cost which ultimately brings down the price differential that in turn can discourage the smuggling<sup>2</sup>.

Smuggling and illegal trade, takes place for both legally allowed and illicit products. Merchandise and goods are illegally and unlawfully exchanged through lawful check posts, through cover of imports or with connivance of custom officials or officials of other responsible agencies. This unscrupulous product clearance based on fake invoices and counterfeit reports also result in trade revenue loss.<sup>3</sup>.

Investigation of these economic and financial crimes becomes difficult without understanding these covered up imports/exports and illegal nature of smuggling. Estimation of precise value of degree of smuggling in domestic economic context or through cross country correlation is generally relying on the unclear, vague proxies or through subjective evidence for confirmation. In an informal and undocumented economy like Pakistan, this calculation becomes more intricate due to incapability and ineffectiveness of responsible agencies, lose governmental control in the geographical ranges and outskirts which are hub of smuggling and easy, unaccounted for channels of cash transactions.

### **Factors of Smuggling**

Significant reasons and push and pulls factors which are responsible for smuggling are as under;

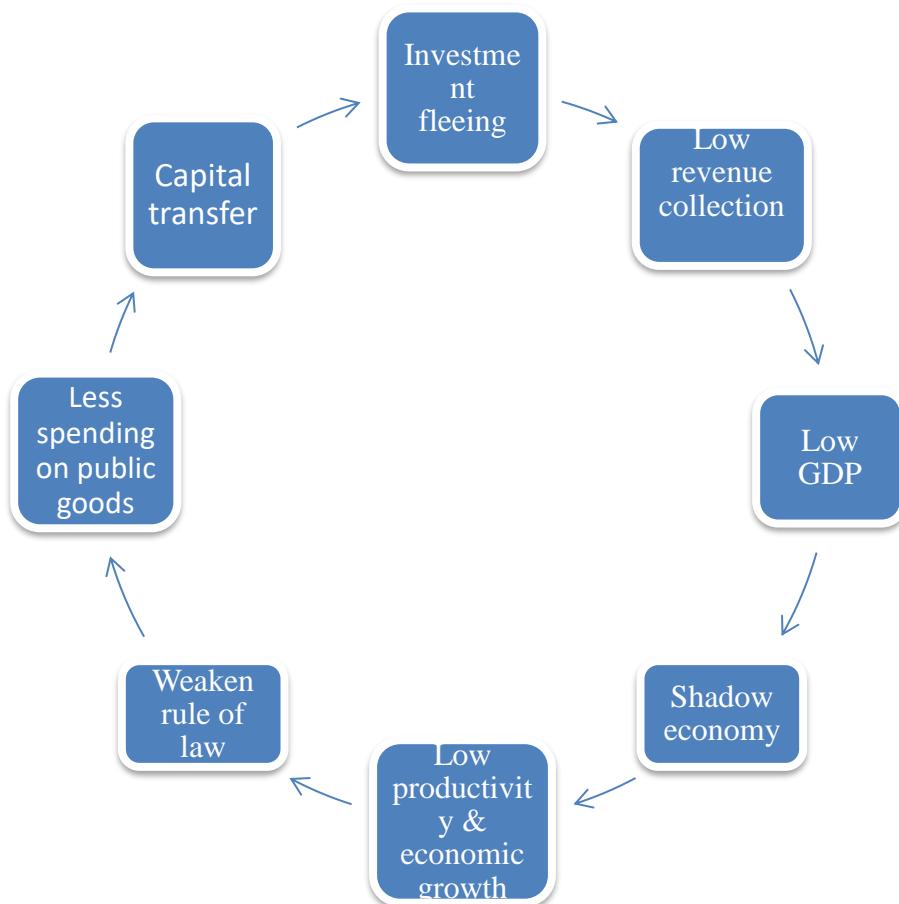
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- Higher the level of corruption, higher the magnitude of smuggling
- More trade restriction, higher the level of smuggling
- Stricter the law enforcement, lower the level of smuggling
- Higher the level of smuggling, lower tax and revenue, and lower economic development & growth
- Higher the level of smuggling, higher the trade discrepancies

- Higher the BMP ( Black Market Premium), higher discouragement of smuggling
- Increase in Real GDP per capita, negative effect on smuggling
- Rule of law- strict and higher penalties can escalate is the cost of smuggling
- Enforcement and duty structure in the neighbouring countries

**Economic Impact of Smuggling**

A wide number of studies have analyzed the substantial impact and consequences of smuggling on economy which are presented in below diagram.

**Smuggling in Pakistan**

As per Custom Act, 1969 " Smuggle means to bring into or take out of Pakistan, in breach of any prohibition or restriction for the time being in force, or en route pilferage of transit goods or evading payment of customs-duties or taxes levied thereon"<sup>4</sup>

There are all kinds of escalating and intensifying elements for smuggling in Pakistan. Its unique geographical border area terrain and careless control by state machinery along with other potential components and impetuses for smuggling as well complicate the circumstances. The size of Pakistan economy is 80-90 billion dollar <sup>6</sup> and the potential revenue loss is expected at 3 billion dollar per year as per state bank .This illegal cross border trade is a byproduct of all the available push factors which promote this illegal trade . Since inception, Pakistan has been facing difficult position regarding balance of payment issues and it has always used the policy of controlled trade authorization and import restrictions.

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Significant factors contributing towards smuggling in Pakistan are:

- rising consumption pattern of imported goods in Pakistan,
- Fiscal anomalies and irrational tariffs
- Culture of appreciation of foreign origin goods
- Weak writ of the state and Lax control of enforcement agencies
- Absence of Direct tax culture
- undocumented economy
- Corrupt practices of anti-smuggling agencies.
- Lack of promotion to cottage and small industrial
- High profit potential in the illegal trade/smuggling due to high cost and ease of doing legal business
- Failure of FBR to broaden the tax base and catch the illegal money; low tax to GDP ratio

**Dynamics of smuggling along border of Pakistan**

Pakistan's border with Afghanistan is long, porous and hard for thorough surveillance. An aggregate of 11 out of 34 Afghan provinces adjoin three provinces of Pakistan to incorporate Balochistan, Khyber-Pakhtunkhwa and Federally Administered Tribal Areas (FATA). The Pashtun populace ethnically is present on both sides of the Pakistan-Afghanistan border with having close relations. Also, a large number of tribes, in which there are 23 partitioned towns, comprising a huge population of tribes, six in FATA and Khyber-Pakhtunkhwa and 17 in Balochistan, which are separated by the Pakistan-Afghanistan border. Their cross border movement is neither potentially conceivable, nor is being done as such for all intents and purposes.

Afghanistan considers Durand line as an imaginary, not existent line between the two countries. This is a principle dispute on issue of status of Durand line and the attitude of Afghan government which facilitates cross border illegal trade. Along with legitimate cross border exchange routes, more than 100 frequented and unfrequented routes exist. Majority of these routes are being utilized for smuggling. From Chaman and Torkham border outskirts, there exist an estimated crossing of around 40,000 individuals per day which facilitates human trafficking, drug smuggling ,in connivance with lawful foreigners, NGO personnel, and NATO related traffic<sup>5</sup>.

This border between both the countries is highly ineffective and vulnerable due to misuse of transit facility, illegal trade of goods, drug trafficking and flow of arms and ammunitions. There is a lack of commitment and callous attitude on the part of Afghan government as there are very few border check posts established inside Afghanistan with very less presence of Afghan National Army (ANA) and Afghan Border police (ABP). This makes hundreds of posts inside Pakistan along the border as futile and ineffective.

Moreover, there is lack of joint control on border management between both countries. Absence of any industrial base in Afghanistan, being a war laden and land locked territory thus creates a thriving ground for regional illegal economy and cross border criminal activities. This phenomenon is further exacerbated by organized criminal networks of regional suppliers, wholesalers, financiers and protectors<sup>6</sup>.However considering the border management issues as solely responsible for cross border smuggling would be faulty.

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There are other smuggling routes with the People's Republic of China along the SUST border. Sea route is being used to bring contraband and restricted items like Gold and Liquor in the country. Similarly, smuggling of goods worth millions of rupees is carried out through borders of Taftan and Makran with Iran. Major items of which are Iranian petrol as Iran cannot legally export these items due to trade restriction imposed on it. In the past, train service of Samjhota express and currently Wagha border has been misused for smuggling in Pakistan.

**Drug Trafficking from Afghanistan**

Pakistan faces grave threat due to movement of narcotics along Pakistan-Afghan border as Pakistan is an opium free country since long. According to international reports the movement of narcotics approximately comprises of 50 percent of GDP of Afghanistan.<sup>7</sup> Livelihood of about 2.5 million Afghans depend directly on the income from poppy production, processing the yield into narcotics and the illegal trafficking thereof. UNODC report discloses that about 94 percent of world opium production transits through the region<sup>8</sup>.

**Misuse of Pak-Afghan Transit Trade Agreement, 1965**

Pakistan is bound to international compulsion to provide transit facility to Afghanistan, being a land locked country. This Pak –Afghan transit trade agreement came into effect in 1965. Smuggling phenomenon in disguise of Afghan Transit trade has an estimated annual volume of over 3 billion dollar which results in annual loss of about 2.7 billion to 3 billion dollar to national exchequer<sup>9</sup>. World Bank has estimated that Pakistan faced revenue loss amounting to US\$ 35 billion during 2001 to 2009 due to smuggling through Afghan transit trade alone. Peculiar nature of Pakistan's security policy towards Afghanistan, geo-political environment of the region, porous borders with Afghanistan, socio- cultural and economic ties between the people residing on both sides of the border and weak law enforcement on Pakistan are the key drivers of this transit related smuggling.

**Over invoicing Valuing Imports**

Over invoicing in value of import items increases the import bill. Payment differential of actual cost of imports in the garb of out bounded remittances is used to cover black money which is transferred out of the country and remitted back in the economy in the form of foreign direct investment, through legal channels.

**Quantification of Smuggling in Pakistan**

There exists a dearth of accurate information while analyzing the actual data involving smuggling activity in Pakistan. Due to presence of illegal and shadow economy, it is an uphill task to determine the level and quantify the magnitude of smuggling. There is lack of comprehensive and consolidated data on quantification of anti-smuggling efforts of Pakistan customs. The data if available is scattered and sometimes terms as confidential however a recent study conducted by the MCC, Preventive explains the phenomenon and some data.

The study is based on equation for determining market demand. It highlights that the total market demand for a given commodity has four variables that play a role in meeting total

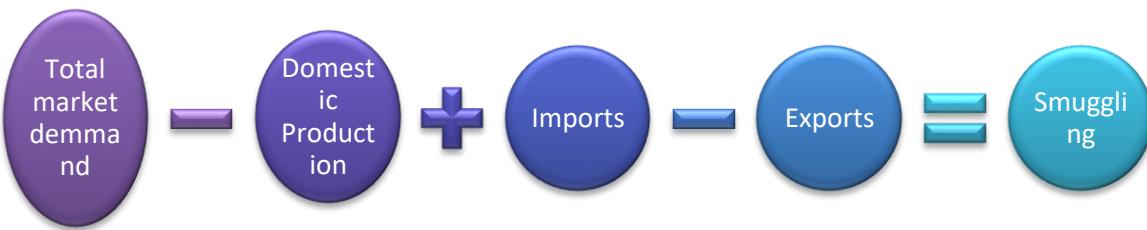
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market demand, namely imports, domestic production, exports; and the amount which is smuggled into the country through smuggling. In order to determine the total market demand, four variables were taken into consideration i.e. The total imports and exports determined through internal Customs data (PRAL) for the given commodity using Harmonized System HS codes for that commodity, domestic production quantity which can be determined using production data provided by manufacturers themselves, or the total commodities produced.<sup>10</sup>

The matrix of determining total market demand is as under:



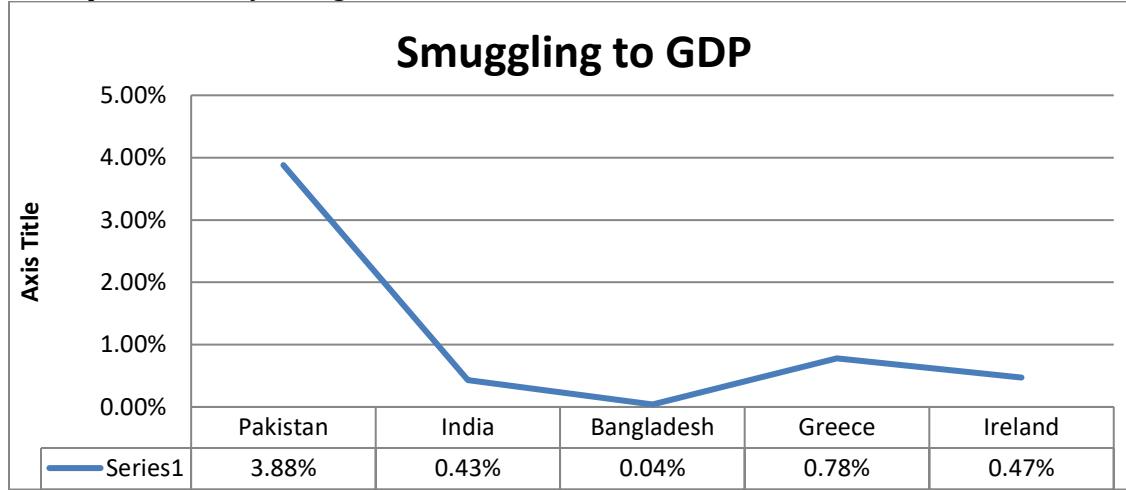
quantum of smuggling was determined by applying the following equation:



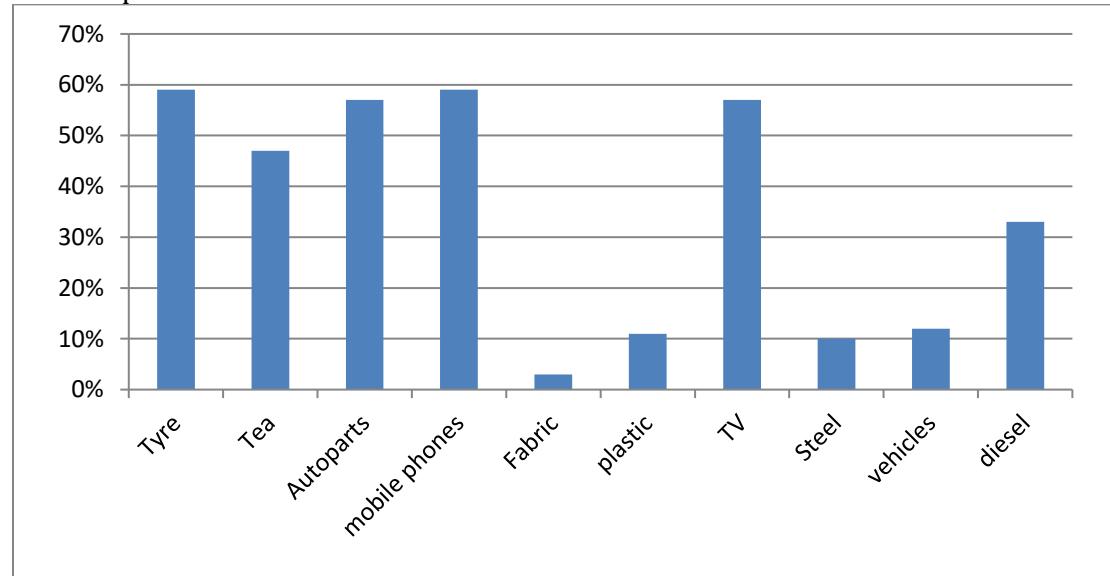
The study analysed eleven major smuggling prone items and made the calculations of magnitude of smuggling by applying the above mentioned equation. The report has concluded that the total GDP of Pakistan is \$232.3 billion (2014), Pakistan's smuggling to GDP ratio for only the eleven commodities investigated falls between 3.88% and 9.46% of the total tax collected by FBR, which is not only significantly higher than the countries of the region but also higher than countries having more or less same level of GDP<sup>11</sup>

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A comparative analysis is given in the chart below.



Further, the quantum and percentage of the smuggling was calculated as that 59pc demand for tyre was met through illegal channel; 47pc for tea; auto parts 57pc; mobile phones 59pc; fabric 3pc; plastic market 11pc; televisions sets 57pc; steel sheets 10pc; vehicles 12pc and diesel 33pc<sup>12</sup>.

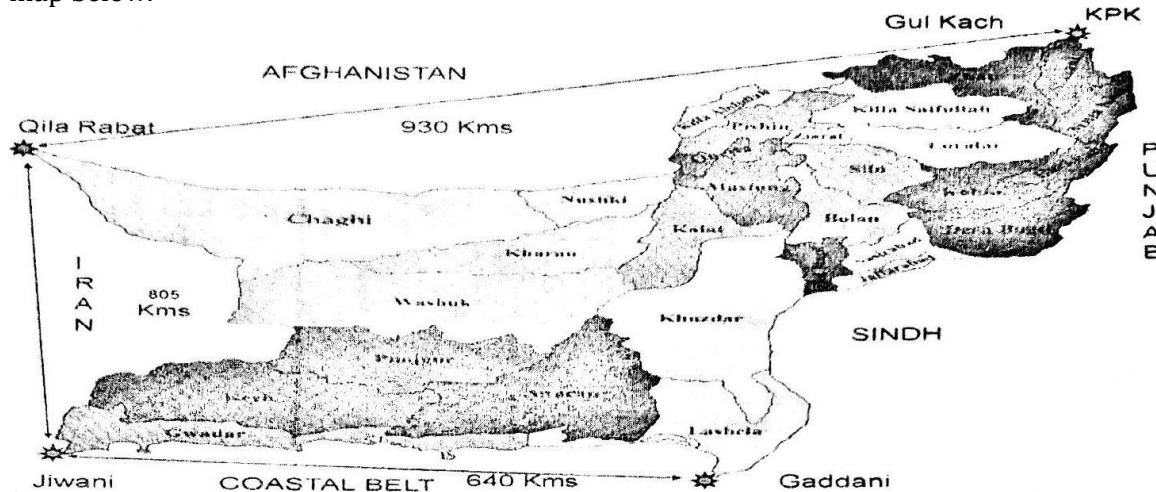
**Smuggling Trends along Iran-Afghan border**

There exists an agglomeration of unauthorized routes which the smugglers keep changing, based on enforcement and operations of law enforcement agencies. Major routes in tribal areas are mentioned below;

It is a clear fact that Refined POL products and other consumer goods for daily consumption are not available in difficult terrains of bordering areas (Pak-Iran border) which have also

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triggered need for smuggled substitutes. Meager resources available with Pakistan Customs, to deal with illegal activity on the long porous borders with Iran and Afghanistan have further aggravated the situation. Length of the borders with Afghanistan and Iran is shown in the map below.



The long porous borders is the major route of smuggling in Pakistan.i The border of Balochistan with Iran spreads over 909 Kms, i.e. Qilla Rabat Jiwani, and with Afghanistan stretches over 930 Kms from Qilla Rabat upto Gul Kach in District Zhob. On the other hand, the coastline of Pakistan in Balochistan is 640 Kms. Keeping in view extremely thin presence of Customs along the borders, enforcement activities are mostly carried out the country on random basis.

Pak-Afghan and Pak-Iran borders fall in the mountainous and highly troubled areas; some of frequented routes are patrolled by Frontier Corps or Coast Guards, whereas the rest remain unguarded. Duty of Pakistan Custom staff is deployed at some specific, agreed upon places only such as Chaman, Taftan, and Katagar (Mashkhail).

There are some unguarded entry points towards Sindh, Punjab and KPK from Baluchistan also. This is only because of insufficient and physically incapable enforcement manpower, outdated logistic support and weakened law and order situation,

### **ROLE AND PERFORMANCE OF PAKISTAN CUSTOMS AS ANTI SMUGGLING AGENCY**

#### **Analysis of performance and trends during July 2011- February 2020 Value of the Seized Goods:**

Pakistan Customs a lead anti-smuggling agency has played a pivotal role in the anti-smuggling drive; however, that role remained deterrent rather than as an eliminator of smuggling. Pakistan Customs did not achieve full success in uprooting the smuggling completely. The smuggling spree remained unabated and result in estimated \$2.6 to 3bn loss to tax revenue per annum. The anti-smuggling agencies proved to be partially successful to come to grips with the problem. There is plethora of organization like customs intelligence, customs Collectorate, the police, Frontier Constabulary, Frontier crops of Baluchistan and

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Khyber Pakhtunkhwa, Pakistan Coast Guards, Punjab and Sindh Rangers and Karakoram force. However, a fresh effort to identify the reasons and address them has been made recently total value of the smuggled goods in the economy was estimated during 2015 estimated \$5bn has been jumped up to the \$7bn in 2019. In 2014-2015 the overall value of seizure cases to total estimated value of smuggled goods into Pakistan was 1.93%.

The exchange rate of dollar was taken as average Rs.100/-. In 2018-2019 the overall value of seizure cases to total estimated value of smuggled goods into Pakistan was 3.15%. The exchange rate of dollar was taken as average Rs.150/-. The fact show that the average exchange rate of dollar was Rs.100/-. In 2014-2015 that rose to average Rs.150/- due to the devaluation of Pakistani rupees. Despite all that the value of the seizure case during the financial year 2018-2019 rose to the \$31.45bn which is 3.145% of the estimated value of smuggled goods that is \$7bn and the exchange rate is taken as Rs.150/-.

If the value of the total smuggled goods is calculated at the exchange rate as Rs.100/- the ratio of the value of the seized goods to the estimated value of the total smuggled goods at the exchange rate of Rs.100/- is 4.49%. At the same exchange rate Rs.100/- the ratio of the seized goods to the estimated smuggled good has jumped up 1.93% in 2014-2015 to the 4.49% during the financial year 2018-2019. This quantum leap shows the satisfactory performance by the Pakistan Customs as lead anti-smuggling agency. It is pertinent to note that the value of the seized narcotics has not been included as the narcotics and drugs are destroyed as not being auction-able. The analysis of fact and figure reflects that Pakistan Customs has shown a considerable performance during the last five years in its resolve to uproot the smuggling.

### **Constraints and challenges in Enforcement Efforts of Pakistan Customs**

There are many constraints and impediments to anti-smuggling and enforcement efforts. However, some of the major constraints are as follow:

#### Lack of political will and ownership

The Provincial authorities and leadership do not support anti-smuggling efforts of Pakistan Customs owing to peculiar political environment.

#### Poor law and order situation

The prevalent law and order situation in Balochistan makes enforcement futile.

#### Shortage of manpower and logistics

There is acute shortage of manpower and dearth of logistics in the department which makes the customs anti-smuggling efforts ineffective. Present manpower in customs enforcement is aged.

Following table of manpower of Quetta collectorate as an example explains the extent of this problem:

Aging of Man-power: The above statistics show that 73% of the enforcement manpower of Customs in Quetta is within the age bracket of 50-60 years. Enforcement related activities require physical fitness. Presently only 7% of the manpower falls in the age bracket of 30 -40 years. While taking into account the number of existing manpower. Moreover, available strength of the customs is usually engaged in other important tasks such clearance, preventive and audited.

## **CONCLUSION**

The class of goods being smuggled is that which carry high rate of duties and taxes such as tyres, cloth, edibles, tiles, electronics, auto parts or goods which are restricted or prohibited for import such as petroleum products, betel nuts, liquor, agriculture products, etc. The petroleum products are mostly smuggled from unfrequented routes on Pak-Iran border or through launches from coast line. Major smuggling routes of POL products are situated in Makran Division. Other goods are mostly smuggled from unfrequented routes originating from Pak-Afghan border. These are mostly backflow of goods under Afghan Transit Agreement meant for Afghanistan but are smuggled back into Pakistan after crossing the border.

It is pertinent to mention here that Pakistan Customs has its presence on the notified routes and not on the brink of the border from where the unfrequented routes originate. Institutions responsible to check this menace are Pakistan Customs and other civil Law Enforcement Agencies and armed forces. While Customs is the lead anti-smuggling agency but it is severely constrained by human resource shortage, logistical support and transportation and equipment.

## **RECOMMENDATIONS**

The proposed recommendation must be implemented to check the menace of smuggling by making the Pakistan Customs as an efficient and effective Anti-Smuggling agency, the following steps are recommended to be implemented achieve the desired goals and result;

**1. Rationalization of Tariff:**

Rationalize the tariff policy and import regulatory framework for various smuggling-prone items.

**2. Development of the Human resources and the use of Modern technology:**

Human resource and capacity building of Customs preventive staff especially in the field of investigative technique, knowledge of prosecution, and use of the modern technology and knowledge and skill of the global best practices to cope the menace of smuggling.

**3. Raising of Customs border force:**

In terms of Rule of Business, 1973, Ministry of interior is responsible for coordination of anti-smuggling measures; however, on ground the institutional coordination mechanism is not effective. It is therefore, proposed that an anti-smuggling task force may be set up under Ministry of Interior to coordinate anti-smuggling strategy and measures.

**4. Manage the Directorate of Transit Trade:**

In case of the border areas of Baluchistan & KPK, being a backward province with limited employment opportunities, smuggling provides a lot of incentive to the people. Moreover, due to the cultural and societal acceptance of smuggling being another source of livelihood, the anti-smuggling drive becomes very difficult. In Baluchistan, the geographical vastness also makes the task herculean. The tribal culture and personal vendettas for the law enforcement agencies, especially Customs being raised from local population by the people indulging in smuggling is also a major obstacle.

**5. Skill Development**

In order to eradicate the menace of smuggling, it is imperative that programme for skill development of local youth is under taken. Moreover, infrastructure development of

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Baluchistan integrating its far flung areas with the population centers may be focused so that employment opportunities as well as transportation of local commodities can be facilitated as in many bordering areas the local population does not access to locally manufactured goods and are dependent upon smuggled goods. The prime example of such goods is petroleum products smuggled from Iran.

**6. Enhance intra-agency cooperation:**

To mitigate the smuggling, it is imperative that a committee of inter-agency cooperation may be constituted and discussed so that the problems of the importers and exporters should be addressed.

**7. Enhance international cooperation:**

Pakistan has long borders with Afghanistan and Iran. It is proposed that modern techniques and technology at Taftan Border, Panjgor or other where customs activity is being processed as manual level may be installed so that imports and exports under WeBoc system are implemented so as to avoid the hardship of the businessmen.

**8. Develop and establish comprehensive remote border area surveillance programs:**

According to prolong border, more areas and surveillance programs may be introduced. It needs funds. The government should allocate ample funds for this program.

**9. Revamp Comprehensive economic plan to Root out the Menace of Smuggling:**

Pakistan is not a under developing country but also its neighbours countries i.e. Afghanistan and Iran. The border areas of Afghanistan and Iran are long. Most of the populations near the border are jobless and they have no business. Pakistan, Afghanistan, Iran and Pakistan may sit together and launch comprehensive plan to facilitate the people and ease business to eradicate smuggling and boost up the economy. These countries set up trade free zones with tax Bonanza for some specific period so that they may able to economically self-reliant and not attracted to the practice of shadow economies.

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<sup>4</sup> Source; Customs Act,1969

<sup>6</sup> Source; Internet <https://tribune.com.pk/story/1762089/2-size-pakistans-economy-313-13-billion-says-sbp/>

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<sup>7</sup> Source; UNODC Country Report

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