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The Paradox of International Smuggling: A Case for Lying Back, Letting it Happen, But Not Necessarily Enjoying It

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Be it cigarettes, alcohol, or even Princess Di artifacts, smugglers engage with what will make a profit. Unfortunately, the smuggler's profit often is a government's or business's loss--through loss of taxes, tariffs, duties, or economic opportunity--and may even represent a governmental or business security shortfall. (Interestingly, the profit may be commensurate with the common people's gain, depending on the smuggler's greed.)

Many governments--or businesses through their respective governments--may attempt to put smugglers out of business by deeming the product being smuggled to be illegal. However, once the product becomes illegal, its value among people who desire it will increase--leading to greater profits for the smuggler and an even greater problem for businesses that now cannot engage in legal economic activity with the product.

The key to manage--if not to totally eradicate--the smuggling problem may comprise (1) lowering taxes, tariffs, and duties to a level that makes the legally provided product a real competitor with the smuggled variety and (2) finessing elements of conspiracy between the entities that actually produce the product--entities that may exist outside the country in question--and the smugglers and intermediary components of the smuggling network. This twofold approach is less likely than many others to be exploited by smugglers in a type of illegal aikido. On the other hand, smuggling of aliens, illicit drugs, and weapons--or components or technology--of mass destruction present different concerns and will be dealt with in a forthcoming issue of IBPP. (See Bawden, T. (1995.) The L20m smuggling racket. Business and Finance, 31, 22-50; Bonner, R. (September 2, 1997.) Racketeer cases shed light on cigarette smuggling in Italy. The New York Times, http://www.nytimes.com; Connolly, M. (1995.) The transshipment problem: Smuggling and welfare in Paraguay. World Development, 23, 975-985; Saba, R.P. (1995.) The demand for cigarette smuggling. Economic Inquiry, 33, 189-202.)