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DEMYSTIFYING INTERNATIONAL INFORMAL TRADE WITHIN FORMAL TRADE: A CASE STUDY OF BANGLADESH

Abstract

General discussions on formal and informal trade do not reveal the actual scenario concerning informal trade within formal trade though a significant part of Bangladesh's informal trade takes place through formal channels. This paper attempts to demystify such informal imports through the legitimate channels. Data collected from different entry points for the fiscal years (i.e., FY 2015-16 and 2016-17) have been analyzed using descriptive statistics for providing a fresh perspective in this regard. Findings reveal that importers show less import quantity or value and hide true description of commodities to evade duties and taxes. Some unscrupulous importers show higher and lower volume as lower and higher duty items respectively for dodging taxes. Money laundering in the name of import is also evident. The policy implication to reduce such illegitimate imports into Bangladesh is to put more emphasis on physical examination using non-intrusive scanning or examining tools at the import stage.

Keywords: Informal Trade, Formal Channels, Tax-dodging, Mis-declaration

1. Introduction

This paper focusses on international informal trade within formally imported commodities to Bangladesh. At the outset, it is imperative to justify what the term 'informal' refers to the current context. This paper uses the term 'informal' to denote the illegal trades hidden in the formal way of imported commodities to Bangladesh. Such illegal trades are taking place in Bangladesh primarily for dodging tax. This is also an emerging issue for the developing countries in Asia and Africa.[1] However, this has not been addressed so far for imported commodities to Bangladesh. Though empirical literature focusses on illegal economic activities (e.g. narcotics), parallel markets (e.g. smuggling of commodities across borders) and extra-legal activities

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[1] S. Bensassi, J. Jarreau and C. Mitaritonna, "Regional Integration and Informal Trade in Africa: Evidence from Benin's Borders", *Journal of African Economies*, Vol. 28, No. 1, 2018, pp. 89-118.

(e.g. unregistered or unlicensed informal trading enterprises),[2] illegal trades within formally imported commodities to Bangladesh have been neglected to a great extent. This paper draws on data collected from different entry points of imported goods from different countries to Bangladesh with a view to providing fresh perspectives as well as background for further analysis to be introduced in the national and/or international policy agenda or strategies that would help to reduce grey part hidden in the legal declaration of the imported commodities to Bangladesh.

The traditional meaning of the informal or grey economy implies the part of a country's economy which is neither taxed nor monitored by any agency of the government or both. Moreover, the activities of the grey economy are excluded from the gross national product (GNP) and gross domestic product (GDP) of a country.[3] Similar approaches of informal economy include black market (i.e., shadow or underground economy), agorism and the System D (growing share of the world's economy which comprises the underground economy). To this day, informal economy is contributing a significant portion of the economies in developing countries as well as providing critical economic opportunities for the poor.[4] This implies the importance of the policy challenge for integrating the informal or grey economy into the formal or legitimate economy. Schneider et al. find that informal economies in 107 economies out of 162 comprise 30 per cent or more of the GNP.[5]

Grey economies like black market, agorism and the System D consist of partly informal international commodities trade.[6] This raises the issue of governance for customs as informal sector of the developing and emerging economies may deprive the state of part of its resources.[7] In addition, it is sometimes difficult to make a distinction between the formal and informal international commodities trade as the operators pay the portion of the taxes or mix informal international commodities (i.e., mis-declaration of the quantity, value or description of the imported commodities) within formal channels. As a part of trade facilitation, customs administration clears more than 80 per cent of consignments through 'green channel'. Traders take this opportunity to clear their informal goods through formal declaration. It continues to exist as the government and the customs administration may fear that creating too

[2] J. N. Bhagwati and B. Hansen, "A Theoretical Analysis of Smuggling", *The Quarterly Journal of Economics*, Vol. 87, No. 2, 1973, pp. 172-187; J. N. Bhagwati and B. Hansen, "A Theoretical Analysis of Smuggling: A Reply", *The Quarterly Journal of Economics*, Vol. 89, No. 4, 1975, pp. 651-657; M. E. Lovely and D. Nelson, "Smuggling and Welfare in a Ricardo-Viner Economy", *Journal of Economic Studies*, Vol. 22, No. 6, 1995, pp. 26-45.

[3] K. F. Becker, "The Informal Economy: Fact Finding Study", 2004, Sida.

[4] J. Vanek, M. Chen, R. Hussmanns, J. Heintz and F. Carré, "Women and Men in the Informal Economy: A Statistical Picture", 2012, Geneva: ILO and WIEGO; K. F. Becker, op. cit.

[5] F. Schneider, A. Buehn and C. E. Montenegro, "New Estimates for the Shadow Economies all over the World", *International Economic Journal*, Vol. 24, No. 4, 2010, pp. 443-461.

[6] J. Dongala, "The Informal Sector Trade among Sub-Saharan African Countries: A Survey and Empirical Investigation", *The Developing Economies*, Vol. 31, No. 2, 1993, pp. 151-170.

[7] T. Cantens, "Informal Trade Practices", *WCO Research Paper*, Vol. 22, 2012.

much pressure on informal operators in international commodities trade may reduce the economic activity and deprive the national budget of the whole potential tax revenue.[8] Moreover, customs administration sometimes suffers from incapacitation from human resources, absence of non-intrusive inspection tools and noncooperation from stakeholders (i.e., importers, exporters, clearing and forwarding agents, shipping agents) through false declaration. Congestion of container at port is a great barrier for mitigating this informal trade.

In the last couple of decades, Bangladesh has adopted not only unilateral trade policy reforms but also has undertaken liberalization as per Uruguay Round and successive rounds of South Asian Preferential Trade Arrangement (SAPTA), which helped to form a free trading bloc consisting of the South Asian countries, namely South Asian Free Trade Area (SAFTA).[9] SAFTA aimed to dismantle all barriers and strengthen intra-regional trade.[10] However, the actual progress is not up to the mark due to political tension (i.e., referred to as stumbling block to SAFTA) between India and Pakistan. It is also evident that Bangladesh's informal trade with India has no sign to turn down in the time ahead.[11] Bangladesh imports most of its commodities from China and India. Bangladesh's such informal trade with India may consist of partly informal international commodities trade within formal trade. In this context, the paper aims to understand the extent of informal trade within formally imported commodities to Bangladesh not only from India but also from rest of the world (RoW). The case study on Bangladesh examines the extent of such informal trade to provide an overall background to the context that this paper aims to study as well as for further empirical analysis in line with our argument. Specifically, this paper is interested to explore three issues of our interest in the context of Bangladesh's informal trade within commodities formally imported: (i) extent of such informal trade, (ii) variations in the extent of such informal trade across different entry points and (iii) how and why such informal trade takes place.

Duties and taxes of the imported commodities to Bangladesh depend specifically on the value and/or quantity or quality of those commodities. Therefore, importers try to show less quantity or import value to evade duties and taxes at the import stage. In addition, they try to hide true description of imported commodities [i.e., misquotation of Harmonized System (HS) code, which is used to classify imported items]. Such incorrect declaration usually corresponds to lower duty structure. Moreover, some importers import assorted items in the same consignment. Such assorted items are heterogeneous in terms of duty and tax structure designed and

[8] Ibid., p. 1.
[9] S. Pohit and N. Taneja, "India's Informal Trade with Bangladesh: A Qualitative Assessment", *The World Economy*, Vol. 26, No. 8, 2003, pp. 1187-1214.
[10] N. Taneja, "Informal Trade in SAARC Region", *Economic and Political Weekly*, 2001, pp. 959-964.
[11] S. K. Chaudhari, "Cross-border Trade between India and Bangladesh", National Council of Applied Economic Research, 1995; N. Taneja, op. cit.

implemented by National Board of Revenue (NBR), Bangladesh. For example, a portion of assorted items may fall in lower duty structure and other portion might fall into higher duty structure. In such case, some unscrupulous importers sometimes try to show higher and lower volume as lower and higher duty items respectively. However, in reality, the reverse picture is true and import tax dodging is evident in such case. Similar things may also happen at the export stage through artificially inflating value of exported items with a view to receiving cash incentives or drain off money abroad. However, this is not the focus of the paper. The paper concentrates only on informal international trade hidden in the imported items to Bangladesh considering the fact that the informal national economy of Bangladesh is based partly on formal and informal international commodities trade.[12]

The rest of the paper comprises the followings: firstly, it clarifies the meanings of informal trade done through the formal channels in Bangladesh. Section 3 draws on empirical data and methods employed in this paper. Findings are analyzed in section 4 and finally, the conclusion.

2. Informal Trade through Formal Channels in Bangladesh

This paper refers legitimate or formal channels of international trade to mean the authorized customs points of Bangladesh such as seaport, land port, airport, land customs station (LCS), etc. Legitimate international trade of Bangladesh is conducted mandatorily through these customs points with submission of Bill of Entry (B/E) and Bill of Export (Shipping Bill) for the imports and exports, respectively. This paper focusses on the former only. For the imported commodities into Bangladesh, shipping agent in case of seaport and authorized person in case of land port submit Import General Manifest (IGM) data (describing imported commodities) to the customs authority. Shipping agents submits their IGM to the customs authority electronically whereas authorized person in case of land port submits it manually. More specifically, carrying and Forwarding (C&F) agent (or, the importer himself) completes the commodities declaration (i.e., B/E) and submits to the customs system through automated system for customs data (ASYCUDA). The specific format followed in case of declaration or B/E is known as Single Administrative Document (SAD).

The available statistics on Bangladesh's B/E show the increasing trend. However, the number of skilled customs officials is too limited to deal with huge Bill of Entry/Exit. Of the 1,790 grade 10 officers in Customs and VAT offices, majority of them are Assistant Revenue Officer (ARO).[13] Approximately 10 per cent of AROs are directly linked with assessment process of B/Es. The promising feature is that the number of AROs has been increased to some extent in the last couple of years.

[12] J. Dongala, op. cit.
[13] Yearly Report of National Board of Revenue for the Fiscal Year 2013-14.

However, it is not up to the mark. For example, approximately 1,700,000 Bills of Entry/Export in 2013-14 FY were assessed by those limited number of functioning officers. This stands at 50 B/E per ARO per working day. Therefore, it is very tough to examine 100 per cent commodities imported into Bangladesh despite marginal rise of the number of AROs. Only 10-15 per cent of imported commodities go through physical examination process and partial physical examinations are done for the most of selected consignments.

For expedition and faster clearance for trade facilitation, Bangladesh customs authority has planned to introduce modern risk management method very soon. These include the followings: importer profiling, commodity profiling, customs agents profiling and country profiling, etc. An importer must pay some or all kinds of following duties at the import stage: customs duty (CD), supplementary duty (SD), value added tax (VAT), advanced trade VAT (ATV), advanced income tax (AIT) and regulatory duty (RD), if applicable.

Ad valorem tax of an imported good depends largely on two things: value and HS Code. However, an unscrupulous importer may try to maximize his gain by hiding few details in the SAD submitted for the imported commodities. Such importers try to pay as less duties as possible by showing lower value of the imported commodities to the customs authority (i.e., undervaluation at the import stage). In addition, such thing may also arise from the existing nature of competitiveness among the commercial banks in case of opening Letter of Credit (L/C) for the importers. Commercial bankers sometimes are influenced by importers and open L/C without due diligence. Moreover, importers in Bangladesh rarely use the service of indenting firms for avoiding VAT. This results in erroneous and sub-standard pro forma invoices submitted for their imports. Recent trend of mobile phone imports shows that Chinese mobile exporters declare artificially inflated value to Chinese customs in order to receive higher cash incentives from the government of China. But Bangladeshi importers of Chinese mobile show much lower value in their import documents for dodging tax. Therefore, there exists a reasonable basis for this paper as well as the basis for doubting the value and description of commodities (i.e., HS code) declared by the importers. Unscrupulous importers try to provide value and description of commodities in such a way that has lower duties and taxes (i.e., mis-declaration). This study aims to measure the extent of such illegal activities and to lay foundation in the new area of research.

Another way of tax dodging at the import stage is the mis-declaration of quantity imported into Bangladesh. Importers declare the less quantity to the customs authority and release the consignments in association with stakeholders. Liaison with stakeholders also ensures fast clearance of commodities in the name of facilitation of trade. In addition, customs officers do not physically examine all consignments in such case. Moreover, organized gangs unload and store imported commodities in the port in such a way that it may not get into the customs clearance system. They

somehow manage all the points necessary for clearance of the commodities (i.e., managing the shed-in-charge of port, gate-man of port or warehouse, etc.) and clear the commodities in a clandestine way. This is an example of Clandestine Clearance (CC) through formal channel of the imported commodities into Bangladesh. The CC is viewed as one of the most extreme forms of informal trade within formal trade in developing countries.

3. Data and Methodology

This paper applies case study as a research method as it helps to understand a critical issue and extend experience to the prevailing events. More specifically, case studies give importance to the detailed contextual analysis of events and establish the relationships. Yin proposes to use case study research method using multiple sources of evidence as an empirical inquiry to a contemporary phenomenon within its real-life context.[14] Such method is also applied to a case where boundaries between the phenomenon and context are not evident. Though it is already established that informal international trade exists in the formal trading, no rigorous research work has been done on this specific issue in Bangladesh. Therefore, this paper selects Bangladesh as a case study in order to understand this complex issue as well as to extend our experiences to the existing knowledge. For this purpose, the paper has selected the very recent past two fiscal years (i.e., FY 2015-16 and FY 2016-17) for the raw data in order to explore the informal commodities imported into Bangladesh through the legitimate channels. Therefore, the issue of 'informal international trade within the formal trade in Bangladesh' is contemporary and data are selected for the recent past two years (i.e., monthly data for the selected years) as well as multiple sources of data are used for exploring this contemporary issue.

The sampling technique used in this paper covers only small number of observations that might fail to provide a ground for establishing generalization of findings. But the present case study research method used here would definitely contribute to explore the objectives in an exploratory way in addition to descriptive analysis. Moreover, research reports using case studies across the disciplines are widely available in the empirical literature.[15] This paper explains how the authors use case study as a research method and applies the method to explore illegitimate trade in legitimate channels in Bangladesh. The paper examines the extent of such illegitimate trade (i.e., illegally imported commodities) only and its variations across the entry points in Bangladesh. Stake, Simons and Yin have suggested some key techniques for organizing and conducting case studies successfully drawing upon their works and have proposed six steps, which are followed in this

[14] R. K. Yin, *Case Study Research: Design and Methods*, London: Sage Publications, 1994.
[15] Z. Zainal, "Case Study as a Research Method", *Jurnal Kemanusiaan*, Vol. 5, No. 1, 2007.

paper.[16] These are: specifying and defining the research questions, selecting the cases and determining data generation and techniques for the analytical purpose, preparing data collection, collecting data in the field, evaluating and analyzing data and finally, preparing the report.

The raw data are collected from Customs House Chattogram, Customs House Benapole, Customs House Dhaka (Air Freight Unit) and imports through courier. Of these, Customs House Chattogram is the principal customs station of Bangladesh as it handles 82 per cent of import-export trade of the country. Therefore, the paper analyzes the raw data giving a special focus on data collected from the Customs House Chattogram for analytical purpose. The paper comprehensively and systematically collects and stores multiple sources of information on total B/E submitted, physically examined (i.e., prior to assessment), anomaly, suspect and sued, extra revenue collected, actual and declared weight/sqm/piece, total number of scanned container (i.e., second appraisement), total anomaly or suspect detected at scanning stage and revenue in provisional and final assessments, revenue evasion in order to explore the objectives of the paper and establish some relationships. Therefore, the quantitative data gathered from different sources are used in the paper to corroborate and support this paper's main argument about illegitimate trade within legitimate channels in Bangladesh.

4. Analysis of Findings

4.1. *Profile of Informal Imports at Customs House Chattogram*

First of all, the paper reports the B/Es submitted to the different customs points in Bangladesh (Table 1). Henceforth, it explores the illegitimate imports hidden in those legitimate consignments. Table 1 shows around 15 per cent higher B/Es for the latter fiscal year (2016-17) compared to the former (2015-16), implying increasing pressures on the responsible officers at the entry points. It also shows that Customs House Chattogram handles nearly 82 per cent more of total import and exports of Bangladesh.

[16] R. E. Stake, *The Art of Case Study Research*, London: Sage Publications, 1995; H. Simons (ed.), *Towards a Science of the Singular: Essays about Case Study in Educational Research and Evaluation*, Norwich: Centre for Applied Research in Education, University of East Anglia, 1980; R. K. Yin, op. cit.

Table 1: Bill of Entry Submitted and Assessed in Respective Fiscal Years[17]		
Entry Points	**B/E Submitted (2015-16)**	**B/E Submitted (2016-17)**
Customs House, Chattogram	433,531 (48.03)	460,543 (44.43)
Customs House, Dhaka	373,737 (41.41)	498,753 (48.12)
Customs House, ICD Kamalapur, Dhaka	12,866 (1.43)	12,324 (1.18)
Customs House, Benapole	58,812 (6.52)	62,984 (6.08)
Customs House, Mongla	21,051 (2.33)	-
Customs House, Pangaon	2,547 (0.28)	1,928 (0.19)
Total	**902,544**	**1,036,532**

Source: Raw data collected from different Customs Points. Note: - implies unavailability of data; Figures in the parentheses show the percentages of total B/Es in their respective fiscal years.

Now, the paper explores anomalies which are defined as informal imports hidden in the legitimate consignments, which may be caught at different stages of examination. The paper focusses on anomalies that are reported during the first appraisement (i.e., also known as RED or physical examination) at Customs House Chattogram. Month-wise data on anomalies collected for the paper are reported in Table 2, which reveals that only 16.5 per cent and 17.2 per cent of the total B/E is physically examined in FY 2015-16 & FY 2016-17 respectively.

Table 2: RED Anomalies at Customs House Chattogram							
FY2015-16	**First appraisement (RED)**	**Anomalies**	**Extrapolated Anomalies**	**FY2016-17**	**First appraisement (RED)**	**Anomalies**	**Extrapolated Anomalies**
July	4,757 (15.71)	62	372	July	6,558 (18.92)	32	192
August	5,407 (15.89)	72	432	August	7,247 (19.21)	51	306
September	4,509 (13.83)	39	234	September	6,448 (18.91)	45	270
October	5,315 (13.63)	39	234	October	6,663 (17.56)	63	378

[17] Yearly Report of National Board of Revenue.

November	5,488 (14.67)	41	246	November	7,367 (17.41)	101	606
December	6,548 (17.62)	54	324	December	7,129 (18.20)	128	768
January	6,336 (16.89)	41	246	January	7,773 (18.80)	204	1224
February	6,091 (18.30)	44	264	February	6,813 (18.31)	221	1326
March	6,567 (19.77)	36	216	March	6,344 (17.04)	203	1218
April	6,696 (16.94)	36	216	April	7,113 (16.07)	151	906
May	7,585 (16.76)	65	390	May	6,058 (13.86)	85	510
June	6,845 (18.93)	63	378	June	3,735 (12.10)	95	570
Total	**72,144 (16.5)**	**592**	**3,552 (0.8)**	**Total**	**79,248 (17.2)**	**1,379**	**8,274 (1.8)**

Source: Customs House Chattogram. Note: Figures in the parentheses show the % of total B/E.

Therefore, this paper estimates extrapolated anomalies multiplying the number of existing anomalies by 6 (i.e., the multiplier). This implies that 6 times more anomalies would be found if they were examined physically 100 per cent of the B/Es at the Customs House Chattogram. The anomaly rate at RED stands around 1 per cent for the year 2015-16. But there is no visible promising feature in this regard as it became 2.3 times higher for the year 2016-17. This may be due to either rising trend of informal imports into Bangladesh or approximately 1 percentage more physical examination in the year 2016-17. This is also justified by the fact that positive correlation between the first appraisement and anomalies is found in this paper and the Pearson's correlation coefficient is marginally statistically significant. This finding has policy implication to reduce such illegitimate imports into Bangladesh by putting more emphasis on physical examination (i.e., physical, scanning) at the import stage. More specifically, non-intrusive scanning or examining tools could be used to reduce such informal imports through formal declaration.

Mismatch with the declared documents could be in the forms of weight, square meter (sqm) and piece, which are clearly established in this paper. Of the 592 anomalies for the FY 2015-16, total weights, sqm and pieces declared by the importers were 9,917,453.57, 134,218.59 and 931,224.2 respectively. This paper also predicts that these estimates would be at least 6 times higher in case of execution of RED in 100 per cent bill of entry. Excess quantity in terms of weight, sqm or piece is measured by the first difference between the actual and declared units. Findings reveal the fact the actual estimates on an average are not necessary higher compared to the declared units (see FY 2015-16 in Table 3). However, actual estimates on an average

are found higher than that of the declared amounts for the FY 2016-17 irrespective of the measures used.

Extent of anomalies within imports suspected at RED stage is shown in Figure 1, which shows the highest extent of anomaly (65.4 per cent) in case of importing products measured in square meter. This is followed by the imports measured in terms of piece (-16.3 per cent). The negative estimate shows that importer declares more quantity than that of the actual amounts of imports, implying money laundering in the name of importing products from abroad. Therefore, the message conveyed here is that it is not necessary that importers always show undervaluation of their imports. They might show overvaluation of their imports with a view to sending money illegally through the proper channels.

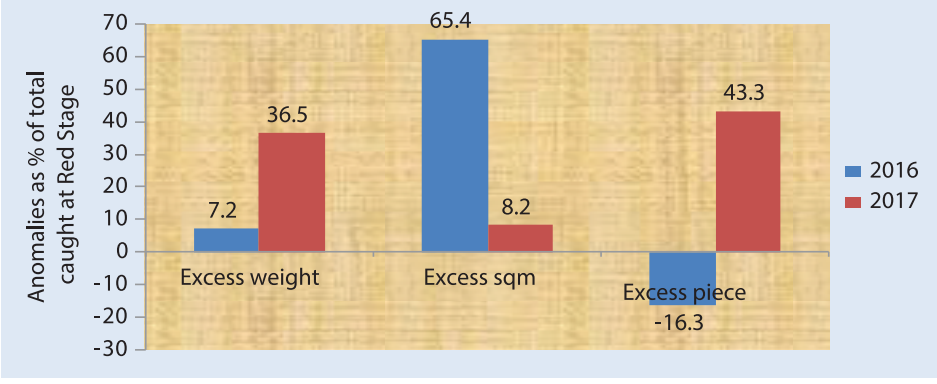
Month-wise statistical data show that 18 out of 72 cases (i.e., 25 per cent cases) are the negative estimates, which should be a matter of concern for Bangladesh's customs authority to protect money laundering from Bangladesh to exporting countries hidden in the import channels. In addition, this paper estimated the total amount of anomalies considering absolute values of the first-difference estimate stemmed from the difference between the actual and declared units. Anomaly in weight per month stands at 75,067 and 631,049 for 2016 and 2017 respectively. Similar estimate for the products measured in metre shows 10,825 and 10,209 metres per month for the respective years whereas it stands at 30,097 and 149,880 pieces per month for the same years. From the evidence it is clear that anomaly on an average is getting larger in volume in the year 2017. Final observation on the same concludes that the large variations in anomalies are clearly evident in the paper. Therefore, future studies in this relevant field might focus the seasonality of variations by anomalies or products.

Table 3: Decomposition and Extent of Anomalies at RED Stage

YEAR	No of anomaly	Declared weight	Actual weight	Excess weight	Declared sqm	Actual sqm	Excess sqm	Declared piece	Actual piece	Excess piece
2015-16	592	9,917,454	10,631,296	713,842 (7.2)	134,219	221,934	87,715 (65.4)	931,224	779,397	-151,827 (-16.3)
2016-17	1,379	19,752,659	26,963,778	7,211,119 (36.5)	197,025	213,211	16,186 (8.2)	4,131,652	5,920,757	1,789,105 (43.3)
Total	**1,971**	**29,670,113**	**37,595,074**	**7,924,961**	**331,244**	**435,145**	**103,901**	**5,062,876**	**6,700,154**	**1637278**

Source: Raw data summarized here are collected from different customs points. Note: Figures in the parentheses show the % of the declared units.

Figure 1: Extent of Anomalies within Imports Suspected at RED Stage



Source: Authors' calculation and representation.

In addition, Audit Intelligence and Research (AIR) Cell of Customs House Chattogram inspects the suspected bill of entries and sometimes does inspection on the basis of random assignment. This is a type of freelancing activity. The AIR team finds additional 94 anomalies for the fiscal years considered in the paper and collected extra revenues amounting BDT 32,969,278 (i.e., on an average BDT 1,373,719/month). Majority of the cases suspected and sued are found to be associated with the extra revenue generation for the government exchequer.

The paper now focusses on the second appraisement, which has been done by unstuffing in different exit gates at the Customs House Chattogram. Scanning process, also a part of second appraisement is applied to detect anomalies at this stage. The summarized findings are reported in Table 4. About 73 per cent containers are examined by scanning including mobile scanning. In such appraisement, least risk items (i.e., capital machinery and raw material of export-oriented industries) are scanned and sent through on chassis delivery. Average scanning rates are 26,600 and 29,465 for the fiscal years 2015-16 and 2016-17 respectively. Some may be misguided by observing 10.7 per cent more scanning 2017 compared to 2016 as has already been shown that 15 per cent more B/E is submitted in 2017 compared to 2016. Therefore, Customs House Chattogram is lagging behind in scanning to keep pace with the increasing number of bill of entries. Finally, the association between the number of scanned containers and the number of suspected containers are explored using Karl Pearson's correlation coefficient. The estimated coefficient is 0.67, which is highly statistically significant at 1 per cent level. However, it is suggested here for the researchers to explore this relationship in their future studies using more samples or the number of observations.

Table 4: Month-wise Anomalies from Scanning as a Second Appraisement					
FY 2015-16	**Scanned containers**	**Suspected containers**	**FY 2016-17**	**Scanned containers**	**Suspected containers**
July	22,322	94	July	26,333	159
August	26,848	131	August	31,590	111
September	22,609	44	September	22,639	89
October	27,757	144	October	34,355	208
November	24,692	121	November	31,382	174
December	23,809	134	December	28,468	77
January	28,316	180	January	30,192	55
February	26,546	68	February	28,367	160
March	29,833	158	March	36,162	375
April	29,216	75	April	31,640	192
May	28,713	159	May	29,390	155
June	28,543	176	June	23,064	96
Grand Total	**319,204**	**1,484**	**Grand Total**	**353,582**	**1,851**

Source: Authors' calculation from the raw data collected from different customs points.

Another step of examining bill of entries is the unstuffing, which is also known as second appraisement. Here, container that already went through the processes of RED (first appraisement) and scanning is excluded. Unstuffing is usually applied to comparatively low risk items, previous trends of mis-declaration and similar commodities. Numbers of anomaly cases are 124 and 66 for the FY 2015-2016 and 2016-2017 respectively. Revenue evasion at the final assessment stands at BDT 164,383,102 and 7,900,770 for the respective fiscal year. In addition, revenue evasion per month detected at unstuffing stage stands at BDT 5,575,012 and 2,197,638 for 2016 and 2017 respectively.

4.2 *Profile of Illegitimate Imports at Customs House Benapole*

Benapole is the most important land customs station of Bangladesh and strategically, it is the major border trading point between Bangladesh and India. It is operated by the Bangladesh Land Port Authority (BLPA) and as per estimation of the BLPA, approximately 90 per cent of the total imported items from India come through Benapole. Table 5 shows the total bill of entry, number of bill of entry get through RED channel and the percentage of B/E get through RED for the case study years. Physical examination rate (i.e., rate for RED) at the Benapole port is 2.6 per cent, which is far below compared to the Customs House Chattogram. Moreover, average rate of RED is low (2.4 per cent) in FY 2016-17 compared to the previous FY 2015-16 (2.7 per cent).

The implication of these findings implies that more RED at the import stage at the Customs House Benapole might increase the revenue to the government exchequer.

Table 5: Month-wise Statistics on B/E, RED and RED per cent of the total B/E

FY 2016	B/E	RED	RED % of total B/E	FY 2017	B/E	RED	RED % of total B/E
July	4,045	192	4.7	July	4,142	154	3.7
August	4,722	133	2.8	August	5,578	182	3.3
September	4,157	113	2.7	September	4,461	139	3.1
October	5,103	101	2.0	October	5,061	137	2.7
November	5,260	132	2.5	November	5,900	153	2.6
December	4,958	147	3.0	December	4,700	110	2.3
January	5,353	112	2.1	January	6,332	103	1.6
February	4,492	89	2.0	February	4,617	105	2.3
March	5,991	166	2.8	March	6,028	102	1.7
April	5,357	132	2.5	April	6,225	128	2.1
May	6,083	135	2.2	May	5,880	116	2.0
June	5,904	195	3.3	June	3,921	88	2.2
Total	**61,425**	**1,647**	**2.7**	**Total**	**62,845**	**1,517**	**2.4**

Source: Authors' calculation from the raw data collected from Customs Points.

In addition, findings from physical examination report 13.1 per cent more anomalies in the FY 2016-17 compared to FY 2015-16. In addition to physical examination, post clearance audit is also conducted at the Customs House Benapole focusing mismatch with the HS code. Total number of objection from post clearance audit stands at 92 whereas 9 out of 92 (i.e., 9.8 per cent) were settled instantly. The amount of earned revenue per month from the post clearance audit stands at BDT 43,602 for FY 2015-16. However, approximately 90 per cent of the objections remain unsettled and thus revenues per month from unsettled objections stand at BDT 5,661,052. Therefore, consolidated extra revenue per month (i.e., considering all settled and unsettled objections) from the post clearance audit objections stand at BDT 5,704,654 for the same fiscal year. However, total number of objection at the post clearance stage decreased to 86 for the FY 2016-17. But only 3 out of 86 (i.e., 3.5 per cent) objections were settled and it was much lower compared to the previous fiscal year. Earned revenue per month from post clearance audit stands at BDT 83,219 for FY 2016-17 whereas it is BDT 3,964,327 per month for the unsettled objection. Therefore, extra revenue per month considering all settled and unsettled objections stand at BDT 4,047,547 for the same fiscal year.

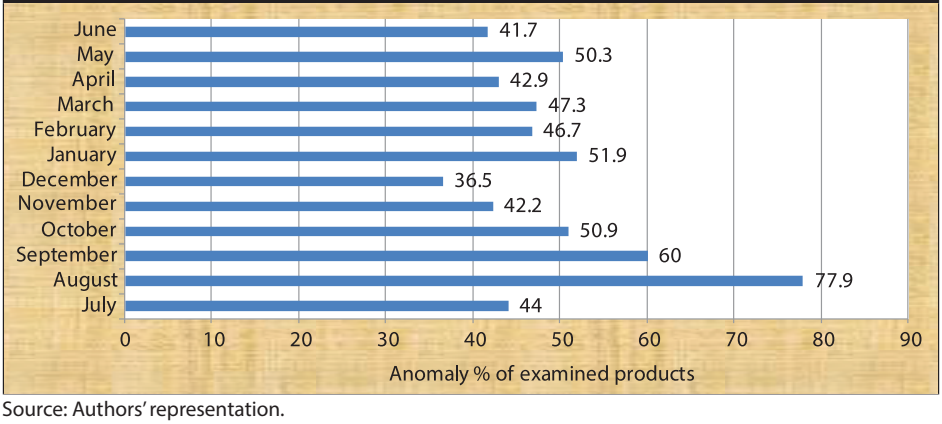
There is a Special Assignment Group (SAG) at Customs House Benapole to examine the commercial consignments which clears through RED Channel. The activities of SAG are associated with high valued commercial commodities, highest total tax incidence (TTI) and the previous mis-declaration history. Total entry examination by SAG, number of anomalies, anomaly percentage of the total examination and the total extra revenue earned by SAG are reported in Table 6. SAG found 48.8 per cent anomaly in their examined products for the FY 2015-16. This figure rose to 100 per cent for FY 2016-17 (i.e., anomaly found in all examined products). Extra revenue per month earned by SAG stands at BDT 14,608,125 for FY 2015-16 whereas it is BDT 20,382,970 for FY 2016-17. Despite the fact that SAG examined 41.5 per cent less in FY 2016-17, approximately 40 per cent extra revenue was earned by SAG at Customs House Benapole. This extra revenue may be associated with the rise of 19.8 per cent anomalies in 2017.

Table 6: Anomalies Detected and Extra Revenue Earned by SAG

FY 2016	Total examination	Anomaly	Anomaly % of SAG examination	Revenue Earned (BDT)	FY 2017	Total examination	Anomaly	Anomaly % of SAG examination	Revenue Earned (BDT)
July	268	118	44.0	9,575,700	July	164	164	100	13,308,600
August	340	265	77.9	21,504,750	August	260	260	100	21,099,000
September	385	231	60.0	18,745,650	September	213	213	100	17,284,950
October	436	222	50.9	18,015,300	October	180	180	100	14,607,000
November	469	198	42.2	16,067,700	November	263	263	100	21,342,450
December	414	151	36.5	12,253,650	December	198	198	100	16,067,700
January	437	227	51.9	18,424,050	January	315	315	100	25,562,250
February	403	188	46.7	15,256,200	February	235	235	100	19,070,250
March	495	234	47.3	10,294,130	March	298	298	100	23,083,476
April	504	216	42.9	9,935,250	April	379	379	100	45,060,682
May	531	267	50.3	10,546,546	May	305	305	100	9,676,220
June	472	197	41.7	14,678,578	June	203	203	100	18,433,063
Total	**5,154**	**2,514**	**48.8**	175,297,504	**Total**	**3,013**	**3,013**	100	244,595,641

Source: Authors' calculation from the raw data collected from Customs Points.

Figure 2: Anomaly per cent of the Examined Products by SAG in FY 2015-16

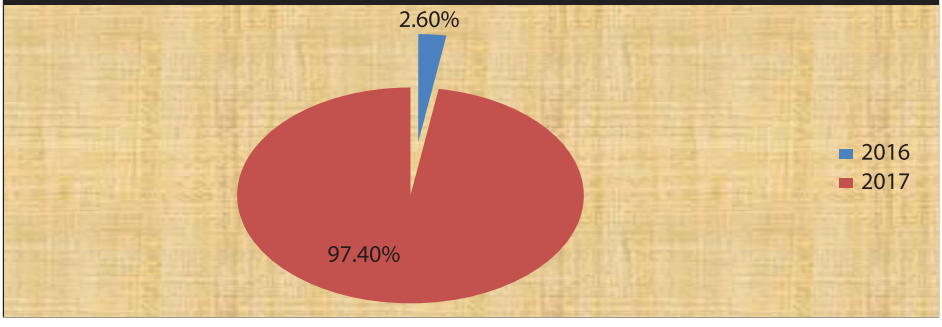


Source: Authors' representation.

4.3 *Case Detection by Customs House Dhaka*

Of the Dhaka, Chattogram and Sylhet air freight units, Customs House Dhaka is the largest airport customs station of Bangladesh and it collects duties and taxes for the imports through air cargo. Apart from revenue generation for the government, it also facilitates trade, protect smuggling of wildlife, protect national security, prepare foreign trade statistics and trade compliance. But observation and experience during this research in this unit show the dearth of available data. Usually, small but most valuable things are imported frequently through this point. Air freight unit detected 72 and 31 cases for the FY 2015-16 and FY 2016-17 respectively. Excess revenue per month collected stands at BDT 115,032 and BDT 397,484 for the respective fiscal years. In addition, preventive unit owns some extra responsibilities and thus more anomalies were detected at this stage. It detected 146 and 174 cases. This implies 19.2 per cent more anomaly detection in 2017 by the preventive team of the air freight unit. Total excess revenue collected by the air freight unit of the Customs House Dhaka stood at BDT 421,135,993 and BDT 15,990,446,076 for the FY 2015-16 and FY 2016-17 respectively. Therefore, per month excess revenue collected by the preventive unit of the Customs House Dhaka stands at BDT 35,094,666 and BDT 1,332,537,173 for the respective fiscal years. However, the share of excess revenue was significantly lower in the FY 2015-16 compared to FY 2016-17. This is clearly depicted in Figure 3, which shows that only 2.6 per cent excess revenue was collected by the preventive team in 2016 and the left portion was collected in 2017. Excess revenue by this unit increased to 3,697 per cent in 2017, compared with the corresponding figure of 2016. The detail findings are reported in the Annex 1.

Figure 3: Distribution of Excess Revenue Collected by Preventive Unit at Dhaka Customs House



Source: Dhaka Customs House.

The paper now focusses on the scenario of the post clearance audit conducted by the Customs House Dhaka, which scrutinizes the existence of any mismatch with the HS code. For this purpose, the number of audits conducted by the post clearance audit unit amounted to 12,243 and 4,817 for the FY 2015-16 and FY 2016-17 respectively. Therefore, the number of post clearance audit decreased by approximately 61 per cent in 2017 compared to 2016. The number of post clearance audit per month stands at 1,020 for the FY 2015-16 whereas it is 401 per month for the FY 2016-17. Similar findings are also observed in case of percentage of the audits claimed (i.e., 2 per cent in 2016 vs. 1 per cent in 2017). Table 7 and Figure 4 show the number of audits claimed and the number and percentage of the claimed audits settled. It also reports the revenue for the claimed audits and earned revenue from the settled audits. It also shows that 114 out of 244 cases (i.e., 46.7 per cent) were settled in 2016 whereas 100 per cent claimed audits were settled in 2017. For the extra revenue generation from the informal trade within formal trade, it is found that only 3.9 per cent of the claimed revenue was collected in 2016 and 100 per cent claimed revenue was collected in 2017 (see Figure 4). More specifically, claimed revenue is 25.8 times higher than the earned revenue. Table 7 shows that revenue claimed in 2017 is significantly less than that of the year 2016. About 96.2 per cent less revenue was claimed in 2017 compared to the successive previous year. However, the earned revenue declined by only 2.4 per cent during the same time period. Average revenue per month claimed and earned for the FY 2015-16 stands at BDT 47,557,895 and BDT 1,842,137. Therefore, revenue claimed, on an average, is 25.8 times higher than earned revenue of the claimed amounts in 2016. But revenue claim perfectly matches with the amount of earned revenue in 2017.

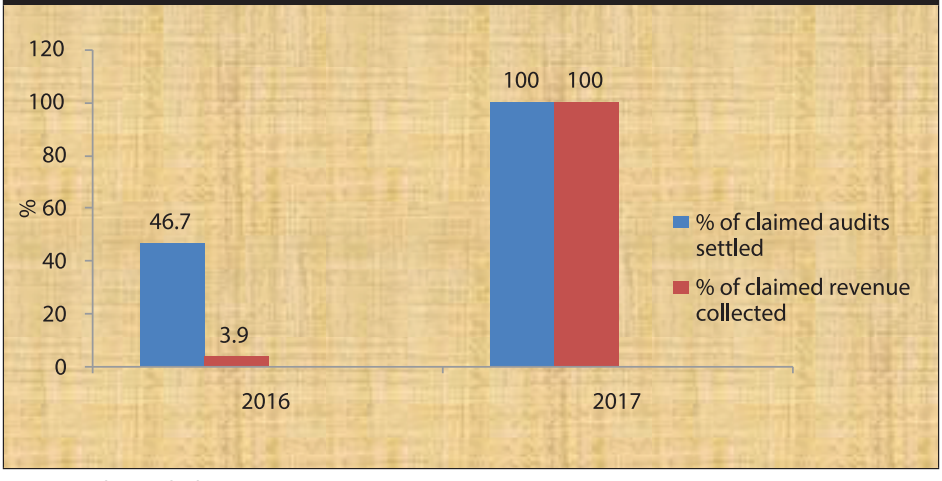
Similarly, the paper explores the number of claims, settled cases and earned revenue through the post clearance audit conducted by the Customs House ICD, Kamalapur. Post clearance audit in the FY 2015-16 claimed 44 cases for which revenue claimed stood at BDT 9,644,377. But 48 per cent of the claims were settled and the extra revenue earned stood at BDT 2,789,343 (i. e., 29 per cent of the claimed revenue). In the FY 2016-17, post clearance audit claimed 80 cases for which claimed revenue stood at BDT 22,275,443. But only 12.5 per cent of the claims were settled and the extra revenue earned stood at BDT 1,224,683 (5.5 per cent of the revenue claimed).

Table 7: Dhaka Customs House's Month-wise Estimates: Audits Claimed and Revenue Generation

FY 2016	No of audits claimed	Revenue claimed	No of set-tled claims	Earned revenue	Unearned revenue	FY 2017	No of audits claimed	Revenue claimed	No of set-tled claims	Earned revenue	Un-earned rev-enue
July	12	487,125	12	49,123	438,002	July	4	1,008,066.9	4	1,008,067	0
August	64	2,668,600	7	566,522	2,102,077.75	August	2	1,859,394.1	2	1,859,394	0
Septem-ber	46	17,925,065.6	3	232,150	17,692,915.41	Septem-ber	2	1,366,439.8	2	1,366,440	0
October	19	523,635,381	4	271,205	523,364,176	October	16	2,242,410.9	16	2,242,411	0
Novem-ber	14	3,282,792.45	13	2,206,410	1,076,382.42	Novem-ber	10	2,366,583.8	10	2,366,584	0
Decem-ber	16	2,298,829.03	15	1,650,383	648,446.38	Decem-ber	8	1,828,040.9	8	1,828,041	0
January	9	1,765,662.85	9	1,380,295	385,367.69	January	3	2,302,703.9	3	2,302,704	0
February	11	2,166,281.77	8	1,539,463	626,818.82	February	4	888,046.7	4	888,047	0
March	13	6,012,410.91	13	6,012,411	0	March	4	6,605,673.4	4	6,605,673	0
April	15	3,410,132.24	8	1,386,325	2,023,806.88	April	1	1,110,535	1	1,110,535	0
May	19	4,184,243.76	16	3,953,140	231,104.23	May	0	0	0	0	0
June	6	2,858,218.8	6	2,858,219	0	June	0	0	0	0	0
Total	**244**	**570,694,743**	**114**	**22,105,646**	**548,589,098**	**Total**	**54**	**21,577,895**	**54**	**21,577,896**	**0**

Source: Dhaka Customs House.

Figure 4: Percentage of the Claimed Audits Settled



Source: Authors' calculation.

The key findings in regard to 'what really happens in case of illegitimate international trade within formal trade' are summarized here. Insufficient scanning is observed at the country's main revenue hub Customs House Chattogram and thus importers take this advantage. Partially fake import has been detected. For example, the actual value of the import is much higher than the reported amount in the L/C. Mismatch is found in price determination. For example, sometimes the average declared and assessed price of raw materials is higher than the finished products as per international value journals.

The country receives comparatively less amount of duty tax due to duty tax dodging. Evidence of money laundering is profound through under invoicing or over invoicing in the L/Cs. (i.e., for import cases under invoicing to dodge duty, tax and for export cases, over invoicing to get cash incentives depending on advantages provided by the country). Mis-declaration of the imported items (i.e., both quality and quantity) is clearly evident in this paper. By doing so, importers evade tax. Screening system at the ports is not up to the international best practices level and thus it delays container/consignment clearance. Therefore, it destroys the reputation of the ports. Consumers ultimately bears the costs (i.e., increased freight) incurred due to delayed clearance as it pushes the price of the product up. Lack of modern laboratory facility for testing chemical products is evident. Insufficient coordination among the trading countries is also liable for such illegitimate trade within formal trade.

Despite these facts, the government of Bangladesh is trying to improve the situation at the different customs points though it is very slow. However, the following measures are proposed to expedite the process undertaken by the government as well as to reduce the illegitimate trade within formal international trade.

High resolution based scanning system should be introduced at the port for enhancing the efficiency, productivity as well as reliability. Modern laboratory facility at the port to eliminate such trade should be introduced. The central bank and scheduled banks should subscribe value journals to ensure value judgment for all traded products through L/Cs. Cross-checking should be done. In this case, Taxpayer Identification Number (TIN), National Identification (NID), passport and all bank accounts of a trader should be informed to the clearance authority. Mutual banking assistance and mutual customs assistance treaties should be introduced between Bangladesh and its major import and export destinations. As Bangladesh imports its major portion from India and China, they should let Bangladesh know the value and quantity of their exported items. Banks linked to international trade should open up research cell. Overseas monitoring cell of customs intelligence at major trading countries should be introduced. Customs attachés may be employed in the most exporting and importing countries so that they can provide value judgment information. All these measures proposed might help Bangladesh to reduce the informal trade within formal channels.

5. Conclusion

This paper is an attempt to provide an in-depth analysis of Bangladesh's informal trade within formal trade with a view to providing new insights to the New Institutional Economics using Bangladesh as a case study. The dearth of data on informal trade within formal trade in Bangladesh is a great barrier to conducting research. The paper examined how formal institutions in Bangladesh are engaged in international informal trade (i. e., mainly mis-declaration). It needs to be emphasized that since the sample frame for the entry points was drawn from known population, the estimates obtained from the sample observations may be firm estimates. However, it is suggested for the future researchers to take longer time period data for more valid estimates. In sum, this paper provides fresh perspectives and background for further analysis with a view to introducing national and/or international policy agendas or strategies that would help to reduce grey part hidden in the legal declaration of the imported commodities.

From the findings, it is clear that the volume of B/E (i.e., consignments) is increasing over the years and thus creating enormous pressure for quick clearance on the responsible officers at the import points. Similar trend is also observed for anomaly rate detected by physical examination for the Customs House Chattogram. Moreover, a positive and statistically significant correlation between the first appraisement done through physical examination and anomalies is found in this paper. The policy implication of such finding is that lower rate of physical examination may encourage importers to engage themselves in informal trade through formal channel.

This paper clearly finds the anomalies at different stages of inspections done by different customs units. Majority of the cases suspected and sued are found to be associated with extra revenues generation for the government exchequer. However, it is not necessary that importers always show undervaluation of their imports. They might show overvaluation of their imports with a view to sending money legally through the proper channels. Findings reveal that importers show less import quantity or value and hide true description of commodities to evade duties and taxes. Some unscrupulous importers show higher and lower volume as lower and higher duty items respectively for dodging taxes. Money laundering in the name of import is also evident in this paper. The policy implication to reduce such illegitimate imports into Bangladesh is to put more emphasis on physical examination using non-intrusive scanning or examining tools at the import stage. Bangladesh's customs authority should be concerned in this regard to prevent such illegitimate trade as well as money laundering hidden in the formal import channels. As large variations exist in anomalies, future studies might focus the seasonality of variations by anomalies or products.

ANNEX- 1

Excess Revenue Collected by the Preventive Unit at Dhaka Customs House					
FY 2016	**No. of Anomaly**	**Excess Revenue**	**FY 2017**	**No. of Anomaly**	**Excess Revenue**
July	19	4,256,395	July	10	421,135,993
August	21	17,701,551	August	4	433,070,489
September	17	27,379.591	September	6	490,654,563
October	8	17,542,971	October	6	1,716,214,076
November	9	51,889,193	November	22	1,710,204,995
December	11	36,899,034	December	22	1,660,691,944
January	11	32,826,003	January	22	1,649,977,628
February	6	38,145,489	February	33	1,635,848,811
March	8	47,155,830	March	14	1,600,997,305
April	9	25,056,068	April	5	1,569,997,062
May	10	32,121,868	May	20	1,580,251,620
June	17	90,162,000	June	10	1,521,401,590
Total	**146**	421,135,993	**Total**	**174**	15,990,446,076

Source: Dhaka Customs House.