



Informality, Regional Integration and Smuggling in West Africa

Nancy Benjamin, Stephen Golub and Ahmadou Aly Mbaye

■ In West Africa, recorded intra-regional trade is small but smuggling is pervasive, despite regional integration schemes intended to promote official trade. Cross-border trade in the region must be understood in the larger context of the overwhelming role of the informal sector in Western African economies.

Cross-border trade is closely connected to domestic wholesale-retail trade, which is dominated by the informal sector. Several key features of the informal sector are prominent in cross-border trade. First, informality is a continuum rather than a dichotomy. Many firms straddle the formal and informal sectors, and almost no firms are totally formal. Cross-border trade involves a complex interplay of formal and informal operators and practices. Second, the informal sector is quite heterogeneous. While the vast majority of informal firms are very small and involve survival activities such as petty trading, large informal firms play a major role in some sectors, notably commerce, with a national or even international scope. Intricate relationships link the formal, large informal and small informal firms. Third, ethnic and religious networks play a large role in organizing the informal sector, resulting in a set of shadow institutions that in some respects are more effective and powerful than official institutions. Large informal firms and kinship networks spanning the artificial borders of nation-states play a particularly prominent role in cross-border trade, as will be discussed below.

Informal trade activities involve three main types of transactions: exports of locally-produced traditional agricultural products and livestock, parallel trade, i.e. completely unrecorded imports and exports, and re-exports of products imported from Europe, North America, and Asia. These three categories of trade are often lumped together as informal cross border trade, but the first is rather different than the other two in terms of both motivation and organization of trade. Regional exchange of traditional products and animals is not really smuggling insofar as it reflects traditional practices within regions transcending borders. The main purpose is not evasion of taxes and regulations. Parallel trade and unofficial re-exports, on the other hand, tend to be more highly organized with the explicit goal of evading trade barriers, and are appropriately referred to as smuggling.

Although all three of these forms of trade occur in West Africa, re-exports play a particularly significant role in trade between the Gambia and Senegal and in trade between Benin, Togo and Nigeria. Re-exports are goods imported legally through formal channels into countries with low trade barriers and then shipped unofficially in large volumes to neighbouring countries with higher barriers, with minimal or no processing aside from transport services. Customs practices turn out to be important explanatory factors of re-exports along with statutory customs duties. These practices include customs valuation procedures and speed and ease of clearance of goods through the port and beyond.

The re-export trade straddles the formal and informal sectors in a highly complex and well-organized system that operates quite similarly in different countries. Re-exports typically originate with large formal enterprises importing goods through official channels. A sophisticated distribution chain then

tranships through informal mechanisms. Re-exports are a major contributor to government revenues, especially in The Gambia and Benin, because imported goods destined for re-export generally pay duties when entering the country before being smuggled out. Consequently, trade taxes are even more important for these two countries than for most other African countries, accounting for about half of tax revenues both countries.

The commodities involved in re-exportation consist predominantly of imports of basic consumer goods originating from Asia, Europe or the United States for the average African low- or middle-income household. The main products are bulk food items such as rice, sugar, and flour; processed foods such as tomato paste, cooking oil, condensed and canned milk, tea, and soft drinks; fabric of various sorts; used cars; and other basic household items such as batteries, candles, and matches.

Parallel imports are also an important form of cross-border trade, especially for Benin. A very large proportion of many agricultural and manufactured goods consumed in Benin are produced in Nigeria. Petroleum products in particular are almost entirely smuggled in from Nigeria, motivated by the subsidized prices in that country. In some cases, manufactured goods produced in Nigeria are more competitive than imports from Asia, particularly since they escape duties when smuggled. There is also substantial unrecorded trade in locally-produced agricultural commodities in the region.

Overall, smuggling in West Africa appears to be flourishing due to a confluence of factors: long traditions of regional trade preceding the colonial era; artificial borders imposed by the colonial powers, largely maintained as African nations became independent around the early 1960s; strong ethnic and religious ties uniting people across the borders, uncoordinated and often highly interventionist policies, particularly with regard to trade policies; weak state institutions, which undermine the effectiveness of the enforcement of these policies, and widespread corruption; inability of governments to control movements of people and goods across these artificial borders.

Differences in import barriers and in trade facilitation services are the most important determinants of re-export trade. These differential trade policies, in turn, grow out of divergent development strategies. Also, the re-export trade straddles the formal and informal sectors in a highly complex and well-organized system that operates quite similarly in different countries. Re-exports start with large formal enterprises that import goods through official channels and a sophisticated distribution chain that then tranships through informal mechanisms. Re-exports are a major contributor to government revenues, given that goods are imported legally prior to being re-exported unofficially. This trade rests on a fragile foundation, however, and is unlikely to be conducive to long-term development given its dependence on the protectionist trade policies of its neighbours and its underground character.

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