Government Policies, Smuggling, And The Informal Sector

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Government Policies, Smuggling, and the Informal Sector

By Stephen Golub

The informal sector in West Africa has become increasingly internationalized in the last few decades. This chapter explores informal cross-border trade—that is, smuggling—in West Africa, focusing on Senegal and Benin. According to official trade data, regional trade flows are minimal despite the West African Economic and Monetary Union (WAEMU) and Economic Community of West African States (ECOWAS) regional trading agreements. In fact, however, smuggling is flourishing in West Africa, reflecting artificial national boundaries imposed in the colonial period, the strong ethnic ties transcending these borders, which are described in chapter 8, the inability to police entry and exit points, and differing economic policies in neighboring countries that create incentives to engage in smuggling.

This chapter illustrates the complex interplay between formal and informal aspects of international trade in West Africa. Much of regional trade is conducted by the large informal firms described in chapter 4. Indeed one of the most important industries controlled by the informal sector, as pointed out in chapter 3, is commerce, which includes cross-border transactions. The demarcation between domestic and foreign trading is very fluid in Africa. Regional exchange in traditional local food staples such as millet predates present national borders. Other bulk foodstuffs consumed in West Africa, such as rice, sugar, and wheat, are largely imported from Asia, Europe, and North America and then distributed around the region. Large informal enterprises are intimately involved throughout the distribution process and interact in complex ways with formal importers and shipping companies such as Balloré, Maersk, and Grimaldi. Cash crops and petroleum extracted in Nigeria are also distributed in West Africa through informal circuits. In short, there are numerous connections between smuggling (illegal trade) and the informal sector (actors

This chapter draws on Golub and Mbaye (2009) and Golub (2008).
operating illegally). This chapter highlights weaknesses in the institutional environment that contribute to the flourishing of informal trade, notably trade policies and customs management. Chapter 6 reviews the institutional weaknesses that foster informality, highlighting the central role of customs. Corruption and bureaucracy at customs open the door to smuggling activities of large informal firms (chapter 4) and kinship networks (chapter 8). Smuggling, in turn, exacerbates the informalization of West African economies directly by serving as an important avenue for entrepreneurship, employment, and income and indirectly by promoting a culture of corruption and tax evasion.

**Historical Background**

Intra-African trade has been shaped by a long history. Traditional long- and short-distance trading routes predated the colonial era. The colonial powers created artificial borders within regions with long-standing ethnic and cultural ties. Upon independence in the 1950s and 1960s, the new governments often pursued erratic and widely divergent trade and exchange rate policies. Large differences in rates of protection between countries provided an impetus for smuggling, which was facilitated by the weak enforcement abilities of African governments, the cultural and ethnic connections among people in these arbitrarily defined countries, and the trading traditions among them (Berg 1985; Egg and Herrera 1998), as also discussed in chapter 8 of this volume.

The study of smuggling in Africa has focused mostly on whether or not this trade is beneficial. Azam (2007) provides an overview of the literature on the welfare effects of smuggling. In an early contribution, Bhagwati and Hansen (1973) emphasize the waste of resources associated with smuggling activities, but Deardorff and Stolper (1990) point out that smuggling is a response to severe policy distortions and can alleviate those distortions. Relatively few studies have attempted to document the magnitude and determinants of smuggling in Africa.

Prior to the colonial era, states in Africa were not characterized by hard geographic borders, with rulers having only weak control over the territory and movements of people (Herbst 2000, ch. 2). At the Berlin conference of 1884–85, the colonial powers divided up Africa among themselves, creating territorial borders based on their de facto zones of control. These boundaries arbitrarily separated regions with long-standing ethnic ties and often without clear geographic separators (Young 1994).

As illogical and porous as colonial borders were, they remained the basis for national boundaries following the end of colonialism in the early 1960s. Initiatives to consolidate countries into regional unions, including between The
Gambia and Senegal, have failed due to the unwillingness of national political elites to cede authority (Herbst 2000). Moreover, the newly independent postcolonial nation-states developed their own national economic policies, including monetary and fiscal policies, but, more often than not, these policies were wielded irresponsibly in the first few decades of independence. Trade policies were of particular importance, as they served both to protect local industries and to generate government revenues (Berg 1985). Taxes on international trade have historically provided an unusually large portion of government revenues in Africa, dating back to the colonial period and continuing to the present day. Direct taxes on income and wealth are difficult to enforce in Africa due to lack of state control over much of the population (Herbst 2000, 116). The prevalence of the informal sector also limits the scope for direct taxation, as discussed in chapter 3. In addition, many countries, particularly those pursuing import substitution strategies most vigorously, have adopted very high import barriers, including tariffs and import prohibitions. The high levels of protection have impeded legal trade within Africa and provided large incentives for smuggling.

Regional integration has so far done little to promote legal trade within Africa or to staunch smuggling. There are some 30 regional blocs in Africa, and, on average, each of the 53 countries on the continent is a member of four often-overlapping groups (Yang and Gupta 2005). Yet official intra-African trade flows remain very low. Excluding South Africa, intra-African trade accounts for less than 10 percent of total African exports and imports. Regional integration has failed to promote official trade for several reasons. First, in many regional groups, notably the ECOWAS, effective harmonization of policies has been very limited. Nigeria, in particular, has flouted ECOWAS agreements on harmonizing external tariffs and removing barriers to trade within the group. Second, regional integration has been asymmetric between francophone and anglophone countries. Francophone countries have achieved much deeper integration. The WAEMU countries have formed a customs union, but this agreement is confined to the francophone countries of West Africa, leaving out contiguous anglophone countries, including The Gambia and Nigeria, which are members of ECOWAS but not WAEMU. Consequently, large disparities in trade policies remain the rule between countries sharing porous borders and weak enforcement capabilities. The Gambia—a tiny anglophone country of 1.5 million people completely surrounded by francophone Senegal except for a 60-kilometer border on the Atlantic Ocean—is a case in point. Despite the geographic and cultural ties that link them, political and economic cooperation between Senegal and The Gambia has been minimal. Likewise, Benin and Nigeria have made no efforts to harmonize economic policies despite their long-shared border and long-standing ethnic ties between their people.
Overview of The Gambia-Senegal and Benin-Nigeria Informal Trading

Informal trade activities involve three types of flows (INSAE 2001): smuggling of imports from other continents, usually entering through the port without being recorded, exports and imports of locally produced products within the region, and unofficial reexports of legally imported products. In The Gambia, reexports are the dominant activity, whereas in Benin, informal trade takes all three forms. The focus here is mostly on reexports.

Reexporting involves importing goods and subsequently shipping them to other countries with no additional processing or packaging, except for transport services. The Gambia’s reexport activities to Senegal are similar to those of Benin to Nigeria. In the 1960s and 1970s, Senegal and Nigeria developed inefficient import-substituting manufacturing industries behind high import barriers. The Gambia and Benin have never developed a significant industrial base and have evolved into entrepôt economies with development strategies designed to undercut the trade policies of their more protectionist neighbors. The only other significant export industries aside from smuggling in these two countries are declining primary products (groundnuts in The Gambia and cotton in Benin) and tourism. In both countries since the early 1970s, the authorities have sought to maintain trade taxes below those of neighboring countries in a deliberate attempt to foster reexports to their larger neighbors. The Gambia and Benin have become highly dependent on their entrepôt services, especially for government revenues. In both cases, the relationship involves a francophone member and an anglophone nonmember of WAEMU, but the roles are reversed in the two cases (francophone Senegal and anglophone Nigeria are protectionist, while anglophone The Gambia and francophone Benin are more liberal).

The reexport trade straddles the formal and informal sectors in a highly complex and well-organized system that operates quite similarly in different countries. Reexports involve large formal enterprises that import goods through official channels and a sophisticated distribution chain that engages in transshipment through informal mechanisms. Reexports are a major contributor to government revenues in The Gambia and Benin, because imported goods destined for reexport 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 both countries’ tax revenues.

The commodities involved in reexportation are highly diverse and vary over time, but consist predominantly of imports of basic consumer goods originating from Asia, Europe, or the United States and sold to average African low- or middle-income households. Goods enter through the port of Banjul in The Gambia and Cotonou in Benin before being reexported to Senegal and Nigeria,
respectively, as well as to other countries in the region, to a lesser extent. 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.

Cross-border trade of locally produced goods is also important, especially for Benin. A very large proportion of many agricultural and manufactured goods consumed in Benin are imported from Nigeria, according to fieldwork done by the research institute LARES and reported in INSAE (2001). Petroleum products in particular are imported almost entirely from Nigeria, motivated by the subsidized prices in that country. In some cases, manufactured goods produced in Nigeria are more competitive in neighboring countries such as Benin than imports from Asia, especially since they escape duties when smuggled into Benin. According to our interviewees, however, imports of manufactured products from Nigeria have declined in recent years. There is also substantial unrecorded trade in locally produced agricultural commodities in Benin.

The overall structure of merchandise trade for The Gambia and Benin is shown in table 9.1, which combines official data with estimates of unofficial trade flows, all as a percentage of gross domestic product (GDP). In both countries, official merchandise exports are very small relative to imports, having dropped steadily since the 1970s. These declines in merchandise exports are

### Table 9.1 Official Imports, Exports, Reexports, and Transit in The Gambia and Benin, 2004–07

<table>
<thead>
<tr>
<th>Country and type of trade</th>
<th>2004 % of GDP</th>
<th>2005 % of GDP</th>
<th>2006 % of GDP</th>
<th>2007 % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Gambia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official exports</td>
<td>2.5</td>
<td>1.7</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Official reexports</td>
<td>1.6</td>
<td>0.1</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Goods in transit</td>
<td>2.3</td>
<td>1.4</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Official imports</td>
<td>57.1</td>
<td>51.4</td>
<td>50.8</td>
<td>47.4</td>
</tr>
<tr>
<td>Estimated unofficial imports for reexport</td>
<td>24.1</td>
<td>18.3</td>
<td>17.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Estimated unofficial reexports</td>
<td>32.6</td>
<td>24.7</td>
<td>23.1</td>
<td>19.4</td>
</tr>
<tr>
<td><strong>Benin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official exports</td>
<td>7.4</td>
<td>5.1</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Official reexports</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Goods in transit</td>
<td>26.0</td>
<td>30.9</td>
<td>44.3</td>
<td>49.3</td>
</tr>
<tr>
<td>Official imports</td>
<td>22.0</td>
<td>20.6</td>
<td>21.3</td>
<td>26.2</td>
</tr>
<tr>
<td>Estimated unofficial imports for reexport</td>
<td>22.4</td>
<td>23.6</td>
<td>26.6</td>
<td>32.4</td>
</tr>
<tr>
<td>Estimated unofficial reexports</td>
<td>30.2</td>
<td>31.9</td>
<td>35.9</td>
<td>43.7</td>
</tr>
</tbody>
</table>

**Sources:** Customs and trade statistics for Benin and The Gambia; World Bank 2010.

**Note:** — = Not available.
partially offset by increases in service exports (not shown in the table), but they also reflect the growth of unrecorded reexports. Official imports as a share of GDP are very high in The Gambia, at more than 50 percent, but are only about half of that in Benin. Benin’s official imports as a share of GDP are also far below those of other coastal West African economies such as Senegal, Ghana, and Togo.¹ Benin’s low import ratio is inconsistent with its acknowledged role as a regional entrepôt. This contradiction is explained by the failure of official statistics to capture two important dimensions of Benin’s trade: (a) a large volume of Benin’s imports, particularly petroleum products, are smuggled in from Nigeria, and (b) a large volume of imports are classified as in transit, but in fact much of these goods in transit, mainly used cars, are not substantially different from ordinary imports, insofar as both are diverted to Nigeria and yield significant revenues in the process. Overall, a very large portion of imports in both The Gambia and Benin are not used for domestic consumption but instead are transshipped, mostly to Senegal and Nigeria, respectively.

**Operation of Smuggling Networks**

A complex and opaque reexport distribution chain operates in both sets of countries in broadly similar ways. Goods are brought into Benin or The Gambia by large importers, in some cases operating in the formal sector, and are then smuggled across the border through various mechanisms. The reexport trade has developed a sophisticated infrastructure, in some respects organized much more efficiently than public infrastructure. Observers in both countries allege that high government officials are aware of these activities and are often involved in organizing and protecting smuggling networks, as they are in much of Africa (Egg and Herrera 1998). As such, these networks operate quite openly and without fear of government crackdowns.

**The Gambia and Senegal**

Goods are brought into The Gambia by a handful of large wholesale importers, many of whom are Lebanese.² The wholesalers then sell much of their merchandise to other traders, often Mauritanians, who have shops all along the border and who, in turn, sell to small-scale traders, typically “market women,” from countries in the region—mainly Guinea-Bissau, Guinea, Mali, and, of course, Senegal. These petty traders then smuggle the goods into Senegal either by going through the bush or by paying off customs officials at the official border posts. Alternatively, the wholesalers in Banjul sell directly to Senegalese businessmen who then transport the goods to the frontier in large trucks. Most of the truckers are Senegalese nationals. At the border, the trucks are unloaded, and the goods are smuggled through in smaller quantities, as described above.
Sometimes, the truck crosses the border with the connivance of Senegalese customs officials. Social, religious, and cultural ties among the participants, notably through their frequent affiliation with Mouride Muslim brotherhoods, as described in chapter 8, greatly facilitate these transactions. Goods can also be brought into Senegal by sea using pirogues operating at night. The sprawling informal markets in Dakar, notably Sandaga, and in other cities, are substantially supplied by contraband, much of it flowing from The Gambia, with the tacit acquiescence of the Senegalese authorities.

Traders estimate that about half of the reexports passing through The Gambia are destined for Senegal, with the other half continuing on to Guinea—the destination of about one-quarter of all Gambian reexports—Mali, Guinea-Bissau, and sometimes even Côte d’Ivoire and Sierra Leone.

**Benin and Nigeria**

The modalities of importation of products intended for reexport to Nigeria vary by the nature of the commodity. Cross-border trade is controlled largely by sophisticated and well-organized networks and the large informal firms described in chapter 4, with many small operators involved on the margins. The trust and connections provided by these informal networks, often ethnic or religious in nature, facilitate market transactions spanning the continents and enable the provision of credit and transfer of funds, as seen in chapter 8.

For bulk items such as rice, wheat, and sugar, importers purchase directly from international brokers with whom they are in regular contact. For some products such as cigarettes, the foreign companies have local representatives in Benin. Importers of second-hand goods such as used cars often travel abroad or have foreign correspondents, providing information about sourcing opportunities. A few large wholesalers dominate the imports of frozen poultry; COMON Company has about 60 percent of the market, employing 470 full-time workers, and CDPA-Agrisatch has some 20 percent of the market, with 150 full-time workers and another 300 part-time workers. Overall, traders display a remarkable flexibility in adapting to changing market opportunities.

A variety of trading networks linked by cultural, ethnic, or commercial ties operate in the reexport trade. These include the Yoruba ethnic group, discussed in the previous chapter, centered in Porto Novo, which operates with a high degree of cohesion, thanks to ethnic and religious affinities, groups of women importers, and middlemen operating in the markets, again mostly women. Foreign traders are also engaged in the reexport business. Most of the descendants of the European trading houses have exited the scene, replaced by Lebanese and other Arabs, some of whom came from Nigeria along with Ibo refugees during the Biafra war, and Indians who began arriving from Ghana and Nigeria starting around 1970.

Unofficial reexports can cross the border by land or water. By land, traders use numerous and ever-changing tracks along the long border with Nigeria.
They also use a complex network of canals, with new canals being dug when customs agents patrol existing routes. Specialized warehouses for various goods destined for reexport are located in Cotonou and along the border. For example, warehouses specializing in wheat, rice, and other products are built and operated by brokers or private traders operating individually or in groups for their own use or are rented out to other traders. A network of markets dots both sides of the Benin-Nigeria border, with sister markets on either side of the frontier.

The parallel trade also runs from Nigeria to Benin. Nigeria has long been a supplier to its francophone neighbors of a large variety of agricultural and manufactured goods, imported from Asia, in the case of items facing low import barriers in Nigeria, or produced locally in Nigeria. The largest unofficial export by far from Nigeria to Benin is petroleum products, which are heavily subsidized in Nigeria, described in detail below. Imports from Nigeria have also been an important source of capital and consumer goods in Benin and other CFA franc zone countries in the region. Products include fertilizer, machinery of various kinds, foodstuffs (corn and millet), plastic goods, spare parts, miscellaneous consumer goods such as dishes, cookware, soaps, school supplies, cosmetics, hardware, toys, scooters, and medicines (Galtier and Tassou 1998). Generic and low-cost pharmaceuticals are produced in Nigeria with minimal regulation, so parallel imports from Nigeria are the source of cheap generic medicines in Benin for people who cannot afford to go to a licensed pharmacy. Some goods move in both directions at different times and places, including bulk food items and textiles, depending on market conditions and Nigeria’s trade barriers.

Smuggling from Nigeria into Benin is intricately organized. Transport of goods by truck convoy is permitted under agreements between Beninese importers and high-level customs officials in Nigeria, with a prearranged lump-sum payment per truck estimated to be equivalent to an ad valorem rate of 9–24 percent prior to 1997—well below the statutory import duties and other import taxes (Le Faou 2001). Goods are also shipped to Benin illegally by boats using the complex system of canals described earlier as well as by taxis hired for this purpose on both sides of the border. In February 1997, however, the Beninese authorities abruptly raised the lump-sum charge on trucks by 50 percent, resulting in a sharp reduction in the legal entry of goods in favor of illegal modes of entry.

In recent years, imports of manufactured products into Benin from Nigeria have declined, supplanted by imports into Benin directly from China or indirectly via Dubai. Petroleum imports are also down somewhat, as Nigeria has raised retail prices closer to those in Benin.

The unofficial reexport trade operates in thinly disguised collusion with high government officials in Nigeria. The highly lucrative reexport trade in cigarettes, for example, has been carried out by Nigerian trading groups under the protection of the Nigerian secret service (Hashim and Meagher 1999). In fact, in the case of used clothing and cigarettes, the dominant trading groups can deploy
the authorities to crack down on new entrants, preserving their control. Nige-
rian government involvement is also alleged to be profound in the all-important
smuggling of petroleum products out of Nigeria.

More detailed descriptions of cross-border trade in used cars and petroleum
products illustrate these mechanisms.

**Trade in Used Cars**  Used cars have been Benin’s most significant reexport
since about 2000. Chapter 4 describes the involvement of the large infor-
mal sector in this industry in Benin, as it is one of the most important arenas
for these firms. Imports of vehicles have risen steeply from 50,000 in 1996 to
200,000 in 2000 and to 250,000 in 2002 and 2003; after a dip in 2004–05 to
about 150,000, they rose again to 200,000 in 2006, reaching an all-time high of
300,000 in 2007. Perret (2002) estimates that used cars accounted for as much
as 43 percent of all trade flows in 2001, up from 37 percent in 1999. This is con-
firmed by the fact that in 2001 used cars represented an astounding 45 percent
of revenues (fees and taxes) for the port of Cotonou. Indeed the used car trade
has become one of Benin’s major industries. Huge car parks on the outskirts of
Cotonou employ an estimated 10,000 to 15,000 people directly in importing,
selling, storing, and driving and several thousand more indirectly. The value
added generated by the distribution and handling of used cars was an estimated
9 percent of Benin’s GDP in 2001, roughly the same as for cotton.

About 90 percent of used cars imported into Benin are destined for Nigeria,
with 5 percent for Niger and 5 percent for the domestic market. The bulk of used
cars enter Benin in transit status, officially manifested for Niger or other land-
locked countries. For instance, of 230,000 cars declared for shipment to Niger in
2001, only 15,000 ended up there. Almost all the rest wound up in Nigeria. The
fact that cars manifested for Niger and other landlocked countries are diverted
to Nigeria is not concealed in Benin. There is a well-established set of proce-
dures for obtaining documents from customs authorizing the diversion of cars
to Nigeria. The fees and taxes for obtaining the authorizations amount to about
CFAF 400,000 per car. This includes a fee for a customs escort to accompany the
car to the Nigerian border. With the average cost, insurance, and freight value
of a used car of about CFAF 1.0 million to CFAF 1.5 million, the taxes and fees
for customs clearance alone amount to about 30 percent of the value of the car.

Used car imports follow an elaborate and well-organized circuit. Import-
ers with connections in developed countries locate, purchase, and arrange for
transportation of the cars. In 2001, 65 percent of the cars imported originated
in Germany, with most of the rest coming from other European countries. The
location of Beninese correspondents and the ease of port operations affect
the preferred port of embarkation. The North American share has increased
recently, but Europe remains the main source. Some of the importers own their
own boats and are affiliated with international shipping companies such as
Grimaldi. Others rent the boats. Customs clearance agents handle all of the paperwork and authorizations. As discussed in chapter 4, there is close cooperation between formal and informal customs clearance agents. Other intermediaries play a role in matching buyers and sellers of cars. After the cars clear the port, they are stored in car parks in Cotonou before being driven to their destination by companies specializing in the delivery of cars to the border, under escort from customs and with police permission. The cars are driven at night in convoys of about 100 cars. They cross the border to Nigeria after paying bribes to both Beninese and Nigerian customs inspectors. The magnitude of the bribes is largely set by precedent, according to the custom clearance agents interviewed. The cars then receive valid license plates in Nigeria. In short, government officials—from the highest to the lowest levels—on both sides of the border facilitate and benefit from this trade.

Competition from Togo is increasing, with Togo charging lower fees for speedier service to offset Benin’s geographic advantage. In Togo, the paperwork takes only one day, and Togolese customs charges CFAF 200,000–CFAF 300,000 per car. Competition from Togo was particularly acute around 2003–04, due to problems at the port of Cotonou. Nevertheless, these problems appear to have lessened, and Beninese traders do not seem overly worried about Togo, as the importation of used cars into Benin has picked up strongly since 2005.

The ample supply of aging vehicles in Europe and low incomes in West Africa provide a natural basis for trade in used cars. Imported cars averaged about 16 years of use upon arrival in Benin in 2001, with 95 percent more than 10 years old. Toyota, Mercedes, and Peugeot cars have predominated, but the vehicles of other Japanese and European companies are increasingly prevalent. An accompanying market in spare parts has also flourished.

Nigeria’s ineffective attempts to protect its own struggling car industry have diverted this trade to the parallel market. At the end of the 1970s, Nigeria assembled 100,000 cars compared with a mere 10,000 today. In 1994, Nigeria banned imports of vehicles more than eight years old. In 2002, the law was further tightened to ban all cars more than five years old. In 2004, the ban was eased to apply again to cars more than eight years old. Moreover, any imports of cars by land routes, notably from Benin, are banned altogether. These bans have, until recently, proved impervious to the porous border between the two countries, the strong demand for cheap vehicles, and the ambiguous attitudes of the authorities in Nigeria. If Nigeria were either to liberalize its car market or to enforce the ban, as it has sporadically done, most recently in March 2008, this lucrative trade could suffer greatly or even collapse.

**Petroleum Product Imports from Nigeria** Like the reexport trade from Benin to Nigeria, smuggling of petroleum products into Benin reflects differential policies combined with the ease of slipping goods across the border and the complicity
of the two countries’ officials. In this case, however, the main factors are the very large subsidies in Nigeria and partial deregulation of pricing in Benin, which together result in much lower consumer prices in Nigeria than in Benin (Morillon and Afouda 2005). Smuggling of oil products into Benin began around 1980 and increased dramatically in 2000. High-level officials in both Nigeria and Benin are said to be intimately involved.

Nigeria, of course, is one of the world’s largest producers of crude oil, with export revenues highly dependent on world market prices, but its domestic consumer prices are largely delinked from world market trends. Nigerian refineries are provided with crude oil at prices far below those of the world market, amounting to a subsidy of 20–30 percent. Due to the poor condition of its refineries, Nigeria imports gasoline, which is also sold at controlled prices. Moreover, Nigeria’s taxation of gasoline and diesel fuel is far below that of Benin and other countries in the region. In 2005, the cumulative taxation of gasoline in Benin approached 100 percent, counting import duties, excise taxes, and value added taxes, while taxes on oil products in Nigeria are low.

Benin partially liberalized its petrol sector in 1995 as part of its structural adjustment policies. In 2000, retail prices of gasoline, diesel fuel, and kerosene were raised by about 75 percent and have subsequently been adjusted in line with world oil prices. The 2000 price increase dramatically widened the gap between the official prices of these products in Benin and Nigeria, with prices in Benin more than double those in Nigeria between August 2000 and May 2004, measured at the parallel exchange rate. In the last few years, Nigeria has raised its domestic prices, narrowing the differential between the official prices in Benin and Nigeria. In April 2008, Benin’s official price for unleaded gasoline was CFAF 470 per liter, about 50 percent above the price of N80 in Nigeria, or about CFAF 300 at the parallel exchange rate. The black market price of gasoline in Cotonou dropped sharply relative to the official price of gasoline following the June 2000 official price increases, whereas in 1997–99 the black market price tended to exceed the official price, reflecting the scarcity of the product in the face of the controlled price. The black market prices of gasoline in Nigeria and Benin are nearly identical, at about 30 percent above Nigeria’s official price. In short, black market prices in Benin appear to be determined by a markup on Nigeria’s official price and have little connection to Benin’s official price. Thus the 2000 official price increases in Benin have had no sustained effect on black market prices (Morillon and Afouda 2005).

Not coincidentally, official imports of gasoline and other petroleum products have dropped dramatically in Benin since 2000, despite continuing increases in the stock of vehicles in use in the country. Morillon and Afouda (2005) consequently estimate that the share of gasoline supplied by informal imports from Nigeria rose from about 10 percent in 1998 and 1999 to about 50 percent in 2000 and 83 percent in 2001 and 2002, tapering off slightly to 72 percent in 2003–04.
In recent years, the share of smuggled petroleum products has declined slightly due to price increases in Nigeria. The share of smuggled gasoline has remained around 60–70 percent of Benin’s domestic consumption, but parallel imports of diesel and kerosene have dropped sharply.

Although well above Nigeria’s official prices, Benin’s official retail petroleum prices are nonetheless considerably below those of other francophone countries in the region. For example, in March 2005, Benin’s price for regular gasoline was CFAF 360 per liter, compared to CFAF 415 in Togo, CFAF 470 in Niger, CFAF 522 in Burkina Faso, and CFAF 580 in Mali. Benin consequently also reexports a considerable portion of the gasoline and other petroleum products it imports from Nigeria, with unofficial imports exceeding domestic usage by an undetermined magnitude.

The burgeoning informal market in Benin has been boosted further by the lack of official gas stations, which, in turn, reflects the dominance of the informal market, with the zones bordering Nigeria, in particular, witnessing a decline in the number of operating service stations. In contrast, Nigeria has a very dense network of service stations, which readily supply the informal traders who smuggle gasoline into Benin.

The distribution network in Nigeria includes large wholesalers who have storage depots along the border holding up to 1,000 liters of gasoline. These wholesalers have close political ties to high-level officials in Nigeria. Wholesalers sell to various intermediary distributors of various sizes who sneak gasoline across the border by pirogue, in cars whose gas tanks have been expanded, in small quantities on scooters, or on foot.

The net effect of this massive trade in petroleum products on Benin’s economy is complex. It entails a large loss of fiscal revenues but also constitutes a source of employment and income for traders and distributors, accounting in 2005 for 1–2 percent of GDP and 15,000–40,000 jobs, depending on the method of estimation.

Causes of Smuggling: Differences in Import Protection and Other Distortions

Golub and Mbaye (2009) and Oyejide et al. (2008) find large and variable differentials in retail product prices between The Gambia and Senegal and between Benin and Nigeria, confirming the incentive to smuggle. For example, sugar prices are much higher in Senegal than in The Gambia. Differential shipping costs from Europe, North America, or Asia cannot be an explanatory factor, since the distance of shipping to Banjul versus Dakar or Cotonou versus Lagos from any point of origin is virtually identical. If anything, shipping to Dakar
is cheaper, insofar as Dakar serves as a regional hub for some of the major shippers, and Lagos should benefit from scale economies due to the size of the Nigerian economy.

Differences in national trade policies are widely recognized as a significant factor (Egg and Herrera 1998). The efficiency and probity of trade facilitation, particularly port and customs operations, and the extent of border enforcement are also relevant.

**Trade Policies**

**The Gambia and Senegal** As noted above, The Gambia’s relatively liberal trade policies in comparison to those of neighboring countries have undoubtedly contributed to The Gambia’s special role as a regional trading hub. The Gambia liberalized earlier and more aggressively than other countries of the region, most notably Senegal. Taxes on international trade in The Gambia and Senegal include customs duties, sales taxes, value added tax (VAT), fees, and special taxes on a few goods such as cigarettes. The import tax differential in the 1970s through the early 1990s between Senegal and The Gambia was very large, with Senegalese import duties alone as high as 100 percent for goods such as textiles, while Gambian duties averaged around 30 percent.

**Senegal’s Trade Policies** Senegal followed highly restrictive trade and pricing policies during the first decades following its independence in 1960s, with very high tariffs and opaque nontariff barriers. As in much of Africa, Senegal moved toward more market-oriented economic policies as part of its structural adjustment agreements with the International Monetary Fund (IMF) in the late 1980s and in the 1990s, following serious fiscal and financial crises. Import barriers were liberalized somewhat starting in the late 1980s. Following the 1994 devaluation, import restrictions were significantly lowered and simplified, in particular with the elimination of variable levies (valeurs mercuriales) and quantitative restrictions, except for a few products, notably sugar. As also discussed in the case studies in chapter 4, the political clout of the Mimran family has resulted in sugar retaining extraordinarily high levels of protection, despite the general liberalization of import barriers in Senegal since the 1980s. The downfall of several of the most powerful large informal entrepreneurs was linked to their alleged smuggling of sugar, a highly lucrative but risky venture. Implementation of the common external tariff (CET) in WAEMU countries in 1998–2000 entailed further declines in trade taxes in Senegal, posing a new challenge for The Gambia’s role as an entrepôt and contributing to the impetus for substantial further liberalization. The CET dramatically reduced the infamous complexity and lack of transparency of Senegal’s tariff structure by consolidating tariffs into four categories, with the top import duty rate, applicable to consumer goods, being 20 percent.
Gambian Trade Policies  Up to the late 1990s, The Gambia’s trade regime was deliberately more liberal than those of its neighbors, particularly Senegal, but still involved considerable complexity and tariff peaks, with rates of up to 90 percent and 27 tariff bands (WTO 2004). In 2000, in response to the implementation of the WAEMU CET, The Gambia simplified its customs duties to five bands, with the highest carrying a rate of 20 percent, the same as the top rate in WAEMU. In 2001, the number of bands was further reduced to four, and the top rate dropped to 18 percent (WTO 2004). In January 2006, Gambian customs duties were aligned with the ECOWAS common external tariff, resulting in an increase in some rates. The maximum rate, applicable to most consumer goods, was raised from 18 to 20 percent. At the same time, the sales tax on imports was increased from 10 to 15 percent, aligning it with the tax rate on domestic goods.

Comparison  Table 9.2 compares import taxes in The Gambia and Senegal as of end-2006 for some of the key goods said to be involved in the reexport trade, aggregating the various taxes listed above. In all cases, Senegal’s taxes are higher and sometimes much higher. Not surprising, the greatest differential is for sugar, where the Senegalese composite tax rate is about 80 percent above the Gambian

<table>
<thead>
<tr>
<th>Product</th>
<th>Gambia, The</th>
<th>Senegal</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flour</td>
<td>22.5</td>
<td>56.6</td>
<td>34.1</td>
</tr>
<tr>
<td>Sugar</td>
<td>22.5</td>
<td>103.8</td>
<td>81.3</td>
</tr>
<tr>
<td>Rice</td>
<td>16.8</td>
<td>22.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Tomato paste</td>
<td>28.3</td>
<td>56.6</td>
<td>28.3</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>58.0</td>
<td>97.7</td>
<td>39.7</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>39.8</td>
<td>48.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Milk (canned liquid)</td>
<td>22.5</td>
<td>44.8</td>
<td>22.3</td>
</tr>
<tr>
<td>Condensed milk</td>
<td>22.5</td>
<td>27.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Cooking oil</td>
<td>22.5</td>
<td>56.6</td>
<td>34.1</td>
</tr>
<tr>
<td>Mayonnaise</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Toilet soap</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Candles</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Matches</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Tea</td>
<td>28.3</td>
<td>37.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Canned sardines</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Shoes</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Fabric</td>
<td>39.8</td>
<td>44.8</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Customs data for The Gambia and Senegal; authors’ computations.

a. Includes sales taxes, fees, and other special taxes.
tax rate. For flour, tomato paste, cooking oil, and cigarettes, the differential is also quite high (25 to 40 percent). These tax rate differences accord generally well with the price differences for these same items (Golub and Mbaye 2009).

**Benin and Nigeria** Differential trade and taxation policies and practices are also the main cause of reexports between Benin and Nigeria, according to the available literature (Igué and Soulé 1992; Soulé 2004; Perret 2002; Morillon and Afouda 2005) and our interviews in the field.

**Benin's Trade Policies** As in The Gambia, government revenues in Benin still depend heavily on taxation of international trade to a much greater extent than in other countries in Africa. Trade taxes account for more than half of tax receipts and about half of all government revenue. In 1973, Benin officially adopted trade policies to foster the reexport trade, with the goal of maintaining lower import barriers than Nigeria. Like those of Senegal, Benin's duties and taxes are largely set by WAEMU. Unlike in other WAEMU countries, the CET actually raised tariff rates on average in Benin. Prior to the CET, Benin's tariffs on consumer goods averaged 13.4 percent, far below the 30.0 percent plus rates of most other WAEMU countries, with only Togo somewhat closer to Benin, at 19.0 percent. With implementation of the CET, Benin's overall average tariffs rose slightly from 11.4 to 12.2 percent, whereas average tariffs for all other WAEMU countries fell substantially (World Bank 2005). The CET did little to diminish Benin's reexports, however, given the continued very large differential with Nigeria.

**Nigeria's Trade Policies** Nigeria's trade policies have varied widely over time. Nigeria heavily protects some products, particularly those facing strong import competition, while subsidizing others, notably gasoline and other petroleum products. Nigeria's import barriers have been among the highest in the world, as shown in table 9.3, with applied tariffs averaging nearly 30.0 percent in 2003 and a significant number of import prohibitions (IMF 2005; WTO 2005). The Nigerian manufacturing sector is unusually diversified for Africa, but highly inefficient, with capacity utilization rates usually well below 50 percent (IMF 2005). The Nigerian government has sought to protect its struggling, but politically connected, domestic industrial and agricultural industries behind high import barriers. ECOWAS has been moving toward adoption of a common external tariff with the same four-category structure of rates as WAEMU, but Nigeria has so far refused to accept this regime in its entirety. Nigeria also violates ECOWAS's provisions on free trade within West Africa. All imports from West Africa are required to enter Nigeria through the port of Calabar, and there are numerous checkpoints on the roads from Benin into southern Nigeria toward Lagos, 120 kilometers from the border. Nigeria's import bans are applied to imports from Benin, even if the products are produced in Benin.
Table 9.3 presents the recent evolution of Nigeria’s trade barriers on some of the key products involved in the reexport trade, illustrating the very high levels and variability of restrictions on imports. A long list of banned products varies from year to year. The extent to which these bans are enforced, however, also varies, and exemptions can be granted with the approval of the president. In short, Nigerian trade policy operates with an enormous complexity and opacity above and beyond the very high import barriers.

### Trade Facilitation and Other Factors

Trade barriers can explain much, but not all, of the differences observed in wholesale prices. This section considers other factors, including trade facilitation, enforcement of border crossings, and currency exchange.

#### The Gambia and Senegal

**Port Efficiency and Customs Practices**  
Customs practices are as important as statutory customs duties. These practices include customs valuation procedures and the speed and ease at which goods are cleared through the port and beyond. In Senegal, customs is said to engage in highly discretionary valuation practices. Senegalese customs apparently still applies reference pricing mechanisms to protect “sensitive goods,” such as matches, that are produced domestically,
similar to, but less blatant than, the reference price maintained though the variable levy on sugar. The Gambia’s customs services are relatively efficient in comparison to the more complex and bureaucratic procedures in Senegal.

Another factor is the unusually efficient port of Banjul. Unlike other African countries, including Senegal, the port of Banjul is known for its rapid and efficient clearance of goods. While merchandise can languish for days or even weeks in most African ports, including Dakar, clearance usually occurs within 24 hours in Banjul.

The Overall Business Climate  
Both Senegal and The Gambia benefit from social harmony and relative political stability. But while Senegal suffers from the legacy of a French-style highly bureaucratized system, The Gambia’s more laissez-faire tradition has contributed to the development of trading establishments in Banjul. Ease of access to foreign exchange through the banking system in particular is a plus for The Gambia. In all of these areas, however, other countries are narrowing the gap with The Gambia. In some cases, The Gambia is at a disadvantage. For example, the tax rate on profits is 35 percent in The Gambia, while it has been lowered to 25 percent in Senegal.

Relations with Senegal  
Senegal inevitably looms large in the Gambian reexport business, given the country’s near-total enclosure within Senegal. For the same reason, economic relations with Senegal are critical. Yet relations with Senegal have not always been smooth, as noted in the introduction. Border disputes with Senegal can severely disrupt reexport trade. According to wholesalers, every significant border conflict with Senegal leads to a substantial drop in reexports, and the subsequent recovery is always incomplete. The border dispute following an increase in Gambian ferry fees in August 2005, when Senegalese truckers blockaded the border crossings in retaliation, contributed to the decline in reexports in 2006–07. While traders are, to some extent, able to avoid the official border crossings and slip across the frontier through the bush, the reexport trade was severely disrupted until the issue was resolved in October 2005, when The Gambia rescinded the fee increases.

Currency Movements  
Depreciation of the Gambian dalasi vis-à-vis the CFA franc also affects the attractiveness of reexporting. Although the prices of imported goods are set in euros or U.S. dollars, and, therefore, free on board import prices are unaffected by fluctuations in the bilateral dalasi-CFA franc, the competitiveness of the transport services sector in The Gambia improves when the dalasi depreciates. The real depreciation of the dalasi in 2001–03 may explain some of the increase in reexports since 2001. According to traders, substantial exchange rate volatility is inimical to the reexport trade, as it makes arbitraging between markets more risky.
Benin and Nigeria

Business Climate and Trade Facilitation  Although far from perfect, Benin offers a much friendlier climate for business and trade than Nigeria, where insecurity and crime are rampant, including at the ports. The port of Cotonou suffers from significant problems of corruption and weak infrastructure, but is superior to the ports in Nigeria. Clearance of goods is much faster, cheaper, and easier in Cotonou than in Nigerian ports. According to shippers, however, ports in Nigeria are improving, so this factor may become less significant.

Border Enforcement  Benin has long had complex economic and political ties to Nigeria. Nigeria has made sporadic efforts and threats to close down cross-border trade with Benin and has occasionally done so. The borders have sometimes been closed due to other political tensions between the two countries. From February 1984 to February 1986, Nigeria shut down the border with Benin in an effort to curb smuggling of petroleum products out of Nigeria. During this time, Nigeria closed down all service stations within 10 kilometers of the border with Benin in a futile attempt to curb smuggling. In 1996, President Abacha of Nigeria closed the border in a political dispute with Benin’s President Soglo related to the latter’s military cooperation with the United States, which Abacha viewed as a threat. The resulting dislocations in Benin, notably gasoline shortages, contributed to Soglo’s defeat in the 1996 presidential elections. In August 2003, the border was closed for a week following a confrontation between the Nigerian and Beninese government precipitated by the harboring of a Nigerian suspected criminal in Cotonou. Another brief, but disruptive, border closing occurred in 2005. In March 2008, Nigeria reportedly initiated a crackdown on imports of used cars, holding up car convoys at the usual crossing points such a Krake and Igolo.

Notwithstanding these occasional border closings and frequent threats from Nigeria, the reexport trade has always recovered as the enforcement of border controls reverts to its normal laxity. Nevertheless, Benin clearly is highly vulnerable to the vagaries of economic policy in Nigeria and could face serious difficulties if Nigeria adopts less-restrictive trade barriers or makes a serious effort to crack down on parallel trade.

Exchange Rates and Convertibility  Exchange rate changes themselves should not much alter the relative prices of importable goods from Asia or Europe in Benin versus Nigeria, since these prices are set in world markets and a change in the CFA franc–naira exchange rate should be reflected in corresponding movements of local currency prices in Benin and Nigeria. It can, however, affect the competitiveness of locally produced goods. In any event, the devaluation of the CFA franc in 1994 had little effect on the reexport trade beyond the short-run disruptions it entailed. For a few months immediately following the 1994
devaluation, reexports dropped, but they recovered rapidly, and no clear change in the volume of reexports occurred between 1993 and 1994 (Galtier and Tas-sou 1998, 129; Hashim and Meagher 1999). The effect of the devaluation of the CFA franc may also have been obscured by the subsequent sharp depreciation of the naira in the parallel market and the rapid increase of Nigerian inflation.

The greater stability and liquidity of the CFA franc relative to the Nigerian naira has played a role in boosting Benin’s role as a trading center. Unlike the CFA franc, which is pegged to the euro and freely convertible into foreign currency within the CFA zone, the naira is highly volatile and subject to strict exchange controls, with a large black market. In 1993, however, when the CFA franc was made temporarily inconvertible outside of the franc zone, it had no lasting negative effect on the reexport trade.

**Estimates of Unofficial Cross-Border Trade**

Official bilateral trade statistics from both The Gambia and Senegal report a tiny volume of bilateral trade between the two countries. According to these official statistics, The Gambia’s bilateral exports and imports with Senegal each accounted for only about 3.5 percent of The Gambia’s total exports and imports, respectively, over 2002–05, with Senegal having a bilateral surplus. Likewise, Benin’s trade data indicate that only about 15 percent of Benin’s exports and imports in recent years are with other members of the regional groups WAEMU and ECOWAS. In particular, Benin’s recorded exports to, and imports from, Nigeria are very low, averaging about 5 percent of its total official exports and imports between 2000 and 2005.

The official statistics, therefore, seem at variance with reality. By all accounts, there is a very large volume of reexports from The Gambia to Senegal and from Benin to Nigeria. But there are no reliable estimates of the volume of this trade. This situation is consistent with the findings of Berg (1985), who concludes that the anomalies of African trade statistics are due mostly to smuggling.

Although there are no available data on unofficial trade, estimates of the magnitude of reexports can be garnered by examining the pattern of imports of goods subject to large price distortions, under the assumption that these imports are recorded correctly at the port. One strategy is to compare imports to domestic consumption, but it is difficult to estimate the latter.

The IMF estimates of reexports in The Gambia amount to about four times the domestically produced exports or 80 percent of total exports, figures that are in line with the estimates of knowledgeable observers interviewed and Elhadj’s (2000) qualitative discussion. Golub and Mbaye’s (2009) findings are similar for average levels of reexports, but show greater variation than the IMF estimates.
Reexport products from Benin to Nigeria are dominated by a limited number of goods that are highly protected or banned in Nigeria, including those listed in table 9.4: bulk food items (rice, wheat, sugar), processed foods (tomato paste, condensed milk), frozen poultry, cigarettes, textiles and clothing, and used goods (cars, tires, and clothes). Most of these products have been mainstays of the reexport trade since at least the 1970s, although variations have occurred in their relative importance in response to fluctuations in the severity of Nigeria’s import restrictions.

Table 9.4 presents the values of imports over 2004–07 on 14 of the most important goods of Benin’s reexport trade. Importers in Benin estimate that 70–90 percent of these goods are reexported illegally to Nigeria. Overall, table 9.4 suggests that the reexport trade is very significant relative to recorded imports, GDP, and government revenues. Imports of these 14 goods alone are greater than all officially recorded imports reported in IMF and World Bank databases, largely because these databases exclude imported goods labeled as in transit. Duties collected on these 14 goods alone amounted to about 30 percent of total government tax revenues over 2004–07. These figures are considerably above those suggested in much of the previous literature, such Galtier and

### Table 9.4 Imports in Benin, by Selected Reexport Items, 2004–07a

<table>
<thead>
<tr>
<th>Product</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used cars</td>
<td>150.5</td>
<td>178.7</td>
<td>264.2</td>
<td>327.7</td>
</tr>
<tr>
<td>Rice</td>
<td>50.4</td>
<td>90.9</td>
<td>104.4</td>
<td>151.7</td>
</tr>
<tr>
<td>Textiles</td>
<td>44.7</td>
<td>60.1</td>
<td>57.0</td>
<td>82.9</td>
</tr>
<tr>
<td>Used clothes</td>
<td>27.8</td>
<td>32.7</td>
<td>41.9</td>
<td>48.9</td>
</tr>
<tr>
<td>Palm oil</td>
<td>9.1</td>
<td>9.0</td>
<td>27.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Frozen poultry</td>
<td>29.7</td>
<td>26.0</td>
<td>23.6</td>
<td>38.5</td>
</tr>
<tr>
<td>Batteries</td>
<td>20.4</td>
<td>23.5</td>
<td>29.6</td>
<td>34.5</td>
</tr>
<tr>
<td>Furniture</td>
<td>4.7</td>
<td>6.6</td>
<td>14.5</td>
<td>28.6</td>
</tr>
<tr>
<td>Sugar</td>
<td>8.0</td>
<td>9.8</td>
<td>13.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Clothing</td>
<td>4.1</td>
<td>10.7</td>
<td>2.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>1.9</td>
<td>3.8</td>
<td>5.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Prepared tomatoes</td>
<td>0.7</td>
<td>0.7</td>
<td>2.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Used tires</td>
<td>3.5</td>
<td>4.2</td>
<td>4.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Cardboard</td>
<td>4.3</td>
<td>4.2</td>
<td>3.7</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>359.7</td>
<td>460.9</td>
<td>593.9</td>
<td>800.2</td>
</tr>
<tr>
<td><strong>Share of GDP (%)</strong></td>
<td>22.4</td>
<td>23.6</td>
<td>26.6</td>
<td>32.4</td>
</tr>
</tbody>
</table>

*Source:* Customs data for Benin; authors’ calculations.

*a.* Includes goods imported in transit status.
Tassou (1998). According to Igué and Soulé (1992), however, reexports have at various earlier times amounted to more than half of recorded imports, for example, in the late 1970s and early 1980s.

### Significance of Informal Cross-Border Trade

The contribution of the reexport trade to the economies of Benin and The Gambia is difficult to measure, but is certainly large. Reexports account for about 80 percent of total exports for The Gambia. Net reexports (after deducting imports intended for reexport) contribute about 20 percent of foreign exchange earnings and 7 percent of GDP, below the contribution of tourism, but above that of groundnuts. Large numbers of people are employed in the handling, storage, and transport of goods.

In Benin, reexports may be even more important. Perret (2002) estimates that trade in used cars alone accounts for 9 percent of Benin's GDP—the same magnitude as for cotton. Given that used cars contribute about half of total unofficial reexports, unofficial trade generates perhaps 20 percent of Benin's GDP. Its contribution to employment is less than its contribution to GDP, given that much of the latter consists of profits of importers and tax revenues, but it is still substantial, involving perhaps 50,000 people directly, of which about 15,000 are in the used car market (Perret 2002).

The most important contribution of the reexport trade is to government revenues. Indeed, as noted earlier, Benin's and The Gambia's trade policies have revolved around maximizing the income from reexports by taxing goods when they enter Benin at a rate well below those of their more protectionist neighbors. Taxes on international trade represent about half of government revenues in both countries, with taxes on imports intended for reexport accounting for half or more of trade tax revenues.

Harmonization of trade policies within WAEMU and ECOWAS poses a threat to the reexport business. The effect of the WAEMU CET in raising tariffs on consumer goods reduced Benin's competitive advantage vis-à-vis Togo, and the prospect of Nigeria's agreeing to lower its trade barriers is a major threat to the continued viability of smuggling. To counter the disincentive effects of trade liberalization by their neighbors, it is alleged that Beninese and Gambian customs officials have at times endeavored to offset the rate increases by lowering the declared taxable value of some merchandise. Essentially, a preferential regime is in effect for reexports relative to goods for local use.

While Benin and The Gambia reap substantial revenue gains from reexports, a lot of smuggling almost completely escapes taxation. Moreover, these benefits are fragile, because reexports are subject to the vagaries of neighbors’ trade policies and the effectiveness of border controls.
It could be argued that smuggling serves a positive social function by undermining and circumventing distortions. The sustainability of trade strategies that prey on the distorted policies of neighbors is highly questionable, however. More generally, smuggling contributes to an acceptance of and even admiration for tax evasion and corruption in West Africa.

Conclusion

This chapter has examined cross-border smuggling between Senegal and The Gambia and between Benin and Nigeria. The volume of unrecorded and untaxed trade between neighboring countries in West Africa is very large. The causes of this trade are varied, but the main drivers are policy distortions that create price differentials across borders, combined with long-standing ethnic and religious ties that transcend national borders, as described in chapter 8, long porous borders, weak enforcement, and the involvement of influential political actors. The large informal firms described in chapter 4 are actively involved in cross-border trade.

As in other areas relating to the informal sector covered in chapter 6, reducing smuggling requires policy reforms that diminish the incentives promoting illegal behavior (in this case, further tariff harmonization in the region), along with stronger state institutions (in particular, customs administration) that deter opportunistic behavior.

Notes

1. Togo also engages in reexport to Nigeria.
2. This description is based on Lambert (1994), Boone (1989), and Rice (1967) as well as our interviews with traders and customs officials in both The Gambia and Senegal in 2005.
3. This description is based on Igué and Soulé (1992) as well as interviews in Benin.
4. This discussion of the used car market is based on Perret (2002) and interviews with traders and businesses involved in the import and sale of used cars.
5. For example, it is alleged that the ban on poultry imports is related to former president Obasanjo’s chicken farming business.
6. The case involved the killing of one of the nieces of then Nigerian president Obasanjo in a carjacking in Lagos. The carjacking ring stole cars in Nigeria and took them to Cotonou. The head of the carjacking ring, Tidjani Hamani, a Niger national, was based in Cotonou, where he was arrested and later released by the Benin judiciary.
8. IMF (2005). The contribution to GDP is based on the IMF’s estimate of “the margins added to the cost of imports to account for services provided by enterprises based in The Gambia.”
References


