

Have Smugglers Achieved Regional Market Integration in Africa?

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A Huge Share of African Regional Trade Is Not Recorded

- LARES 1995: For many goods the fraction declared at customs is less than 10 % of the actual flow (1993/94)
- Examples of imports from Nigeria to Benin:
 - Bicycle tires: Warehouse: 3,453, Customs: 291
 - Truck tires: Warehouse: 1,614, Customs: 12
 - Batteries: Warehouse: 25,205, Customs: 355
 - Corrugated iron: Whareh.: 4,134, Customs: 2,072
 - Radios: Warehouse: 7,928, Customs: 4,174
- Other studies show the same in Niger and Cameroon

Macroeconomic Implication

- Widespread market integration as measured by retail price co-movements across borders, while official intra-African trade is minute, below econometric predictions (“missing trade”)
- “Cola nut effect” (i.e. “Tequila effect” for Africa): 1994 CFA devaluation transmitted to the naira, which lost 30 % in US \$ terms)

Can Tariff Cuts Bring Trade Back into the Data?

- True distortion: tariff + harassment;
 - Official channel: pay duty and get harassed
 - Unofficial: pay bribe and get away quickly
 - Harassment on the official channel lures traders to paying the bribe (in equilibrium: slightly below tariff+ harassment)
- Hence the incentive to smuggle or fraud may remain the same if a tariff cut is compensated by an increase in harassment (study done in Lagos Port by Oji, 2005)

Smuggling as Partial Trade Liberalization

- Omotunde Johnson (IMF Staff Papers, 1987): smuggling works like partial trade liberalization “à la Viner” (creation of a FTA)
- Hence the impact must be analyzed using the “trade creation” versus “trade diversion” effects
- Condition for trade creation: official trade is wiped out (necessary, not sufficient)

Implication for Regional Integration

- When smuggling and customs fraud are widespread, creating an FTA is more socially desirable, by making trade creation more sizable (you open with your neighbors **and** the rest of the world through smuggling)
- However, cutting tariffs without cutting corruption might not reduce distortion, because of bribe-enhancing harassment

Conclusion

- Smugglers have not finished the job of regional integration
- But they are helpful in making it more socially desirable