

Evaluating Economic Impact of Black Market on
City: A Case Study of Quetta Balochistan



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CERTIFICATE

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

وَإِذْ يَمْكُرُ بِكَ الَّذِينَ كَفَرُوا لِيُثْبِتُوكَ أَوْ يَقْتُلُوكَ أَوْ يُخْرِجُوكَ وَيَمْكُرُونَ وَيَمْكُرُ اللَّهُ
وَاللَّهُ خَيْرُ الْمَكْرِينَ ﴿٣٠﴾

And [remember, O Muḥammad], when those who disbelieved plotted against you to restrain you or kill you or evict you [from Makkah]. But they plan, and Allāh plans. And Allāh is the best of planners.

[Surah Al-Anfal – verse (30)]

DEDICATION

I am dedicating this thesis to My Parents, siblings, friends, teachers, and my well-wishers who made me able to face all the ups and down in my life.

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Abstract

This study investigates the dynamics of Black Economy of the Quetta city, Balochistan. The city's proximity to Iran and Afghanistan and highly porous borders coupled with the lack of good governance make it a highly conducive destination for informal business activities. Despite growing debates around the issue, the state of knowledge however does not provide a vivid picture of the composition of this market and its other myriads details. This study thus intends to contribute in this regard. It collects data through survey and highlights the many important details about the organization and composition of this sector of the economy. The study finds out the cigarette, petrol and Betel nuts constitute the dominant section of this economy. With the products mainly smuggled from Iran, Indian and Afghanistan.

The study also finds out that generally a high profitability margin and relatively lesser degree of regulatory controls are the main attraction of this sector. Interestingly this study also found out that engagement in the informal sector of the economy largely runs through the family. Additionally, constrained opportunity environment in the formal sector also came across as a major structural condition that pushes people towards the black economy.

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Chapter 1

INTRODUCTION

Indeed, economics is concerned with obtaining maximum output or satisfaction through the efficient use of scarce or limited resources. And, the economic perspective emphasizes on the scarcity of resources and the need for making choice among the options. Moreover, it stresses on the assumption of rational behavior from all the agents in the market. And, the decisions are based on the marginal cost and benefits (McConnell et al., 1987). McConnell, in his book "Economics" states three facts in order to answer the question "why do nations trade?" because, the distribution of natural, human, and capital resources among the nations are distributed in different amounts. And, the efficient production of various goods and services requires different technology or the different combination of resources. And, the third reason behind trade he mentioned in his book is that, the products are differentiated as to the quality and other non-price attributes. And, people prefer very much they may like to consume or purchase imported products rather than domestic even though the goods may be the same. In fact, the same logic of facts leads people of Pakistan in general and people of Balochistan in particular to engage in trade with neighboring countries such as Iran and Afghanistan. Because, each nation has a comparative advantage in producing different goods or services because they are endowed with different numbers of resources.

No doubt, the government plays a crucial role in providing local citizens with trade possibilities, which are reflected in state trade policies. The success and economic growth of a nation are inextricably connected to its foreign trade policy. Commerce Policy is a set of laws and principles that dictate how a country acts toward another in terms of international trade and business, whether through free trade or protectionism. The government's participation in trade policies includes, but is not limited to, regulation, allocation, distribution, and stabilization (Harding & Venables, 2016).

In terms of the government's involvement in trade policy, the government should not be solely responsible for making the most important decisions. A nation will experience more economic growth and stability if it embraces the concept of free trade, with certain sectors of the economy adopting protectionist practices to safeguard their local goods and services. International trade is crucial to the economic health of a nation. (Wilson et al., 2015) Trade policies are ultimately in place to allow nations to either develop their local market through free trade or safeguard their local goods via protectionism. The practice of protectionism is widespread throughout the world, including in countries outside the European Union (Barone & Bendini, 2015). Likewise, it is the obligation of the Pakistani government to provide trading possibilities for the general public.

As there is no free lunch, similarly the cost is also associated with the trade. The government in each state is required to manage the trade and need the policy maker to make trade policies and human resources to implement the decision taken by the policy makers. But the fruits are more than the cost of trade.as the government collect taxes in the form of tariffs, which in the turn used to finance public expenditures Taxation is a compelled payment to the government based on ownership of a tax base (Mikesell, 2003). It is a crucial political and economic concern (Connolly & Munro, 1999, p. 159). Long ago, government imposed taxes solely to finance the cost of administration and defense, the supply of some state services, and, in the case of despotic rulers, the personal expenses of the ruler (Hanson, 1972, p.556).

Nevertheless, modern taxes are levied not simply for these reasons, but also to further social and economic policy. It is an obligatory payment made by citizens to the government in order for it to fulfil its political and economic responsibilities. Abbasi (1985, p. 60-61) believed that the state and tax were mutually reliant and that one could not exist without the other. But individuals are continuously looking for tax avoidance opportunities. People may resent taxes for cultural,

political, or even moral reasons beyond their financial consequences (Hardisty, Johnson, and Weber 2010; Kirchler 2007). Taxes are frequently regarded as a loss of personal financial liberty, as expenditures without a fair return, or as cash wasted by incompetent politicians (Kirchler 1998).

If it encourages tax evasion, this negative attitude toward taxes might have severe consequences for state budgets. This conduct costs governments in rich nations an estimated 20% of their earnings, while the percentage is substantially higher in developing nations (Orviska and Hudson 2002). In spite of its prevalence, illicit tax dodging is condemned publicly. In contrast, legitimate tax avoidance strategies are generally recognised (Kirchler, Maciejovsky, and Schneider 2003). Using a free association task, Kirchler, Maciejovsky, and Schneider (2003) find that participants view informal tax evasion negatively and associate it with fraud, criminal activity, and punishment, whereas they view legal tax avoidance positively and associate it with cleverness and a desire to save money. Additionally, research reveals disparities in tax-related behaviour across the political spectrum. Those who identify with more conservative ideas, for instance, are more inclined to dodge taxes (Wahlund 1992). Therefore, it's important to investigate the tax evasion or black economy in Balochistan, Pakistan.

The majority of developing nations, including Pakistan, impose high tariffs and tight quantitative restrictions (QRs) to shield indigenous industries from international competition and increase tax revenues. Due to lax implementation of regulations, both tariffs and QRs give incentives for smuggling commodities through informal channels and under-invoicing imports through authorized channels of commerce in order to escape import tax. To make or save money by avoiding taxes/tariffs and/or to overcome state controls restricting the sale of specified items is the reason behind smuggling operations. Frequent accomplices in smuggling include fraud, fraudulent conversion, bribery, and possibly even coercion and violence. Despite the fact that smuggling has

received considerable attention in policy debates, the empirical literature on the topic is quite small. These two forms of foreign market constraints make smuggling more appealing. Tariffs and trade restrictions generate incentives for traders to engage in informal trade practises such as product smuggling and misinvoicing of exports and imports (Mahmood, Z., Mahmood, R., & Khilji, F, 1993).

The size of Pakistan's informal sector is inversely proportional to the country's level of governance. A significant black economy suggests poor governance and a failure by the government to ensure that all enterprises and entrepreneurial endeavours are included in the formal sector. All entities outside of the formal sector do not pay taxes, resulting in a decrease in tax revenue collection. There is a correlation between government criteria for new firms and the overall degree of governance. A state whose principal objective is to improve the lives of its residents will priorities good governance above all else and develop and implement policies that facilitate this. In fact, such a state will understand that having such priorities ultimately benefits it, not least because a happy population is an economically productive population (Ejaz, 2021).

In the past few decades, problems generated from black economy have become a primary concern for researchers. They highlighted different activities as playing a leading role in strengthening black or underground economy i.e., smuggling, gambling, and drug trafficking. Tax evasion is one of the factors providing support to underground economy and harms the legal economy which in turn creates several problems in real development of society. There are two types of economy, formal and informal. Formal economy allows all the economic exercises performed under a legal structure. In the informal economy, the economic activities that exercise outside of traditional institutions' network and the taxes are not paid are also called black, underground, illicit, and hidden (Gani, 2003).

In Pakistan, the underground economy and tax evasion have been the subject of inquiry for many years. Numerous efforts have been undertaken by the scholars to quantify the black economy as a result of tax avoidance. The growing interest in this field is a result of the country's ongoing struggle with low tax revenue collection and a growing budget imbalance. At the national level, Ahmed and Qazi (1995), Azar (1996), Iqbal and Qureshi (1998), and Aslam (1998) have made the most significant contributions.

Tax evasion is the most pressing issue, which led Pakistan to high budget deficits in the last few decades. (Iqbal et al, 1998) showed that the black market in Pakistan has a significant impact in creating an alarming situation due to which the economy faces losses. The black market is a market where hidden economic activities occur, which results in the distortion of national accounts. National account means that if a person is running businesses, and from that, he collects GDP and these figures of GDP in our national economy, which shows the income of the whole country. For example, the organized tax in national accounts is Rs 100. Still, the people's consumption is Rs 150 in the country to estimate that Rs 50 is the unregistered or black Economy (Feige & Urban, 2008).

For this research, we are not going to differentiate between legal and informal activities. Because if we go through legal and illicit, the data will be challenging to collect, like prostitution, smuggling, drugs, etc., is banned in Pakistan so that no one will give us the data involved in this work. So, researchers will take it as a business; otherwise, it will create problems to collect the data about informal activities. If it is done, it will always be questionable. So, researcher must figure out the unregistered economy, whether that is legal or informal. The unrecorded economy is a cash-based economy that does not have any record.

Pakistan is not the only country facing the issue of tax evasion, it is a global concern as many countries around the world face the same problem. (Johnson et al, 1998) conduct a study in which low evasion of tax and high GDP per capita results from strict law and taxation and smaller underground economy policies. The larger the black market, the lower the economy's GDP (Schneider & Enste, 2002). Pakistan's tax evasion problem is not a new one, it continues from 1947 till now. From 1957 to 1958, the tax evasion was 147 million rupees, and with time it continued to increase 152 billion in 1996. The increase in tax revenue leads to improved people's welfare and a rise in gross domestic product (GDP). Taxation is the source of revenue generated by the government. The government gets payment from many sources, but one way is tax. The government makes a budget from expected revenue collected from a tax and all other sources. Generally, in Pakistan, the expected collection of payment from all sources is less than their expenditure. So, they go into a deficit, and then they borrow. The primary purpose of taxation is redistribution; the government collects revenues and spends on the country. There are two broad terms of tax are:

1.1 Indirect tax

Indirect taxes are those that can be shifted to another company or individual. Generally, they are levied against the producer or supplier, who then passes them on to the consumer. Alcohol and cigarette excise taxes are the most prominent example of indirect taxes. A regressive tax is a sort of indirect tax that is assessed regardless of income, in which both low- and high-income taxpayers pay the same amount. This type of tax burdens low-income earners more than high-income earners, for whom the same dollar amount represents a significantly bigger proportion of total revenue earned.

1.2 Direct tax

A direct tax is a tax that is paid directly to the imposing institution by an individual or corporation. For instance, a taxpayer pays direct taxes to the government for various purposes, such as real property tax, personal property tax, income tax, or asset tax. There is a form of direct tax known as a progressive tax. A progressive tax is dependent on the ability of the person to pay. It taxes low-income earners at a lower rate than those with a higher income. This is typically accomplished by dividing taxpayers into income-based tax brackets.

1.3 Impact of black market

The black market's consequences are limited to the one economy and create tax evasion in other economies. Hence, both economies will suffer and face the problem of low revenue, high budget deficit. Schneider et al, (2010) say that black economy performance starts contradicting when the economy is expanding and stabilizing. (Loaiza. et al, 2010) states a negative correlation between formal and informal GDP. Because of the black economy's actual size if formal GDP shrinks, which creates trouble for the policymakers (Yasmin, 2010). when the informal economy increases, people will go to work in the informal sector and the formal economy will decrease (Alma and De Mello, 2009). Arby et al, (2010) Says that the informality of the economy is also because of education. In developing countries like Pakistan, only tax is not the factor. Still, less education also makes them work in the informal sector because they are not aware of the formal or informal economy or cannot differentiate between them.

Imposition of the high tax on people causes the shipment from formal to the informal economy, and this factor is present in a large portion of the studies (Tanzi, 1980). The people are fined who are caught while working in informal sectors; therefore, the cost of working is risky (Marinov, 2008, Eilt and Zinnes, 2000). When there will be less possibility of getting caught by the police or

if there will be insufficient legislation, the people will prefer to go to the informal economy, and that will be increased.

The external factor motivates the people internally to be good citizens. Still, the people look towards the monetary benefits, that when there is a low tax, the people will pay it, but when there are high tax people will not pay and will go towards informal sectors (Schneider and Halla, 2005).

The advantages of black economy are that It gives employment and revenue to individuals who may not have viable options in the legal economy. A street market, for instance, enables dozens of businesses selling comparable products to compete. It enables individuals to afford medicine, health services, and other necessities they may not otherwise receive. A doctor in a country informally, for instance, can provide cash-based, low-cost health care since he does not pay taxes. It also assists nations in surviving economic downturns. When people lose their employment, they rely on the illicit market until the recession ends (Hutchinson, R, 2011).

The drawback of the black market is that it forces out legitimate businesses that cannot compete with the lower expenses of informal operations. Some black market participants intentionally create shortages of legal items in order to compel consumers to purchase from them. Because the informal market is tax-free, the government loses revenue. These cash may have been utilised to assist individuals with services. The economic activity of the black market is not included in government statistics. As a result, the nation's gross domestic product is underestimated. Employees receive no benefits nor legal protection. Consequently, many are exploited. These workers are excluded from national employment and unemployment statistics. They are not included in labour force statistics. One million individuals are heavy opioid users. This represents

0.5% of the labour force. It cost the economy \$44 billion annually and hindered economic expansion by 0.2%. (Phillips, J. K., Ford, M. A., Bonnie, R. J, 2017).

1.4 Black market in Quetta

No doubt the Black market exists in Quetta. These activities occur in different parts of the city where the goods are smuggled from Afghanistan and Iran's border. The prices of smuggled goods have a low cost than the price of goods available in local markets. These products are available in each shop in Quetta city and surrounding. However, the goods are being supplied by a few wholesalers. Moreover, the estimated number of wholesalers involved in the underground market is 500.

1.5 Problem Statement

Due to the inaccuracy of economic data, the presence of the black market complicates the formulation and implementation of economic and social policies by those in positions of authority. In order to prevent policy distortions, it is necessary to measure the size of the black market. Despite the increased interest in assessing the amount of black economic activity in various nations, no attempt has been undertaken to estimate the Quetta black economy, its repercussions, and policy implications.

The main problem in this dissertation is to estimate the size of the black economy in Quetta, in addition to analyzing the economic consequences and the policy implications of this phenomenon, concentrating on estimating the amount of the tax evasion in Quetta.

Black market does exist in Quetta and people there do not pay taxes. If those taxes are to be collected it could in return produce development in the city. So, researchers will do the research

on why they do not pay taxes, how much they earn and why they do not pay tax and what is the role of the government in this issue.

1.6 Research Objectives

Following are the main objectives of the study:

- To determine the sectors in which black economy operates in Quetta.
- To determine the size of the black economy in Quetta.
- To empirically study the reasons behind the black economy in Quetta.

1.7 Research Questions

This study is designed to address the following questions:

- What is the size of the informal economy in Quetta?
- Which sectors are employing illegal means for tax evasion in Quetta?
- What are the reasons which motivate businesses to not report their financials for tax?

1.8 Significance of the study

This study will be significant to the policymakers in devising rules and formulating policies for the shadow economy. Especially FBR regarding tax collection. So, they can make better policies and regulate them to get tax, and the government can expand on the city.

1.9 Research Gap

Informal economy is an area that demands more research in order to understand the dynamics of the markets that are operating outside the legal domain. No previous research has tried to understand and explore the nature of the informal activities in Quetta as per the knowledge of the author.

Chapter 2

LITERATURE REVIEW

David J Pyle (1989) in his book "Tax Evasion and The Black Economy" showed that Economists are disputatious, and research on tax avoidance is new. To suggest otherwise would harm the public and the economics profession. Too many areas are unknown for definitive judgments. It makes sense to arrange remarks like the book's structure. In mature, industrialized countries, monetary ratios are employed to estimate the size of the black economy. As we've seen, this strategy has issues. Tanzu's smart usage of currency ratios relies mainly on the tax rate forcing transactions underground. Feige's transaction technique has almost as many flaws. If monetary figures are rejected, how can the black economy be estimated? Probably very little. Only random audits of taxpayers provide trustworthy information on unreported incomes. Auditors don't always find hidden income, and few countries conduct random audits. Skinner and Slemrod (1985) found that chances favor evaders. They say the vast majority of tax payers declare all income. The failure to build dynamic (i.e., lifetime) models and using enforcement policy as an exogenous element impacting individual decisions are also criticized. Individual tax returns need advanced econometric analysis. Providing basic data for such a study would require tax authorities' participation. Black economy output is unknown. Only using a model can the macroeconomic repercussions of tax evasion be determined. Economics and "common sense" disagree on whether tax evasion should be eradicated or reduced. Growing literature examines 'sophisticated tax methods' It's less clear-cut that tax rates can dissuade evasion. Some say they're not a valid policymaking tool. Black economy and tax evasion are fascinating to economists, but little progress has been done in recent years. Even seemingly noncontroversial solutions like tax

withholding aren't so ideal under dozer examination. The voyage may never end, but it should be pleasurable.

Arun Kumar (2017) in his book “Understanding the Black Economy and Black Money in India” explained the de-mystified the underground economy to some level. Even among economists and policy works, the majority of individuals, even policy wonks and economists, have a limited comprehension of this topic. The phrase 'black economy' is racially laden and improper, as it suggests that black is inferior to white. Importantly, we have shown that there is no magic wand to remedy the situation, as the root of the issue is political. Aiding the people they serve; NGOs have performed well. If we want to eliminate a problem that thrives due to the absence of a deliberate effort to eradicate it, we will need to rediscover this level of zeal and dedication. Movements can also assist in overcoming the colonial dislocation of our consciousness that has resulted in the perpetuation of feudal mindsets, which undermines democracy. I have maintained that it is not the insufficiency of the legislation that is the basis of the problem, but rather its application. The struggle against the informal market is nothing less than an effort to restore Indian society. It is a struggle to establish a society in which institutions, governments, and the powerful are held to the highest standards of accountability. If the war is won, it will be a game-changer, and we will have a country and civilization worth celebrating.

From 1974 to 2002, Yasmin and Rauf (2004) assessed Pakistan's underground economy (UGE) through tax evasion. The monetary technique is used to evaluate the underground economy. After evaluating the currency demand equation, one attempts to quantify the shadow economy and tax evasion. Lastly, an Ordinary Least Square (OLS) Model is utilized to evaluate the impact of the underground economy on Pakistan's Gross Domestic Product during a certain time period. The subterranean economy grew dramatically from 12 billion rupees in 1974 to 1085 billion rupees in

2002, according to the data. The findings indicate that the presence of a sizable UGE can reduce tax revenues, result in a decline in GDP, and exacerbate socioeconomic issues. Tax evasion has a substantial impact on the fiscal and monetary sectors of Pakistan. To compensate for this loss, the government hikes taxes, which exacerbates the tax evasion problem. Frequent tax audits and increased fines for tax evasion could diminish the underground economy and its negative repercussions.

Furthermore, the tax evasion from 1974 to 2002 confirms an underground economy in Pakistan, according to this study. Due to its political and economic hub, the underground economy is expanding faster than the legitimate economy. The existence of the underground economy is a legitimate concern. Such a huge underground economy in Pakistan is indicative of the public's participation in corruption. This presence of the underground economy leads to fiscal loss in the economy and administrative inefficiency. Tax evasion has a negative impact, but in order to recuperate, the government imposes additional taxes, which in turn leads to additional tax evasion.

Moreover, Grawert et al. (2017) conducted a study titled "Afghanistan's Cross-Border Trade with Pakistan and Iran and the Responsibility for Conflict-sensitive Employment" in order to comprehend the employment trends, strategies, and practices adopted by Pakistani and Iranian companies engaged in cross-border trade and transportation. The study utilized qualitative methods by conducting key informant interviews and focused group discussions with cross-border trading transport companies, representatives from the Afghan-Pakistani joint chamber of commerce and industry, and self-employed individuals. Political difficulties resulting in frequent border closures are the primary cause of business hurdles and restrictions between Afghanistan and Pakistan, according to the study's findings. Long delays at the border result in substantial losses for transportation companies. According to the report, the decline in official trade between

the two nations has led to a rise in illegal trade and the emergence of Iran as a potential partner (Grawert et al., 2017). (Grawert, Elke; Nusrat, Rabia; Shah, Zulfiqar Ali, 2017).

Mazi et al. (2020) explained that a country's economy is fueled in part by the diversity of its thriving enterprises. These enterprises are encouraged to compete so long as they adhere to the rules established by the governments in which they operate. When the competitors play in a completely new atmosphere and establish their own rules, the situation changes drastically. Prior to the advent of the Dark Web, such an ecosystem existed on the black market, but it was restricted to a certain geographic area, and very few individuals prospered outside of their geographic region. The Dark Web has enabled all black-market businesses, regardless of size, to expand their operations outside their physical region. By itself, the black market already affects enterprises that share the same geographic region. However, the Dark Web enhances the illegal market's worldwide effect. This research examines the impact of Black-Market activity on the Dark Web initially. The report then describes how the Black Market and the Dark Web impact the economies of specific nations and the global economy as a whole.

Bahmani-Oskooee and Goswami (2005) examined the effect of corruption on the black-market premium. Theoretically, we suggest that corruption may increase both the demand and supply of illicit foreign cash. Recently, the impact of institutional factors on macro variables has accelerated. Academics have investigated the impact of corruption, law and order, and bureaucracy on economic development, inflation, investment, productivity, and the real exchange rate. In this experimental study, the effect of institutional factors on the black market premium is studied. Due to legal restrictions on financial and commercial transactions, many developing nations have a black market for foreign exchange. Using data from sixty developing countries between 1982 and 1995, we demonstrate that the black-market premium is greater in countries with higher levels of

corruption. This result appears to be independent of five distinct corruption indices and whether cross-sectional or panel data are used. Therefore, it could have a favorable or negative impact on the black market premium. If corruption produces an increased demand for foreign currency on the black market, the premium will increase. Otherwise, it may detract from it.

Ahmed and Hussain (2008) investigated the underground economy has attracted significant interest from policymakers. The presence of black economy results in a significant distortion of macroeconomic variables in official estimates, which leads to a wrong assessment of economic policies' effects and a deluded perception of their magnitude. Similarly, the black economy symbolizes the unrecorded economic potential in terms of resource creation and mobilization. Since the 1960s, Pakistan's economy has undergone various modest tax adjustments. However, the tax and tariff reform of the 1990s, enacted in response to international pressure, was the first comprehensive effort; consequently, it is essential to evaluate its effect on the black market and tax evasion. This article modifies the usual monetary technique in order to acquire the most recent estimates of the black economy's size and its macroeconomic ramifications. Lastly, despite the fact that lowering the tax rate is a widely accepted method for diminishing the black market, it cannot be utilized in isolation and must be combined with administrative measures. Otherwise, a decline in tax collection as a result of decreased tax rates might have a negative effect on the economic well-being of society.

Researchers and practitioners' concern about the underground, unofficial, or shadow economy has increased over the past few decades, according to Kiani et al. (2015). The presence and prevalence of shadow economies are a growing worldwide concern. In this analysis, we draw ideas from the present and developing economic literature on the demand for money approach and the shadow

economy. The study covers policy-relevant subjects in a technical manner using a monetary approach with significant additions in the context of developing nations such as Pakistan between 1975 and 2010. The study first estimates the size of Pakistan's informal sector by determining the long-run link between the currency in circulation and other variables (i.e., GNP, tax income as a percentage of total revenue, interest rate on savings accounts, and inflation rates). The result indicates that both GNP and inflation rate have a positive relationship with currency circulation; however, the magnitude of both variables' effects on currency circulation differs, as a 1 percent increase in GNP and price level results in an increase of 0.86 and 0.091 percent in currency circulation, respectively. Other factors, like tax revenues and interest rates, have a negative association with currency circulation over the long run. However, these effects are fading in the near future. Based on cointegration statistics, the study estimates that Pakistan's underground economy increased from less than 30 percent in 1975 to 19.8 percent in 2010. A change in the size of the shadow economy causes a shift in monetary indicators. It is anticipated that increasing shadow economy activity will raise currency demand in Pakistan.

(Mahmood et al, 1993) found that in Pakistan, it has been observed that high rates of taxes and tariffs in the country, making the government generate increased revenue, has indeed caused the traders and people in business to use some other networks of imports and exports. To evade the high rates of tariffs and taxes, Pakistan's people use ways like smuggling to continue their business. Similarly, people import goods and services through such channels, resulting in a decrease in the incentives for the local industries to produce. Moreover, high rates of tariffs and taxes give rise to the promotion of black foreign exchange markets. The explanations provided as the causes of illegal imports include the high rates of taxes and high exchange rates that lead to lower invoicing

of imports. Traders can also easily dodge the custom departments, which points towards the country's lower institutional performances.

(Lippert & Walker, 1997) founded a significant and increasing part of economic life in the informal economy, which is under constant debate because even if it operates in a lesser percentage, it has implications for the governments to assess and forecast their revenues. The book provides examples from various countries like the US, Britain, Mexico, etc., where the underground Economy has been tried to measure. The causes and implications are the same for these countries. Mostly those economic activities come under the fold of the underground economy, which tries to evade taxes. It is also because of the inadequacy of the formal systems to meet the emerging population's needs. 'The cost of access and permanence in various economic areas' define whether people choose to be in the formal sector or rather stay in informality. People are naturally inclined to do what is cheaper and cost 'lower than its benefits. Individuals making this evaluation will naturally pursue their objectives and not those of the state'. All the difficulties involved in the formal sector make it unaffordable for the people who have limited resources. In this case, they choose to be in the informal sector. Now the problem is serious because if the law enforcement agencies try to make stricter laws, there would be more tax evasion. Russian reformers have also stressed the same point while Mexico, on the other hand, provides an example that more revenue can be collected if the tax rate is reduced. It is not appropriate to have such economic activities that do not meet legal requirements. So, various policy suggestions have been provided, including deregulatory programs that would remove the hindrances to economic activities, tax reductions, removal of constraints on legal private activities, etc. These would help bring these underground financial starts into the formal sector.

According to OECD (2002), there is no specific definition of black markets. They emphasize that the underground economy is a productive output and legal, intentionally hidden from the public authorities (Government, public administration, etc.) to avoid taxes.

(Štimac Radin, 2002) found that black markets allow for more businesses and more employment for the youth and unemployed generation. The low rate of work has made Pakistan's youth get involved in some unofficial companies and get employed to earn something for a living. Some factors are included in enhancing such an unofficial economy. The determinants include unstable political and economic situations of a nation, lowering unemployment standards of living, high taxation policies and organized crimes, etc. According to this research, the only way to demolish the grey economy is to make and provide people with incentives and jobs to make them think about the country's fortune and development.

Schneider (2006), founded that there would be more influence on individuals' taxation, the disposable income will be low whenever the tax is high, so people's opportunity cost will be more in the informal sector. In formal sectors, the tax cost will be increased so the income will be low, and people will be happy working in unofficial sectors. When the tax is high, the disposable income (income – tax) will be quiet, so the workers will go towards the unofficial industry where there will be no taxation.

Kaufmann et al, (2009) examined that the democratic and dictatorship government is always questionable. Still, a stable government has a smooth and stable governance system, so the laws in steady government decrease in the informal economy.

(Gulzar et al, 2010) concluded that The informal economy consists of all economic activity that are not reported or accounted for in the National Income Accounts. The legal aspect relates to

household units that produce commodities or services. Informal economic activities of the informal sector include money transfer through hundi, theft, prostitution, smuggling, unreported income from FOREX, etc. According to recent figures, the underground economy comprised between 54.6% and 62.8% of GDP in 2005." It is also because of this informal economy that our country has been placed in last positions in competition in the era of globalization and the free market. To fully implement the 7th NFC Award and 18th Amendment, it must check this black economy as it poses significant constraints in its fulfillment. It may further expand due to the new GST/VAT system's imposition, border smuggling, price hikes, and the list goes on. The article adopted various methods to conclude the size of the black economy in Pakistan, and all these show fluctuations due to the different variables used. If better opportunities and proper development programs are implemented, issues like rising competition levels and increasing tax to GDP ratio can be improved. Education and vocational training would allow the people to work in the formal sector, get better pays, and contribute to the tax toll. The highest denomination note should be brought down from 5000 to 1000 because the purchasing power is 4000 for any day in a month.

According to FBR, In Pakistan, the illicit tobacco trade is 20 % of the total cigarette market. Because of the informal work of Tobacco, Pakistan suffered a loss of PKR 7.4 billion in a single year. According to Tobacco, the report companies pay 82% of payable tax, implying that tax evasion is only 18%. (FBR, 2014) The government made a parliamentary committee according to which accurate statistics about tax evasion in the tobacco industry are not even known. The unavailability of the statistics government's focus is on counterfeited, not on smuggling. According to the writer, tobacco companies underestimate the figure while smuggling is done more (IQBAL, 2010).

The British American Tobacco (BAT) and Phillip's Morris (PMI) claim that their companies have to bear losses because of smuggling, and these companies demand rebates on taxes. (IQBAL, 2010) argued that these losses are only claimed to evade taxes. Otherwise, they would pressure the government to crackdown against smugglers or inform the public against the health impacts of substandard cigarettes.

Pakistan is heaven for the illicit tobacco trade, and it smuggles high levels of counterfeit cigarettes. Afghan Transit is used for smuggling cigarettes to Pakistan. In 1992 a ban on the import of cigarettes was imposed by Pakistan through legislation, but it never stopped the smuggling because of poor implementation and cartels of the cigarette industry. Pakistan introduced a tobacco control law in 2002, in which smoking was banned in public places, and excise duty tax was increased.

There is more production of Tobacco from its demand, and the extra output of Tobacco is given to the local companies. Tobacco is one of the most generating revenue sources for the federal government, so the government oversees its production. Instead of reducing the production of tobacco crops, the government of Pakistan is further increasing it. According to an economic survey, in 1991, the tobacco crop was 44,000 hectares, and now in 2008, it has grown to 52,000 hectares.

(Buehn & Farzanegan, 2012) conducted a study that no rule of law promotes smuggling and informal activities in that state. Similarly, tariffs and taxes play a vital role in reducing illicit activities in trade, particularly smuggling. The author used the MIMIC model and data of countries, including Pakistan. In the rankings, Pakistan, Kenya, and Cameroon were at the top, and the rate was low in countries like Switzerland, Finland, and Sweden. This study delivers the smuggling rankings in the 1990s, and the author used a structural model to find out the causes and indicators

of smuggling in all 54 nations around the world. There were several benefits of using this model. It allowed them to use relevant determiners of smuggling.

Moreover, it showed that high tariffs and restrictions allow the people to find another way of trading, which is smuggling. So, the rule of law plays an essential role in enhancing the rate of smuggling. The author reached some conclusions claiming that institutions should be strengthened to reduce the level of smuggling in countries like India, Pakistan, and Kenya. Institutions also play a significant role in determining the level of smuggling. And we can also reduce informal trade by reducing the amount of taxes and tariffs. However, those countries that have allowed for free trade yet have some restrictions. In a nutshell, this study provides us with how and what role the institutions play in promoting and regulating smuggling and informal trade in a nation.

Chapter 3

METHODOLOGY

Methodology is actually a contextual framework for research, which describes or portrays some logical schemes based on views and the context of the topic. This study adopted case study method for the purpose of research, with Quetta as study area. Data for this study is collected through survey instrument, questionnaires'.....'. Descriptive analysis technique is used for describing and analyzing the data through summarizing various data points in a constructive way, which explains by unveiling different patterns that may or may not be in the data that is to be found through research. It is used with importance for data that is statistical in nature. Due to the nature of context, thus descriptive analysis is used as it would be more logical to use this method.

3.1 Location of the study:

Quetta, Balochistan is identified as the study area for the purpose of analysis.

Within Quetta the data is collected from the following markets and places. The rationale for selecting the following markets is based on the criteria of maximum availability of the three major smuggled goods, petrol, betel nuts and cigarettes. The markets listed down are found to have the highest ratio of these products.

- New Adda
- Hazar Ganji
- Double Road
- Masjid Road
- Saryab Road
- Spini Road
- Kawary Road
- Jan Muhammad Road
- Pashtun Abad

- Airport Road
- Kili shaboo
- Kandhari Bazar
- Liaqat bazar
- Archer Road
- Art School Road
- College Road
- Zarghoon Road
- Brewery Road

3.2 Targeted Population for Sampling:

The target population for sampling are the stakeholders that are involved in the informal activities. Particularly in the business of Petrol, Cigarettes and Betel nut in Quetta.

3.3 Data Collection and Sampling:

Data for the study is collected through questionnaire form the markets in Quetta involved in the informal business activities of products including petrol, cigarettes and betel nut due to time and money constraint. Snowball sampling technique is used to collect responses of the questionnaire. In snowball sampling the initial point of contact for data collection is identified and upon discussion and participation of that respondents in the research activity, they are then requested to recommend contact keeping in view the nature of data collection (Parker et, al., 2019). Given the nature of the informal market in Quetta, individuals were not willing to participate and at times, data collection was difficult owing the resistance from the Markets. Individuals were hesitant in responding to the questionnaire because of the sensitive nature of the questions asked. Snowball sampling technique was used keeping in view the events already mentioned.

The sample size of the study is 100. The responses included the data from informal activities in petroleum, informal activities in cigarettes and betel nut. We collected data from Shop owners, Wholesalers, and Middle men involved in the activities.

3.4 Locale

At around 5,500 feet (1,670 meters) above sea level, the city is the divisional and district headquarters and a significant marketing and communications hub at the northern end of the Shal Valley. Near the northwest (Afghanistan) border, it is the most southern point of frontier posts, important roadways, and railways. Its industries include cotton mills, a sulphur refinery, coke briquetting factories, a thermal power station, and fruit canning facilities. A geophysical institute, the Geological Survey of Pakistan, Sandeman Library, and two government colleges associated with the University of Peshawar are located in the city. In 1970, the University of Balochistan was founded in Quetta. The city is also a popular summer destination.

Quetta district is bordered by Pishin district to the north, Afghanistan to the west, Sibi district to the east, and Kalat and Chagai districts to the south. It consists of a series of long valleys situated between 4,500 and 5,500 feet above sea level and drained by the Pishin Lora River and its tributaries. Its dry and temperate climate is ideal for growing grapes, peaches, plums, apricots, apples, almonds, pears, and pomegranates in valleys. Wheat, barley, and maize (corn) are typical crops, and juniper and pistachio forests are abundant. Horse breeding is prevalent. Local crafts include felts, rugs, silk embroidery, and copper vessels.

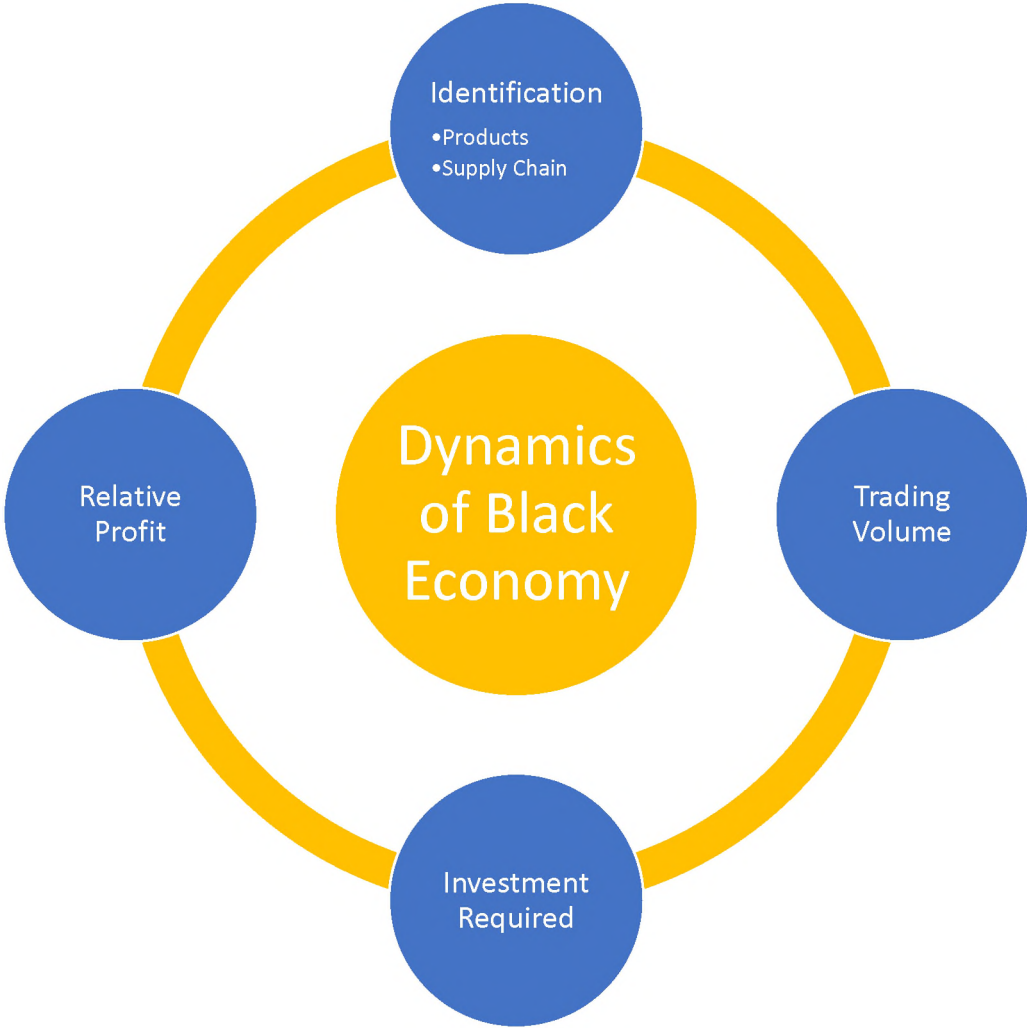
3.5 Conceptual Framework

The informal economy has a significant share in the economy not only in the developing countries but also in developed countries. But in the case of the former the share of informal economy as a percentage of the GDP is growing significantly.

According to the estimates total share of informal economy in Pakistan is around 91 percent of the informal economy (Kemal and Qasim, 2012). According to United Nations, (2018), illegal cross

border flows are of the major components of the informal economy. At borders areas a large section of the people instead of the formal structures depends on the alternative survival mechanisms that lies in the informal sector.

In order to fully understand the role of informal sector, it is necessary to first identify its myriad aspects. This includes the nature, types and volume of the traded goods, their supply chain or source of origin, investment and relative profit.



Chapter 4

Data Presentation and Analysis

This chapter is divided into two portions. First statistical summary of the data collected from survey is presented in tabulated form. The purpose of this exercise is to give the readers a broad overview of the dynamics of the black economy of Quetta city. This part includes the demographic and ethnic composition of the black-market main stakeholders i.e., the businessmen. It also presents the information about the composition of the black market including the majority items sold and purchased and the main source countries from which each of those products are mainly smuggled from. More-over the statistics of the number of investments in each of these sectors and their relative profitability figures are also presented. Last but not the least a perception and preference results of the stakeholders about the black market are also presented.

The second part of this analysis chapter connects the findings with the objectives of the study. The organized data in this section is viewed at the vintage point of the objectives and research questions of this study. It thus mainly answers the inquiry about the nature, size, economic impact and the reasons behind the presence and prevalence of black market and illegal economic activities in the city of Quetta, Balochistan.

4.1 Respondent Age

Table 1: Respondent age categories

Respondents Age Categories			
Age cat	Freq.	Percent	Cum.
18-25	12	12.00	12.00
26-35	41	41.00	53.00
36-45	31	31.00	84.00
46-55	13	13.00	97.00
56-65	3	3.00	100.00
Total	100	100.00	

Summary Statistics					
Variable	Obs	Mean	Std. Dev.	Min	Max
Age	100	37.52	9.811846	18	65

The above table 1 and 1.2, show the descriptive analysis of respondent's age. In fact, the total number of respondents is 100. And, we have categorized the respondents age in five different categories. such as the respondents age ranging between 18-25 year, 26-35, 36-45, 46-55 and 65-65 years of age are engaged in black economy in Quetta. Moreover, the findings show majority of the respondents falls in age category between 26-35. Additionally, the table 1.2 indicates that the mean average age of respondents is 37.5 and the youngest among respondents is of 18 years of age and 65 as highest age respondent engage in black market.

4.2 Respondents Education

Table 2: Respondent Education

Respondents Education			
Education	Freq.	Percent	Cum.
Illiterate	19	19.00	19.00
Intermediate	7	7.00	26.00
Matric	33	33.00	59.00
Primary	41	41.00	100.00
Total	100	100.00	

The table 2 shows the education profile of the respondents. In fact, this study has captured the education of respondents based on education level. The findings however, reveals that around 19% of the respondents engage in informal economy are illiterate. And, majority of the respondents have primary education (41%). Moreover, 33 % of the respondents reported that they have completed matric (10 years of education). Finally, 7 percent of the respondents have reported

that they did intermediate. However, the overall reports indicate that majority of the people engage in informal economy are literate.

4.3 Locale

Table 3 : Respondents Locale

Respondents Locale			
District	Freq.	Percent	Cum.
Chaghi	4	4.00	4.00
Chamman	43	43.00	47.00
Hanna-Urak	3	3.00	50.00
Mastung	10	10.00	60.00
Muslim Bagh	1	1.00	61.00
Pishin	3	3.00	64.00
Qila Saifullah	3	3.00	67.00
Qilla abdullah	2	2.00	69.00
Quetta	14	14.00	83.00
Turbat	6	6.00	89.00
Yaro	4	4.00	93.00
Zhob	2	2.00	95.00
muslim bagh	5	5.00	100.00
Total	100	100.00	

This table (3) shows the respondents locale. As shown in the table majority of the people engage in black market or informal economy are from Chamman (43% of the respondents). Because, it's the border with Afghanistan. And, 14 % of the respondents belongs to Quetta city, the percentage is comparatively higher because Quetta city is the hub for all the second transaction, from where the goods are supplied to different parts of the country (Pakistan). additionally, 10 percent of the respondents reported Mastung as their home town. To sum up, the people from many areas are engage in informal economy such as Chamman, Chaghi, Pishin, Muslimbagh, Qila Saifullah, Qilla Abdullah, Quetta, Turbat, and Zhob.

4.4 Ethnicity

Table 4: Ethnicity

Ethnicity	Freq.	Percent	Cum.
Baloch	24	24.00	24.00
Pashtun	76	76.00	100.00
Total	100	100.00	

The table four shows the respondents ethnicity. The findings however, reveals that there are two ethnic groups engage in informal economy in Quetta. However, majority (76 %) of the traders are Pashtuns and 24 % belongs to Baloch ethnicity.

4.5 Industry

Table 5: Industry

Industry	Freq.	Initial Investment	Monthly Trading
Betel Nut	28	93100000	37700000
Cigarette	37	182200000	78820000
Petrol	35	16380000	7270000
Total	100	291680000	123790000

There are three main industries products traded in informal economy. As shown in the table 5 the cigarette industry is leading with 37% of the respondents reported that they are indulged in cigarette business. Followed by, petroleum industry which is mainly imported from Iran and

smuggled to different regions of the country. Moreover, 28% of the traders reported that they are engage in Betel Nut treading. In fact, Betel Nut is smuggled through Afghanistan Border from India. And, most of the product is moved to Karachi from Quetta.

As given in the table above, majority of the respondents have invested in the business of cigarettes, followed by betel nut. As per the data reported the investment in the business of the petrol is at the third place. The monthly trading is highest for cigarettes followed by betel nut and petrol.

4.6 Main Products Being Sold in the market:

Table 6: Main Products sold

Main Products Being Sold in the Market		
Products	Freq.	Percent
Garments	65	65
Grocery	28	28
Spare parts	37	37
Petrol	35	35
cigarette	28	28
cosmetics	37	37

The above table summarize our Question from the respondents. What are the main products (non-costumed) being sold in the market? The respondent's response indicates that the main products being treaded informally are garments, grocery, spare parts, petrol, cigarettes and cosmetics. However, majority (65%) of the respondents reported garments as main product being treaded in Quetta. The second most important product reported by the respondents is spare parts (37%). Additionally, 35 percent reported the petroleum as key product in black market. Moreover, 28 percent of the respondents reported cigarettes and grocery as primary products being treaded in informal economy.

4.6 Products Imported From

Table 7: Product Imported Country wise

Imported Countries		
Products	Freq.	Percent
Afghanistan	65	65.00
Iran	35	35.00
India	28	28

Table 7 of the study shows the respondents response regarding the countries from where the non-costumed good are imported. The results however show that 65% of the respondents believe that most of the products come from Afghanistan. Followed by Iran and India.

4.7 Investment in Business

Table 8: Investment in Business

Investment in Business			
Investment	Freq.	Percent	Cum.
0-1000000	46	46.00	46.00
1000001-2000000	11	11.00	57.00
2000001-3000000	3	3.00	60.00
3000001-4000000	11	11.00	71.00
4000001-5000000	5	5.00	76.00
5000001-6000000	8	8.00	84.00
6000001-7000000	7	7.00	91.00
7000001-8000000	6	6.00	97.00
8000001-9000000	1	1.00	98.00
above 9000000	2	2.00	100.00
Total	100	100.00	

Investment is that part of income which is used for further production. Indeed, every economic activity no matter that is formal or informal need some investment. Therefore, the above table 8 shows the amount of investment the respondents have invested in their respective business.

In fact, for this study we have categorized the amount of investment in 10 different categories as shown in the table. However, the descriptive analysis shows that majority (46%) of the respondents invested around Rs 100000 in their business. And, 11 percent of the traders reported that they have invested between 1000001-2000000. Similarly, 3 % invested between 2000001-3000000, 11 % invested 3000001-4000000, 5% invested 4000001-5000000, 8 % invested 5000001-6000000, 7 percent invested 6000001-7000000, 6 % of respondents invested between 7000001-8000000, only 1% has invested between 8000001-9000000 and 2 percent of the respondents reported that they have invested above 9000000 in business.

4.8 What are the Profitable Products?

Table 9: Profitable Products

Profitable products	Freq.	Percent	Cum.
First Priority			
Cigarette	56	56.00	56.00
Petrol	26	26.00	82.00
spare parts	18	18.00	100.00
Total	100	100.00	100
Second Priority			
Automobile	11	11.00	11.00
Cosmetics	7	7.00	18.00
Petroleum	82	82.00	100.00
Total	100	100.00	100.00
Third Priority			
Automobile	16	16.00	16.00
Betel nut	33	33.00	49.00
Carpets	2	2.00	51.00
Cosmetics	9	9.00	60.00
Electronics	5	5.00	65.00
Garments	20	20.00	85.00
Grocery	4	4.00	89.00
Spare parts	11	11.00	100.00
Total	100	100.00	100.00

The above table 9 shows the respondents preferences regarding the most profitable products in market. In fact, for this study we have ranked their preference as first priority, second priority and third priority. As shown in the table in the first priority 56 % of the respondents revealed those cigarettes are the most profitable product among all non-costumed items. And, 26% reported Petrol as the most profitable product in informal economy. And, 18 percent of the businessmen's reported spare parts as leading profitable product in the black market.

On the other hand, the second priority shows respondents preference for the second most profitable products in informal market. The results however, indicates that majority of the respondents opted petroleum as most profitable business followed by automobile. And, finally the third priority include list of products such as automobile, betel nut, carpets, cosmetics, electronics, garments, grocery and spare parts. However, in the third priority majority of the respondents revealed betel nut is the most profitable business,

4.9 Year of Experience in Business:

Table 10: Business Experience

Year of engagement in Business			
Year of Experience	Freq.	Percent	Cum.
1-5 years	59	59.00	59.00
6-10 years	37	37.00	96.00
11-15 years	4	4.00	100.00
Total	100	100.00	

Table 10, shows the respondents years of experience in informal economy. The findings indicate that most of the traders have new entry in the market. In fact, around 59 percent of the respondents have 1-5 years of experience in black market. And, 37% of the respondents have

experience between 6-10 years. Additionally, 4 percent of the respondents have experience between 11-15 years.

4.10 Is this your Family Business?

Table 11: Business Ownership

Is this your family business?			
Business	Freq.	Percent	Cum.
no	29	29.00	29.00
yes	71	71.00	100.00
Total	100	100.00	

The above table 11, shows the respondents response to the question, Is this your family business? The findings indicate that majority of the respondents claimed that it's their family business, which reflect that other member of the family are also engage in informal or black market in Quetta.

4.11 Monthly Trading

Table 12: Monthly trading

Monthly Trading			
Treading	Freq.	Percent	Cum.
10000-1000000	67	67.00	67.00
1000001-2000000	14	14.00	81.00
2000001-3000000	7	7.00	88.00
30000001-4000000	7	7.00	95.00
above 4000000	5	5.00	100.00
Total	100	100.00	

Table 12, indicate the monthly transition of the respondents included in survey. For this study we have categorized the monthly transaction in five categories. in fact, the findings revels

around 67% of the respondents have reported that their monthly transaction is between 10000-1000000. And, 14 percent reported that their monthly transaction fall between 1000001-2000000. Moreover, 7% of the respondents reported that on average their monthly transaction is between 2000001-3000000 and 30000001-4000000 respectively. And, 5% reported 30000001-4000000 as monthly transaction

4.12 No. of Markets

Table 13: No. of Markets

Name of Market	Freq.	Percent	Cum.
Airport Road	2	2.00	2.00
Archer Road	1	1.00	3.00
Art School	1	1.00	4.00
Brewery Road	2	2.00	6.00
Collage Road	1	1.00	7.00
Double Road	4	4.00	11.00
Jan Muhammad Road	2	2.00	13.00
Kandahari Bazar	1	1.00	14.00
Kawary Road	3	3.00	17.00
Kili Shaboo	1	1.00	18.00
Liaqat Bazar	1	1.00	19.00
Masjid Road	7	7.00	26.00
Mosa colony	1	1.00	27.00
Nawa Kili	4	4.00	31.00
New Adda	52	52.00	83.00
Saryab Road	2	2.00	86.00
Spini Road	5	5.00	91.00
Zarghoon Road	1	1.00	92.00
collage Road	1	1.00	93.00
hazarghanji	5	5.00	98.00
pashtoon abad	3	3.00	100.00
Total	100	100.00	

Table 13, shows the trading zone of informal economy in Quetta. In fact, informal market exists almost in every part of Quetta city. The findings however, shows that 52% of the respondents reported that most of the transaction take place in New Ada, which is hub of Quetta city.

4.13 Is Non-Custom Business more profitable?

Table 14: Business Profitability

Is Non-custom Business more profitable?			
	Freq.	Percent	Cum.
No	19	19.00	19.00
Yes	81	81.00	100.00
Total	100	100.00	

The above table 14, summaries the respondent's response either the informal business is profitable or not? In fact, the results show that majority (81%) of the respondents believe that informal business is profitable as compare to formal business. On the other hand, 19 percent reported that informal business is not profitable. In the next section we will discuss the reasons behind this perception.

4.14 Why not engage in formal Business?

Table 15: Reason of Engaging in Business

Why not engage in Formal Business?			
Reasons	Freq.	Percent	Cum.
No Option	19	19.00	19.00
Tax burden	16	16.00	35.00
Profitable	65	65.00	100.00
Total	100	100.00	

The above table 15, elicits the reasons for engage in informal business. As shown in the table the respondents opted three options while explaining the reasons behind their involvement in

informal economy. In fact, the majority of (65%) respondents reported that in formal business is profitable as compare to formal business, because they need not to pay the taxes. And, around 16 percent reveled that they are participating in black market because of heavy taxes or tax burden. Moreover, 19% of the respondents in the survey reported that they have no other option. And, it's their completion to engage in informal economic activities.

4.15 Do you want to legalize this business?

Table 16: Willingness to legalize

Willingness to legalize			
	Freq.	Percent	Cum.
No	66	66.00	66.00
No idea	12	12.00	78.00
Yes	22	22.00	100.00
Total	100	100.00	

When we asked about their willingness to legalize their business, the respondents responded as shown in table 16, that only 22% of the respondents responded with “Yes we want to legalize our business” and 66% of the respondents reveled that “No, we need not to legalize it”. Additionally, 12 were uncertain and reported “No Idea”.

4.16 Why Not Willing to Legalize?

Table 17: Why not willing to legalize

Why not willing to legalize			
	Freq.	Percent	Cum.
No idea	13	13.00	13.00
Not profitable	56	56.00	69.00
Should be free	31	31.00	100.00
Total	100	100.00	

When we asked the reason that why majority of the respondents are not willing to legalize their business? The majority responded that because than it will be not profitable (owing to tax burden). And, 31% stressed that it should be free and the government should allow us. Furthermore, 13 percent of the respondents said we have no idea.

4.17 What the government should do?

Table 18: What should Government do

what government should do?			
	Freq.	Percent	Cum.
Allow us	11	11.00	11.00
No idea	7	7.00	18.00
Promote free tread	14	14.00	32.00
Reduce taxes	68	68.00	100.00
Total	100	100.00	

Finally, this study has examined the respondents demands or suggestions for the government. In fact, in this study we have asked about what the government should do? As shown in table most of the respondents suggested to reduce the taxes, which reflect that if the government reduce the amount of taxes than they would legalese their business. And, around 14% of the respondents reported that the government should promote free trade. Additionally, 7% of the respondents were uncertain and reported that they have no idea what the government should do regarding informal economy in Quetta.

After portraying the data that is found through surveys and questionnaires, I have analyzed the data through different aspects of research. Below I have explained the research objectives/questions according to the data that was portrayed.

4.18 Sectors of black economy operating in Quetta as per findings

This research objective was included in the research to determine the process and different aspects of the black market that prevails in Quetta.

What this objective determines is different areas that black markets engage and different products that black market provides which in return sums up in the economy of black markets that add up in the city of Quetta. Main products that are being sold in the black market are provided in the table below. It also provides a sound percentage of what frequency does those products prevails in the market. Garments and groceries that are of the main consumer items that every house holds uses in their daily lives were also surveyed. It tells that garment have the largest number of share in the black market with the frequency of sixty five in the black market while grocery being a fair share of 28. This also determines that the main items that are being sold (garment) have a larger share than the grocery, determining that the flow of economy through garments is out of the city as well. Groceries being of daily use are lesser than the garments; hence the garments are being purchased in the city of Quetta but at a larger quantity respective to the city's population. The remaining items like spare parts, petrol, cigarette and cosmetics have almost similar share between 28 to 37 determining that these sectors (that include daily usage, narcotics, and luxury items like cosmetics) are the areas that only fulfill the city needs. These items are not much flowing outside the city. Details of those products are provided in the table below.

Main Products Being Sold in the Market		
Products	Freq.	Percent
Garments	65	65
Grocery	28	28
Spare parts	37	37
Petrol	35	35
cigarette	28	28

cosmetics	37	37
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I also found data on form where these products are being produced. Explain the sectors of black market also includes from where does these sectors produce their supply. This has been explained in the table provided below. The data indicates that the majority of the share that is imported is from the nearest borders of Afghanistan and Iran. A relatively smaller share is imported from the border of India which is far from Balochistan. This is a more logical find due to the nature of black market being a non-regulated body; imports through the nearest borders is much more applicable due to the fact that these imports are not properly registered and are the grey areas of the city's economy. Below the table providing this data is given.

Imported Countries		
Products	Freq.	Percent
Afghanistan	65	65.00
Iran	35	35.00
India	28	28

I also used different industries and sampled one product from each of those industries in order to provide the sectors of their frequency. Main sectors of these industries are narcotics and energy. Betel nut and cigarette were sample for the narcotics and petrol was sampled for the energy sector. These sectors have frequencies as provided in the table below. These sectors include a huge investment in the black economy and prevailing in large quantities as the narcotics sector not only flows in the city but is also flowed outside the city as well.

Industry	Freq.	Initial Investment	Monthly Trading
Betel Nut	28	93100000	37700000
Cigarette	37	182200000	78820000
Petrol	35	16380000	7270000
Total	100	291680000	123790000

4.19 Size of black economy in Quetta as per findings

This research objective was added in the research to provide the size of economy in Quetta through black markets. The size of the economy would provide at what extent does it impacts in the economy of Quetta and does that flows out of the city as well? Different finding were deducted and multiple samples were selected for surveys to meet the research ends in a sound way.

One of the surveys was about the frequency of the amounts of investments that people of those areas were willing to do. The majority of the investments that were founded were less than 10 lakh rupees despite the fact that above 80 to 90 lakh investments were also found in the areas. Now the majority of the investments being lesser than 10 lakh although does provides that the size of black economy that is prevailing is short term investments. Yet long term investments in these areas are very potential as those types of investment are founded, although in smaller frequency. The nature of non regulation, the nature of legality and the lack of property rights and secure good will's are the main reasons that investors are not able to invest much in the sectors yet the size of the black markets has much potential in investing more in it. Below is given a table that provides details of

the investments share in the black markets. Below that a table of monthly trading is also provided which is an extension of this findings as well.

Investment in Business			
Investment	Freq.	Percent	Cum.
0-1000000	46	46.00	46.00
1000001-2000000	11	11.00	57.00
2000001-3000000	3	3.00	60.00
3000001-4000000	11	11.00	71.00
4000001-5000000	5	5.00	76.00
5000001-6000000	8	8.00	84.00
6000001-7000000	7	7.00	91.00
7000001-8000000	6	6.00	97.00
8000001-9000000	1	1.00	98.00
above 9000000	2	2.00	100.00
Total	100	100.00	

Monthly Trading			
Treading	Freq.	Percent	Cum.
10000-1000000	67	67.00	67.00
1000001-2000000	14	14.00	81.00
2000001-3000000	7	7.00	88.00
30000001-40000000	7	7.00	95.00
above 4000000	5	5.00	100.00
Total	100	100.00	

After that comes the question of the spread of the black markets in Quetta. The data indicates that the spread of black market is almost everywhere in the city. All major areas of the city includes the black markets. Providing us data that almost every area of the city falls under the shadow of black economy. The economic flow of the black markets is around the city. The majority of the share in this variable is of New Adda which has now become like a hub for Quetta city. This

provides us information that the black market size in Quetta is not just expanded but is much more organized indigenously by the locals of the city as well. Majority of the trading done in a center hub of city, while the rest of the areas being peripheries to the main hub determines that the black economy is being much organized and this is a byproduct of the large size of the market. The table providing information about that through surveys is provided below.

Name of Market	Freq.	Percent	Cum.
Airport Road	2	2.00	2.00
Archer Road	1	1.00	3.00
Art School	1	1.00	4.00
Brewery Road	2	2.00	6.00
Collage Road	1	1.00	7.00
Double Road	4	4.00	11.00
Jan Muhammad Road	2	2.00	13.00
Kandahari Bazar	1	1.00	14.00
Kawary Road	3	3.00	17.00
Kili Shaboo	1	1.00	18.00
Liaqat Bazar	1	1.00	19.00
Masjid Road	7	7.00	26.00
Mosa colony	1	1.00	27.00
Nawa Kili	4	4.00	31.00
New Adda	52	52.00	83.00
Saryab Road	2	2.00	86.00
Spini Road	5	5.00	91.00
Zarghoon Road	1	1.00	92.00
collage Road	1	1.00	93.00
hazarghanji	5	5.00	98.00
pashtoon abad	3	3.00	100.00
Total	100	100.00	

4.20 Reasons of prevailing black market in Quetta as per findings

The final research objective of my study explains the reasons of why does the black markets prevail in Quetta. What are their reasons? This provides us the reasoning of the impacts of black market in Quetta and vice versa. Different types of questions were selected for the surveys to meet the end for this research like years sacrificed in the business, margin of profits, regulatory issues etc. below are an insight to findings related to these areas of the research.

Being in this business for a long time and the business of black market being hereditary are one of the reasons that the black markets are prevailing in Quetta. Despite being non regulated, majority of the people that were in the black markets as suppliers were lesser than a decade that provides they are young to the business, but at the same time majority of the people in the black markets have those businesses hereditary. This tells us that the people that are young in the market are prevailing due to the fact that those people got the businesses already setup by their elders. This is one of the reasons of the black economy being very successful in the areas. The variable of family transfers of business and a collective struggle for standing up the businesses. The tables providing relative data are given below.

Is this your family business?			
Business	Freq.	Percent	Cum.
no	29	29.00	29.00
yes	71	71.00	100.00
Total	100	100.00	

Year of engagement in Business			
Year of Experience	Freq.	Percent	Cum.
1-5 years	59	59.00	59.00
6-10 years	37	37.00	96.00
11-15 years	4	4.00	100.00

Total	100	100.00
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Among other reasons for engage in black market activities, it was founded that profitability of the commodities was what is making a huge difference. 81 percent of the responded that the reason of informal businesses was due to profits. The matter of fact is that these profits does not only add due to the fact that they are not regulated but also due to the fact that majority of the city and the outside flow from the city, (in terms of products) add up in profits providing a huge sized economy. As given in the table below we can see that from daily used products to luxury products and basic needs all of them are profitable due to the fact that these are being used by all of the city.

Profitable products	Freq.	Percent	Cum.
First Priority			
Cigarette	56	56.00	56.00
Petrol	26	26.00	82.00
spare parts	18	18.00	100.00
Total	100	100.00	100
Second Priority			
Automobile	11	11.00	11.00
Cosmetics	7	7.00	18.00
Petroleum	82	82.00	100.00
Total	100	100.00	100.00
Third Priority			
Automobile	16	16.00	16.00
Betel nut	33	33.00	49.00
Carpets	2	2.00	51.00
Cosmetics	9	9.00	60.00
Electronics	5	5.00	65.00
Garments	20	20.00	85.00
Grocery	4	4.00	89.00
Spare parts	11	11.00	100.00
Total	100	100.00	100.00

Is Non-custom Business more profitable?			
	Freq.	Percent	Cum.
No	19	19.00	19.00
Yes	81	81.00	100.00
Total	100	100.00	

Now profits being the majority of the reason of people indulging in black market activities, the other reasons of those people were also due to the tax burdens and no other means of earning money. Heavy taxations on imports, on these small consumer products and heavy regulations are the reasons that these processes are not being done in a legal way. Due to the fact that this market is being ran from a long time, now to implement heavy taxations and heavy regulations are just to much for the citizens. Apart from that, people having no other means of earning, provided skilled jobs, or agricultural based incomes, people have to trade in order to produce flow of economy from outside of the province. This provides true economic flow in the province and in the city of Quetta as self sustainability in economy for the region is not an area that can be productive as per the respondents. Below are their respective tables that provide Intel on these issues.

Why not engage in Formal Business?			
Reasons	Freq.	Percent	Cum.
No Option	19	19.00	19.00
Tax burden	16	16.00	35.00
Profitable	65	65.00	100.00
Total	100	100.00	

Chapter 5

DISCUSSION

The purpose of this study is to unveil the hidden secrets of the black economy. I setup few objectives to get maximum insight of Black economy. For many last few decades, black economy ruled in in Balochistan. I restrict my research to Quetta, the capital of Balochistan. The Black economy in itself is very broad and under veil, we tried to explore those sectors which operates in Quetta. We found many areas where business was booming but our analysis is bounded to only three areas of black economy. These areas are Cigarette, Petrol, Betel Nut. Our research does not end here, the magnitude of these three sectors is also under our consideration. The magnitude of shadow economy in Pakistan was 27% of GDP in 2015 and it was about 49.38% of GDP in 1998 (Manzoor *et al.*, 2018).

Numerous empirical findings that support or refute our research are needed for this investigation. For these empirical findings, we select a sample of 100 respondents. We adopt snowball sampling, a nonprobability sampling method. The purpose for selecting this sampling method is that there are many hurdles in sample selection and in the Black Economy is very difficult (almost impossible) to do probability sampling. The respondents are divided into five age groups 18-25, 26-35, 36-45, 46-55 and 56-65, and the respondents belong to these groups are 12%, 41%, 31%, 13% and 3% respectively. The mean age of these respondents is about 37.5 years. Large proportion of these businessmen are adults. The people involved in this business are not well or highly educated. Only 7% of these traders had intermediate education, while 41% had primary, 33% had matriculated, and 19% were illiterate. The businessmen experience (in years) in Black market is divided in 3 categories, 1-5 years, 6-10 years, and 11-15 years, and there are 59%, 37% and 4% respondents that belong to these groups respectively. The ratio of high experienced businessmen

the black economy is rare. These respondents whose businesses are established in Quetta, are basically belonging to thirteen different districts of Balochistan. Out of these businessmen, 43% are from Chamman, 14% are from Quetta, 10% are from Mastung and the rest 33% are from other districts. We asked our respondent a question that '*is this your family business*' and 71% respond yes and 29% respond no. Majority of respondents in this market are handling their well-established family business. Ethnically, 76% of the businessmen are Baloch and 24% are Pashtun.

The main target of our study is to examine the market for Betel Nuts, Cigarette, and Petrol. According to our sample, Betel Nuts, Cigarette, and Petrol share in market is 28%, 37% and 35% respectively. Betel Nuts is smuggled from India through the Afghanistan border and large proportion is then smuggled to Karachi, Cigarette is also imported from Afghanistan, and Petrol is imported from Iran. Around 65% of informal imports are done through Afghanistan boarder, and out of that 65% imports 28% are Indian items (Betel Nuts), and the rest of 35% imports are done though Iran boarder. The total investment done by the respondents in these three businesses is divided into ten different classes, 46% of investment is done below 1 million, and 11% of investment is done in 1 to 2 and 3 to 4 million. The rest of 30% investment is done between 2 to 3 and 4 to 9 million. And only 2% investment is done in more than 9 million rupees. In these three enterprises, 67% of investors put in less than a million rupees per month, compared to 14%, 7%, 7%, and 5% who put in 1-2, 2-3, 3-4, and more than 4 million rupees, respectively. Due to their fear of loss, the majority of businessmen invest less than 1 million rupees each month. The loss is many be in form of raid and gabbing business items by deception, and the victim cannot knock the door of court because its business is ill legal.

As we previously discussed, there are numerous items where businesses are active. In these active businesses, according to respondents' preferences, there are fourteen areas where the black

economy is thriving. There fourteen businesses are highly profitable. On the basis of respondent's preferences regarding high profit, we divide the businesses into three distinct groups. First priority, 56% of businessmen believe that cigarette is the most profitable areas, compared to 26% and 18% of businessmen who believe that petrol and spare parts are profitable, respectively. Second priority, 82% of respondents think that petroleum (Mobil oil, etc.) items excluding petrol are very much profitable as compared to automobiles and cosmetics. Third priority, 33% of businessmen consider betel nuts more profitable, while 20% consider garments and 16 % consider automobile more profitable. The results of our analysis confirm that the black economy's most profitable item is the cigarette. According to our study, the majority of businessmen (37%) are involved in the cigarette industry, compared to petrol and betel nuts, because it is highly profitable.

In Quetta, there are twenty-two informal markets, and of these twenty-two markets, 52 percent are in New Adda, and the remaining 48 percent are spread out among Quetta's 21 distinct places. New adda is the hub of Black economy. The main products being sold in these twenty-two markets are cigarette petrol, betel nuts, garments, grocery, spare parts and cosmetics.

In this study we ask the people, being part of black economy, some questions. First, are non-custom businesses more profitable? About 81% of the businessmen respond yes. Second, why not engage in formal business? 65% of the businessman said that the informal businesses are far profitable than the formal businesses. Third, do you want to legalize this business? Majority (66%) of businessmen against the legalization of informal economy, compared to 22% who favor the legalization. Fourth, why not willing to legalize? The 56% businessmen are of the view that formal economy not profitable, and 31% believe in free market. Now the gist of these four questions is simply that the black economy is highly profitable. There is also another reason for the prosperous black economy in Quetta and the reason is that no favorable atmosphere for formal economy.

Many people who are significantly contributing to Quetta's black economy do not enter the market by choice, rather, they enter the black economy when other means of livelihood are not available.

It is extremely difficult to figure out volume of Black economy because it is very large and hidden. Extracting information from black economy in itself is very difficult. Despite properly identifying your target sample, it is very difficult to get access to your desired respondents. The deep-rooted problem with black economy is that the sword of coming into the eyes of the custom, police etc. is hovering over their heads. Although you are succeeded to discover your target audience, it is challenging to believe what they said. The players of black economy always try to hide their information.

Another limitation of our study is time constraint. Extracting much information from black economy within limited time is very difficult. If there is no time constraint, we will be able to deeply expose the black economy unveil black economy in deeper way. Finding your target audience is really difficult in our case because we are facing two problems simultaneously.

In this study, we adopt a snowball sampling technique, type of non-probability sampling. The snowball sampling technique is used when the researcher is unable to select a sample from hidden population. This technique of sampling is usually adopted when the respondents hide information (Black economy, Drug Addict, AIDS patient, etc.). There are certain flaws related to this snowball sampling technique.

- There is no randomness in sample selection.
- Vague about target audience.
- We cannot test this sample like random sample or any other method of probability sampling.

- We cannot draw inference of snowball sampling.
- We cannot trust the sample because audience tries to hide information.

5.1 Concluding Discussions:

Concluding the above discussions what is extracted is that, the descriptive analysis of the data indicates that most of the middle aged respondents form the sample selected, have a lesser education, revolving around primary to matriculation where matriculation not being in the majority. They have been living near the areas of black markets and near Chamman and Quetta, with having ethnicity of Pashtu's being in majority a comparatively lesser percentage of baloch.

With that being said, among the Units of data collections, garments and spare parts are most likely to fall in the informal economic category. While cigarette and cosmetics being the lesser percentage of the informal economic segment according to the sampled products. While petrol being more popular among the last two. Out of these cigarettes and betel nuts, being most popular and profitable for the locals, being imported from Afghanistan and smuggled to Karachi, while petroleum being imported from Iran and then later smuggled to Karachi.

The issue residing among these areas of black market is the fact of strict policies and heavy taxation regimes, which are not favorable for the merchants of these areas, being the reason of the market falling under the informal economy, and the economic flow not properly ending up in the whole region and in GDP. The potential of profits are high that have been discussed above. But the ratio of heavy investments is still low due to the fear factor, and insecurity because of the fact of informality. The remaining intricate details are already discussed above.

Chapter 6

CONCLUSION AND RECOMMENDATION

6.1 Introduction

In this chapter I shall discuss about policy recommendations, because without this research is incomplete. These recommendations are what give the research a physical aspect, and a practical aspect. These recommendations can be used to produce good policies, as the data and knowledge that is provided in the recommendations are produced by backing it up with evidence collected in the research and data results. But first we see a final conclusion to the data extracted from the research. This will help us understand the general thoughts and a crux of issues and problems that have been extracted from the research.

6.2 Findings and data summary

The sampled respondents are mostly adults, and their average age of the respondents is about 37 years. Apart from that the respondents that were sampled were not highly educated. Majority of the sample were matriculated and few were of intermediate, primary and illiterate. The data also indicated that most of the sampled respondents were not having much experience in the business. Their ratios for experience were 1-5 years, 6-10 years, and 11-15 years, to 59%, 37% and 4%. Majority of the sampled respondents were residing near the areas that are of Quetta and Chamman with 43 and 14 percent, while 33 percent were form other districts. Majority of the respondents were Pashtuns with percentage of seventy-six while 24 percent of them were Baloch. Now the target data that was selected for the sampling that were betel nuts, cigarette and petrol with the share of 28%, 37% and 35%, betel nuts and cigarettes were imported from Afghanistan and then smuggled to Quetta and other cities, while the petrol was smuggled from Iran to Quetta and other cities. The ration of investments is of 1 million, 2 to 4 million, up to 9, and above 9 million facing

the percentages of about 46,11,30 and 2.the majority of the respondents due to the fear of less invest in less than 1 million.

The most profitable item among the respondents were of cigarettes, and then petroleum and betel nuts. These economies are spread among different districts of Quetta that are discussed under the discussion chapter. Most of the data indicated that the informal economy is more profitable than the formal economy, and most of the data indicated that formalizing the economy is not favorable. But the reason to this conclusion were due to the fact that the strict regulation and heavy taxations are why they don't want the areas to be legalized. The believe in free market is due to this fact. The second part of the data also suggest that the only choice of livelihood and meeting the ends to financial needs are the reasons of involving in the formal economy.

Issues in context to topic

- Fear of loss
- Lesser investments
- Wanting a free market\
- Too much taxation and restrictions
- Means to meet financial ends

These are the main issues deducted from the data. Firstly, the people that are involved in the informal economy is due to the fact that work there in formal sectors are way too difficult and these are the means due to which they meet their families end. Most of them have this as a family business. Due to the heavy taxations, and strict policies the want of legalization and creating a formal economy is not favorable among the respondents. Apart form that the investments to a huge extent is also not favorable among the respondents due to the fact of fear of loss, due to the non-

consistency and the factor of legality. In the below topic I will be presenting some recommendations for the problems discussed here.

Having no other respectable means to meet the financial ends, the respondents have been indulged in these black markets and informal economies. The strict policies and heavy regulations have been a problem for the respondents and due to that reason the investments and the amount of money circulated is not up to its full potential. Huge profits can be produced for these economies and they have to be legalized and the respondents have to be brought at a single page with the authorities in order to legalize the markets. Authorities like FBR and other related regulatory authorities should regulate the markets here in communication to the respondents, finding a way to legalize these areas which could bring not only huge circulation to the people living in the area but also will in return circulate the economy in the rest of the province, which would be a part to the total GDP.

6.3 Recommendations

- Recognize those markets that could be much impact full to the economy
- Recognize those markets that are impact full to the economy of the area
- Reducing size of shadow economy through FBR
- Formally adding the economy in GDP
- Reduce taxation on imports for these markets
- Legalizing border trades for these markets

First of all, the government should make policies such that these markets should be recognized. The recognition should be on the basis that these markets could make a brief impact on the overall economy at a government level. Secondly it is recommended that those markets that are important

and vital to the economy of the areas of black markets and the households near them, those markets and those economic activities if are not too informal, as of drugs and weapons etc., apart from that other market commodities and other economies should be recognized. With all the negative consequences of the shadow economy, governments should pay more attention to this phenomenon and expend more effort to reduce the size of the shadow economy and minimize its negative consequences. Reducing the size of the shadow economy is not an easy task; it needs time and requires implementing some economic, legal, and administrative measures. However, we believe that some negative consequences of the shadow economy, particularly those related to the accuracy of the national account statistics, could be reduced with some effort by the government. This study will be significant to the policy makers in devising rules and formulating policies for shadow economy. Especially the FBR in regard to tax collection. So, they can make better policies and regulate them to get tax, and the government can expand on the city. The reduction of the shadow economy in excluding all the sever crime like drugs and weapon markets. Apart from that other informal economy should be recognized. Reduction in taxation in these markets should be taken place apart from legalization of imports in those areas would be a great help to the economy of those areas and in return these economies would be in the formal economy adding up in the total GDP.

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Annexure

Annexure A:





Annexure B

- To determine the sectors in which black economy operates in Quetta.
- To determine the size of the black economy in Quetta.
- To empirically study the reasons behind the black economy in Quetta.

Name

District

Ethnicity

Age in complete years

Family size

Trading zone

What is profile of interviewee

Shopkeeper

Importer

Importer and shopkeeper

warehouse

What is the main products being sold in the market?

1

2

3

4

5

1: Which type of non-custom products are available in market?

1

2

3

4

5

2: what are the major non custom products?

1

2

3

4

5

3: from which country products are imported?

1

2

3

4: Which products are more profitable?

5: How much you invested in this business?

5: since how many years you are doing this business?

5: is your family in same business as well?

7: how much you trade daily?

1

2

3

4

8: Is this business more profitable then customed or official business. If yes how?

9: what hurdles you face while paying taxes or why you people do not pay taxes?

10: do you want to legalize the same business the same trade. If yes or no, why?

11: what government should do to register this business or what is the alternative option?