

# Executive Summary

## Illicit Trade in Malaysia: Causes & Consequences

The policy paper “Illicit Trade in Malaysia: Causes & Consequences” explores the factors behind illicit trade in Malaysia and provides policy recommendations to tackle it. The paper also examines the impacts of illicit trade on the economy by highlighting the economic cost such as constraints on the formal markets from reaching its full economic potential, disincentive to formal businesses to compete in an unfair environment and loss in government revenues as well as social costs such as unemployment and rise in crime syndicates.

Studies on the illicit trade in Malaysia are rare. The current policy paper picked up on an earlier research on the illicit trade which was done in Penang. That study lists five top smuggled commodities: food and beverages, tobacco, non-electrical machinery and motor vehicles, firecrackers, and illegal VCD/DVDs. The steep rise in the share of the illicit market in tobacco which has risen to 56% is a case in point. It has pushed formal businesses out from the market and has also caused tax losses.

This paper argues that the illicit trade emerges due to adversities faced by suppliers in the legal market. The paper suggests that illicit trade occurs as a consequence of a high tax burden, weak enforcement, unfriendly business regulations and existence of demand for illicit goods. The black market acts as an alternative when the legal market is too complicated and costly to operate in. On top of that, the weak enforcement of laws made it an obvious choice for both suppliers and consumers to participate in the lucrative illegal trade.

The authors make several recommendations. First, the government should review its domestic taxation policies to stem illicit trade. Second, to introduce market-based measures to reduce price gap and address the demand for cheap illicit products. Third, to conduct an appropriate public consultation with industry players to solve the problem of the black market. Fourth, to increase the number of employees in the customs and provide them with the necessary training and enforcement capabilities. Fifth, to establish joint working groups with representatives from specific industries. Sixth, to apply technical solutions via holographic devices and colour-shift toners to detect counterfeited goods.

In conclusion, there is no ‘silver bullet’ solution to solve the problem of illicit trade. The answer lies in collaboration between different stakeholders such as the government, industries, supply chain operators, technology providers, and international organisations.



**Adli Amirullah** is a researcher under the enterprise & economics unit at IDEAS Research and Publications division. He received his degree in economics specialising in Islamic Economics from the International Islamic University of Malaysia.



**Amirah Fazira** is currently a fourth year student of the University of Malaya pursuing a bachelor’s degree in Economics with a major in Political Economy. Her role in IDEAS is as an intern in the Research Department for the duration of 4 months starting from September to December 2017.



**Ali Salman** is Director of Research at IDEAS. An economist and public policy expert, he is author of more than thirty independent studies, reports and monographs on wide range of topics including regional trade, public finance, competition policy, innovation, and youth policy.



