Title:

Informality, Trade Policies and Smuggling in West Africa

Summary:

In West Africa, recorded intra-regional trade is small but informal cross-border trade (ICBT) is pervasive, despite regional integration schemes intended to promote official trade. We argue that ICBT must be understood in light of two features of West African national boundaries: divergent economic policies between neighboring countries and the ease with which informal operators can ship goods across borders. We focus on two ICBT clusters: Senegal-The Gambia and Nigeria-Benin-Togo. Nigeria and Senegal have protected their domestic industries with high import barriers, whereas Benin, Togo and The Gambia have maintained lower import taxation. These differential trade policies, together with high mobility of goods and people across borders, lead to widespread smuggling, with goods imported legally in low-tax countries and re-exported unofficially to countries with higher import duties.

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Abstract

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1. Introduction

In West Africa, recorded intra-regional trade is small but informal cross-border trade (ICBT) is pervasive. "Re-exports" are a particularly significant form of ICBT. Re-exports are goods imported legally through formal channels into countries with low trade barriers and then shipped unofficially in large volumes to neighboring countries with higher barriers, with minimal or no processing aside from transport services.

We argue that ICBT must be understood in the larger context of two features of West African national boundaries: the overwhelming role of the informal sector in trading activities and the control states exercise over official trade policies. The combination of states exercising sovereignty over economic policies within national borders and the ease with which operators can ship goods informally through these borders leads to a widespread and large-scale smuggling.

The informal sector accounts for about half of GDP and 90 percent of employment in West Africa (Benjamin and Mbaye 2012) and informal activity is often concentrated around border zones. These borders are "artificial" in the sense that they are not marked by clear geographical or social separators. On the contrary, short and long distance trading routes have crossed present-day boundaries since pre-colonial times, and kinship groups continue to straddle national borders. Long porous borders and arrangements between traders and customs officials, often from the same kinship groups, make enforcement of trade taxation difficult. Yet contiguous West African countries have often pursued widely divergent economic policies leading to large incentives for smuggling. Similar situations prevail elsewhere in sub-Saharan Africa (Golub 2015) and North Africa (Ayadi et al. 2014).

We focus on two clusters of informal trade: Senegal-The Gambia and Nigeria-Benin-Togo (Figure 1). Senegal and Nigeria have a history of "protectionist" import taxation, while The Gambia, Benin and Togo have deliberately sought to maintain low import duties to promote "entrepot" activities, importing and re-exporting products that are highly protected in their neighbors, as well as supplying the land-locked countries to the North.

Section 2 reviews the nature of borders in West Africa from a trading perspective. Section 3 briefly discusses official regional integration structures and trade flows, showing that the latter are very small. Section 4 documents the large discrepancies in trade policies that motivate the re-export trade. Section 5 discusses the magnitude and functioning of informal re-exports from The Gambia to Senegal and Benin/Togo to Nigeria. Section 6 concludes.

2. Borderlands in West Africa

Prior to the colonial era, states in Africa were not characterized by hard geographical borders, with rulers having limited control over territory and movements of people (Herbst 2000). At the Berlin conference of 1884 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 geographical or social separators (Young 1994). Colonial borders remained the basis for national boundaries following independence in the early 1960s. Despite their artificial nature, national borders have rarely been disputed in Africa (Herbst 2000, Bennafla 2002). National sovereignty is manifested by a very large official presence in border regions, with numerous government agencies present at border crossings and checkpoints along major roads leading to them.

The anthropological literature on borders has stressed that border zones are marked by the coexistence of state presence with widespread evasion of state control (e.g. Alvarez 1995, Flynn 1997, Chalfin 2001). As Chalfin (2001, p. 201) puts it, the border of North-East Ghana with Togo and Burkina Faso "is characterized by the extreme mobility of persons and things on the one hand and the extreme state surveillance on the other." While border demarcations are largely uncontested in principle, weak states are unable to effectively control border areas. Border control officials (customs, police etc) cannot prevent unofficial crossings along long frontiers with few human or natural barriers, making evasion relatively easy (Little 2005). Also, customs officials and traders develop mutually beneficial agreements or "practical norms" whereby traders pass through official border posts or the bush with the tacit or explicit assent of officials, through a complex set of unofficial payments (Titeca and de Herdt 2010, World Bank 2013). World Bank (2013) shows that traders' unofficial payments along the Nigeria-Cameroon border are well below statutory customs duty rates, but high enough to enable local customs officials to remit target levels specified by the central customs office while also pocketing substantial amounts themselves. Titeca and de Herdt (2010, p.584) describe a similar "ongoing negotiation process" between traders and border officials on the magnitude of payments.

Numerous studies of ICBT in Africa have noted the central role of ethnic and religious kinship groups, for example the Mourides in Senegal and the Gambia (Golub and Hansen-Lewis 2012), the Yoruba in Eastern Nigeria and Benin (Golub and Hansen-Lewis 2012, Igué and Soulé 1992, Flynn 1997), the Igbo in Cameroon and Southern Nigeria (World Bank 2013), the Hausa in Northern Nigeria, Cameroon and Niger (Hashim and Meagher 1999), the Burji in Northern Kenya and Ethiopia (Mahmood 2008), the Nande in Eastern Congo (Kabamba 2013), and the Lugbara in north-western Uganda and the north-eastern Congo (Titeca 2009). These kinship groups both undermine and substitute for weak official institutions, providing an informal but effective system of property rights. Religious affiliation and belief often play a major role in many groups' solidarity. While official rules are routinely evaded, the trust and connections provided by informal networks facilitate dissemination of market information, ensure contract enforcement, and enable provision of credit and transfers of funds rapidly and at low cost. Moreover, because of social and religious bonds linking peoples from neighboring countries, evading official regulations is viewed as legitimate. As Flynn (1997, p. 324) explains in the case of the Yoruba people in Benin and Nigeria, "[A]lthough border residents are fully aware that…it is illegal for them to sneak goods around the customs post, they do not regard it as morally wrong".

The Gambia and Senegal. The Gambia is perhaps the most extreme example of the arbitrary borders inherited from the colonial era and the patchwork nature of regional integration. When the colonial powers divided up Africa at the end of the 19th century, the British were granted a sliver of territory in an area mostly controlled by France, running along the Gambia River. A tiny Anglophone country of 1.5 million people, The Gambia is completely surrounded by the much larger Francophone Senegal (population 13 million) except for a 60 km border on the Atlantic Ocean.

The Mouride Islamic brotherhood is one of the most important kinship groups straddling Senegal and The Gambia. Originally groundnut producers in the 19th Century, the Mourides have evolved into a major regional and even global trading diaspora. Traders travel to New York, Jeddah, Dubai and Hong Kong where they purchase large volumes of a wide variety of electronic and cosmetic products, which they sell in Senegal's sprawling open air markets, notably Sandaga in Dakar and Okass in Touba, often transshipping through The Gambia (Golub and Hansen-Lewis 2012).

Despite their geographical, ethnic and cultural ties, political and economic cooperation between Senegal and The Gambia has been minimal. Senegal inherited a relatively developed manufacturing sector from the French colonialists, which it sought to protect through very high import tariffs. In contrast, The Gambia, with little industrial base and a tradition as a trading center due to its strategic location on the mouth of The Gambia River, has deliberately sought to maintain lower import taxes than Senegal to promote its role as an entrepot (Golub and Mbaye 2009).

Benin, Togo and Nigeria. These three countries share long North-South borders (Figure 1) established in the colonial partitions of Africa in the late 19th Century. At that time, present-day Togo (a part of former Togoland) was a German colony, Benin (then named Dahomey) was under French control, and Nigeria was British. During World War I, French and British forces defeated the Germans and Togoland was split into two, with the Eastern part allocated to France and named Togo, and Western part going to British-controlled Ghana. West Africa is characterized by long-standing North-South ethnic and religious separations, providing an impetus for East-West social and commercial ties that continued in colonial and post-colonial eras irrespective of national boundaries. The Yoruba are the largest of several ethnic groups scattered across Nigeria, Togo, and Benin, and heavily involved in commercial networks (Golub and Hansen-Lewis 2012, Flynn 1997, Igué and Soulé 1992). Women play an important part in unofficial shipments of goods across borders. Togo's "Nana Benz" is a famous example.

The Yoruba have played a leading role in smuggling between Nigeria and Benin, going back to the colonial era and continuing under independence (Flynn 1997). They operate in the

Dantokpa market in Cotonou, Benin, a regional distribution center similar to Sandaga market in Dakar (Prag 2010).

Similarly to Senegal and The Gambia, Benin, Togo and Nigeria have made no efforts to harmonize economic policies despite their long shared borders and ethnic ties between their people. Nigeria, even more than Senegal, has adopted very high import restrictions to protect domestic manufacturing and agriculture, while Benin and Togo have little industry and since the 1970s have deliberately sought to undercut of the high levels of protection in their larger neighbor. Benin has the advantage of sharing a long border with Nigeria, by far the largest economy of the region. Togo in turn has a long border with Benin, so that traders must cross through Benin or take a circuitous route through Burkina Faso and Niger to Nigeria. Lomé's port, however, permits access to larger ships than Cotonou's, requires less frequent dredging, and has generally been better managed (World Bank 2010).

3. Official Regional Integration and Trade

Following independence, the Francophone countries of the region, including Senegal, Benin and Togo, have joined in the West African Economic and Monetary Union (WAEMU) to form a monetary union and customs union[1]. This agreement leaves out contiguous Anglophone countries, notably Nigeria and The Gambia, which are members of the larger but less integrated Economic Community of West African States (ECOWAS)[2]. Unlike WAEMU, ECOWAS has so far done little to harmonize trade policies, thus enabling The Gambia to retain much lower import taxation than Senegal, and likewise for Togo and Benin relative to Nigeria. Customs practices can also be quite discretionary.

Official trade within both WAEMU and ECOWAS is very low. Table 1 shows bilateral and intra-regional trade for the five countries this paper focuses on, as a share of respective country exports and imports, averaged over 2004-2010. Panel a shows Benin-Togo-Nigeria and Panel b shows Gambia-Senegal. Only 5.2 and 6.0 percent of Benin's and Togo's official exports

[1] The members of WAEMU are Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. All but Guinea-Bissau are Francophone.

[2] In addition to all the members of WAEMU, ECOWAS includes the Anglophone countries Cape Verde, The Gambia Ghana, Liberia, Nigeria and Sierra Leone.

are destined for Nigeria, and an even smaller proportion of Benin's and Togo's imports originate in Nigeria at 1.7 and 1.6 percent of their total imports, respectively. Nigeria's official imports from Benin and Togo are nearly zero. Likewise, recorded bilateral trade between The Gambia and Senegal is tiny. Only 1.5 percent of Gambian exports are shipped officially to its neighbor, while Senegal reports minuscule imports from The Gambia of 2 hundredths of a percent of total Senegalese imports. For all these countries, the share of imports from other countries in regional trade agreements (WAEMU, ECOWAS or both) is small, as are imports from Sub-Saharan Africa as a whole. Exports to regional groups are somewhat larger as a share of total exports, especially for Togo and Senegal, with the discrepancy between exports and imports in part reflecting the fact that all of these countries generally run large merchandise trade deficits, so imports greatly exceed exports. These official statistics are very misleading, however, given common knowledge that these countries engage in a very high level of unrecorded cross border trade, as documented in section 5.

4. National Trade Policies

Differences in national trade policies are the most significant factor driving ICBT, given the incentives that wide disparities of import taxation between neighboring countries provide.

The Gambia and Senegal. Senegal followed highly restrictive trade and pricing policies during the first decades following independence in 1960s, with very high tariffs and opaque non-tariff barriers. As in much of Africa, Senegal moved towards more market-oriented economic policies, culminating in the implementation of the Common External Tariff (CET) in WAEMU countries in 1998-2000. The WAEMU CET has dramatically reduced the infamous complexity and lack of transparency of Senegal's tariff structure by consolidating tariffs into 4 categories, with the top import duty rate, applicable to consumer goods, of 20 percent. The Value Added Tax (VAT) is currently 18 percent on all goods, and is also harmonized within WAEMU. A few other small fees and taxes are levied on all imports. In addition, discretionary supplementary import taxes can be applied to sensitive products. In the case of sugar, notoriously protected in Senegal for decades, the special taxes are very high (Golub and Mbaye 2009).

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 the implementation of the WAEMU TEC, The Gambia simplified and reduced its customs duties, keeping its trade taxes below those in Senegal.

Table 2 provides a summary comparison of The Gambia's and Senegal's import taxes as of end 2006 for some of the key re-export products. In all cases, Senegal's taxes are higher and sometimes much higher. Not surprisingly, the greatest differential is for sugar, where the Senegalese composite tax rate is about 80 percent above the Gambian tax rate. For flour, tomato paste, cooking oil and cigarettes the differential is also quite high (25 to 40 percent). Table 2 also shows wholesale price differences between the two countries. These price differences match quite well with the differential rates of protection. In all cases, wholesale prices in Senegal exceed those in The Gambia with a maximum of about 90 percent for sugar and a low of about 10 percent for rice. The high differential for sugar accords well with the extraordinary protection of the sugar industry in Senegal. The low price difference for rice fits with the fact that the rice industry has been liberalized in Senegal, and reports by Gambian wholesalers themselves that they have largely abandoned trade in rice except for the local market. These tax rate and wholesale price differences accord generally well with the pattern of re-exports, discussed below.

Benin, Togo, and Nigeria. Differential trade and taxation policies and practices are also known to be among the main cause of re-exports between Benin, Togo and Nigeria (Igué and Soulé 1992, Soulé 2004, Perret 2002, Azam 2007, Raballand and Mjekiqi (2010), and Golub 2012).

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 illustrated in Table 3. A number of Nigerian imports including rice, sugar, cigarettes, plastics, tires, steel, household appliances, and vehicles currently have tariffs exceeding the ECOWAS maximum of 35 percent, and there is also a considerable and changing list of items facing outright bans, although the extent to which these bans are enforced varies, and exemptions can be granted. Overall, Nigerian trade policy operates with an enormous complexity and opacity over and beyond the very high import barriers.

In 1973, both Benin and Togo officially adopted trade policies to foster the re-export trade, with the goal of maintaining lower import barriers than those in Nigeria. Since 2000, duties and taxes are now largely set by the WAEMU agreements. Unlike in other WAEMU countries, the CET actually raised tariff rates on average in Benin and Togo, but they remain well below Nigeria's. In order to offset Benin's lower transport costs, Togo allegedly seeks to undercut Benin by lowering actually applied duties of imported goods below WAEMU levels. Togo charges lower fees on used cars in transit than Benin. In order to contend with rising competition from Togo, Benin too permits under-invoicing of imports and flexible application of import duty rates (World Bank 2009, World Bank 2010). A study by Oyejide et al (2008) finds that prices of protected items in Nigeria are generally higher than in neighboring countries, similarly to our findings for Senegal and The Gambia.

5. The Nature and Magnitude of Re-exports

Cross-border trade must be understood in the larger context of the overwhelming role of the informal sector in West Africa (Benjamin and Mbaye 2012). Several key features of the informal sector identified by Benjamin and Mbaye (2012) 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. Second, the informal sector is quite heterogeneous. In particular, informal firms can be separated into large and small operators. 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, as discussed in section 2, 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. Cross-border trade involves a complex interplay of formal and informal operators and practices.

Benin, Togo and The Gambia import legally in various customs regimes intended to facilitate entrepôt activities, and then unofficially re-export to their neighbor. Re-exports typically originate with large formal enterprises importing goods through official channels. A sophisticated distribution chain then transships through informal mechanisms involving a combination of large and small distributors and traders.

Not surprisingly, smuggling efforts are concentrated on those goods which are heavily protected. In Nigeria, the most highly protected goods include cars, cloth, rice, cigarettes, vegetable oil and poultry, as noted in section 4. Unlike Nigeria, Senegal has not attempted to foster an automobile sector, and cars are not subject to high levels of protection, and the rice market has been substantially liberalized. Likewise poultry imports are not heavily restricted in Senegal. However, cloth, cigarettes, vegetable oil and especially sugar are subject to various kinds of overt or covert import protection in Senegal.

In this section we provide new evidence on the magnitude of re-exports, using official data on trade volumes. Under the assumption that domestic production is low or similar across countries, and that consumption patterns are roughly similar in West African countries, the pattern of unofficial re-exports can be inferred from official imports. Unusually high or low levels of imports per capita are suggestive of unrecorded re-exports to or imports from neighbors respectively, particularly in conjunction with anecdotal evidence from the press or other sources discussing these activities.

Figures 2a-g show the level of per capita imports for many of the key products involved in the re-export trade, measured as rest of world (ROW) exports to the importing country.

Cars. Nigeria has banned imports of used cars beyond a certain age in an effort to protect its highly inefficient auto industry. Nigerian automobile production has steadily declined to very low levels, but the protection remains in effect. No other countries in West Africa produce cars. Togo and especially Benin have developed a car-import value chain largely to supply the Nigerian market. Car imports have grown rapidly and are very high in Benin relative to Nigeria, reaching about $70 per capita since 2007, seven times the ECOWAS average level of about $10 per person (Figure 2a). Togo's per capita car imports are also above Nigeria's and average ECOWAS levels, although far below Benin's, due to Togo's geographic disadvantage relative to

Benin in supplying the Nigerian market and the relatively high cost of transshipping cars. Since car production is not protected in Senegal, Gambian and Senegalese import patterns show no indication of smuggling, with both countries' per capita imports at around the ECOWAS average.

Cloth. Perhaps no product is of more importance to low-income but fashion-conscious West Africans than cotton cloth. Both Senegal and Nigeria have highly inefficient and protected textile firms that have either disappeared or operate at very low capacity. In Nigeria, cloth exports are banned. In Senegal overt import barriers are not particularly high but discretionary protection to incumbent textile firms has apparently continued (Golub and Mbaye 2002). Correspondingly, imports of cloth in Benin, Togo and The Gambia far exceed those in Nigeria and Senegal (Figure 2b). In the late 2000s, ECOWAS average levels of fabric imports were about $7 per person. Togo's relative success in smuggling cloth relative to cars reflects the fact that cloth is easier to transport and Togo's historical role as a regional center for the textile industry. Senegal's imports are at about the ECOWAS average, despite Senegal's relatively high per capita income. Nigerian official imports are almost non-existent. In Benin and Togo, imports have surged since the early 2000s to over $100 per capita since 2007. In the Gambia, the situation is a bit less dramatic, but per capita imports have fluctuated from $40 to $80 since the early 1990s and appear to be on a new upswing.

Clothing. The West African market for apparel is dominated by imports of low-cost new and used clothes, the former mostly originating in China, with some local artisanal production but little in the way of local factory production. Figure 2c suggest that Togo actually dominates Benin in supplying the Nigerian market, with both countries' imports far outstripping Nigeria's and following a similar pattern over time: a large jump in the mid-2000s followed by a decline beginning in 2008. On the other hand, the trade data suggest a gradual reduction in Gambian smuggling since the early 1990s, as imports per capita in The Gambia gradually converged to Senegalese levels by the mid-2000s and have remained there, probably reflecting liberalization of the Senegalese market.

Cigarettes. Cigarettes are subject to high taxation in many countries and Nigeria and Senegal are no exception. Benin, Togo and The Gambia are happy to take advantage of this situation, as does Niger and possibly other countries of the region to smuggle cigarettes into

Nigeria and Senegal. Although the per capita spending on cigarettes is low compared to most of the other products considered here, imports into Benin, Togo and The Gambia are consistently higher on a per-capita basis than in Nigeria and Senegal (Figure 2d). In the 1990s, Togo seems to have had a much larger role than Benin in cigarette re-exports with imports per capita of about $10, but Togo's imports fell sharply to about $2 per capita in the 2000s while Benin's rose to about $4 in the mid-2000s before dropping off to $2 in 2009. In contrast Gambian imports have been steady at about $5 per capita throughout the 1990-2011 period.

Sugar. Sugar has long been among the most highly protected industries in Senegal and has remained so despite the general trend towards liberalization in Senegal. The Compagnie Sucrière Sénégalaise (CSS) has had a near-monopoly status due to political connections of the controlling Mimran. High prices entailed widespread smuggling from The Gambia and Mauritania (Golub and Mbaye 2009). Some reports suggest that Senegalese sugar production has become more competitive with imports but others suggest that smuggling continues on a large scale. Certainly Figure 2e suggests that The Gambia continues to serve as a conduit for sugar into Senegal. Although sugar has been protected with tariffs as high as 50 percent, as shown in Table 4 below, Figure 2e suggests that smuggling of sugar into Nigeria from Togo and Benin is minor.

Rice. In Senegal, the rice market was liberalized in the 1990s and Figure 2f shows no indication of smuggling from The Gambia—in fact, imports per capita have been about the same or higher in Senegal than The Gambia over the sample period. Nigeria, on the other hand, heavily protects its rice market, spurring smuggling from Togo and Benin. Smuggling from Benin peaked in 2008 and has since dropped sharply. Togo apparently also smuggles rice to Nigeria, but in more moderate amounts.

Vegetable oil. Vegetable oil imports are banned in Nigeria. Figure 2g along with anecdotal evidence indicates substantial smuggling from Benin and to a lesser extent Togo. Vegetable oil imports into Benin and Togo have surged from near zero in the 1990s to nearly $50 per person in 2011. In Senegal, the peanut oil industry, previously state controlled and now privatized, has continued to be supported by government assistance of various kinds (Golub and Mbaye 2002). Various protective measures were instituted and withdrawn in the 2000s, with imports of vegetable oil into The Gambia fluctuating accordingly.

Frozen Poultry. Poultry has also been on the list of banned items in Nigeria since the early 2000s. Poultry imports into Benin have surged from a few dollars per person in the late 1990s to nearly $30 in 2011. Nearly all of Benin's imports are intended for Nigeria. Probably due to the high cost of transportation and refrigeration, Togo has until recently not imported much frozen poultry, but an uptick can be seen in Figure 2h. Poultry imports into The Gambia have recently increased to levels markedly above Senegal's, following an import ban in Senegal instituted in 2005.

Summary. The ROW export data to the five countries show that in cases where products face import barriers in Nigeria, imports into Benin and Togo are often very large on a per capita basis. To a lesser extent a corresponding phenomenon occurs in Senegal and The Gambia. Ease of transportation seems to play an additional important role for Togo, given its geographic disadvantage vis-à-vis Benin in serving the Nigerian market. This could explain Togo's apparent inability to compete for market share in frozen poultry in contrast to its success in products such as cigarettes and clothing.

6. Conclusions

Smuggling in West Africa is flourishing due to the contradiction between largely unchallenged state authority over borders and the ease with which informal operators can evade border rules. This situation reflects the particular historical and institutional environment of African borderlands: 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 in the newly independent states, particularly with regard to trade policies; weak state institutions, which undermined the effectiveness of the enforcement of these policies and fostered widespread corruption; and inability of governments to control movements of people and goods across these artificial borders.

We have examined cross border informal trade between The Gambia and Senegal and between Benin, Togo and Nigeria, focusing on re-exports. Re-exporting involves importation of goods and subsequent shipment to another country with no additional processing or packaging, except for transport services.

The Gambia is a tiny Anglophone country almost completely surrounded by Francophone Senegal. Francophone Benin and Togo are hubs for unofficial as well as legitimate transit trade derive from their proximity to Nigeria and their role as gateways to the landlocked countries to the North.

Differences in import barriers are the most important determinants of re-export trade. These differential trade policies, in turn, grow out of divergent development strategies. In the 1960s and 1970s, Senegal and Nigeria promoted import-substituting manufacturing industries behind high import barriers and pervasive government controls. The formal Nigerian and Senegalese manufacturing sectors are more developed and diversified than their neighbors, but generally very inefficient, with domestic firms operating at very low capacity and high cost. Benin, Togo and The Gambia, by contrast, had very little industrial development, and in the 1970s opted for a strategy of developing "entrepôt states" whose economic development strategies have been largely based on enhancing their attractiveness as trading hubs.

Re-exports are concentrated in a limited number of products that are highly protected in Nigeria and Senegal. The products involved are well known and frequently discussed in the popular press. We provide new evidence based on official imports on the magnitude of these trade flows, showing that they correlate well with differential import taxation among neighboring countries.

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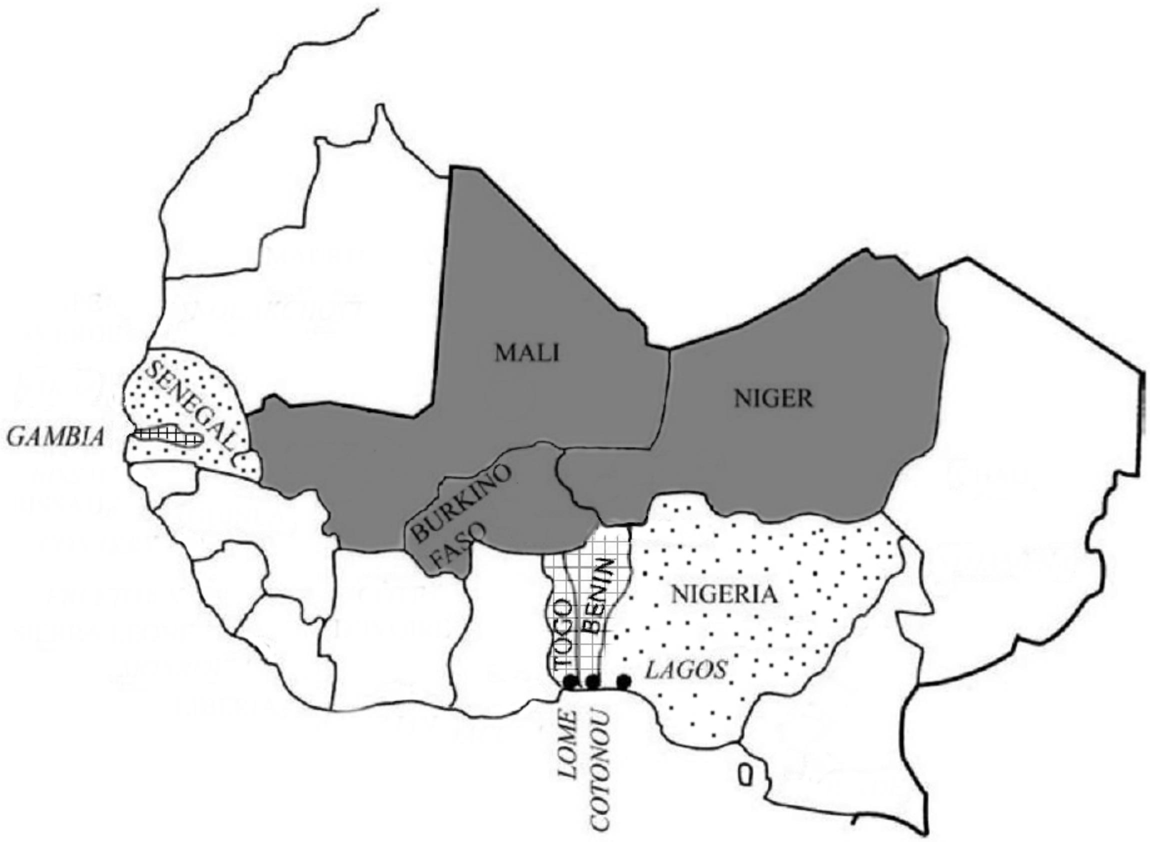
Figure 1
Map of West Africa, by Trading Status



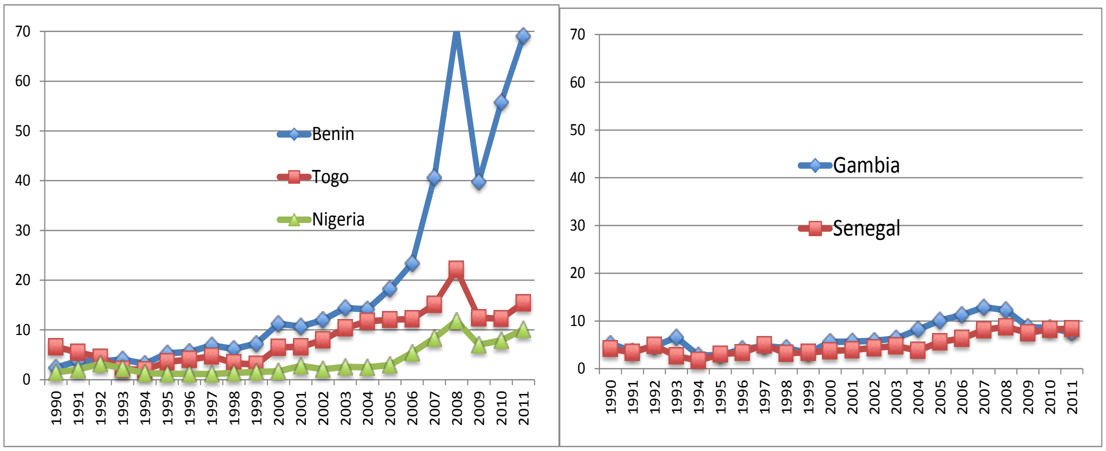
"Protectionist" countries: Nigeria, Senegal.

Entrepôt countries: Benin, Togo, The Gambia.

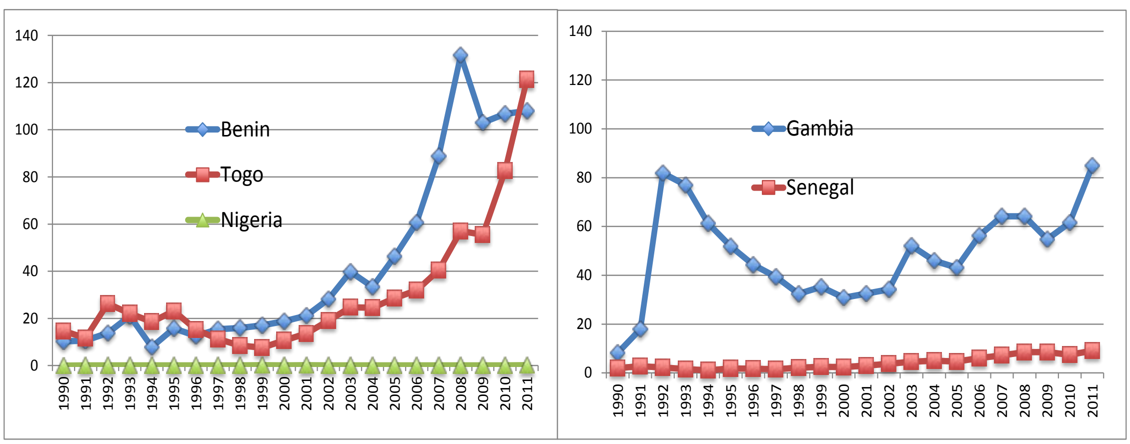
Landlocked countries: Burkina Faso, Mali, Niger.

Figure 2
Imports per Capita, as Measured by World Exports to Designated Country (US Dollars)

a. Cars



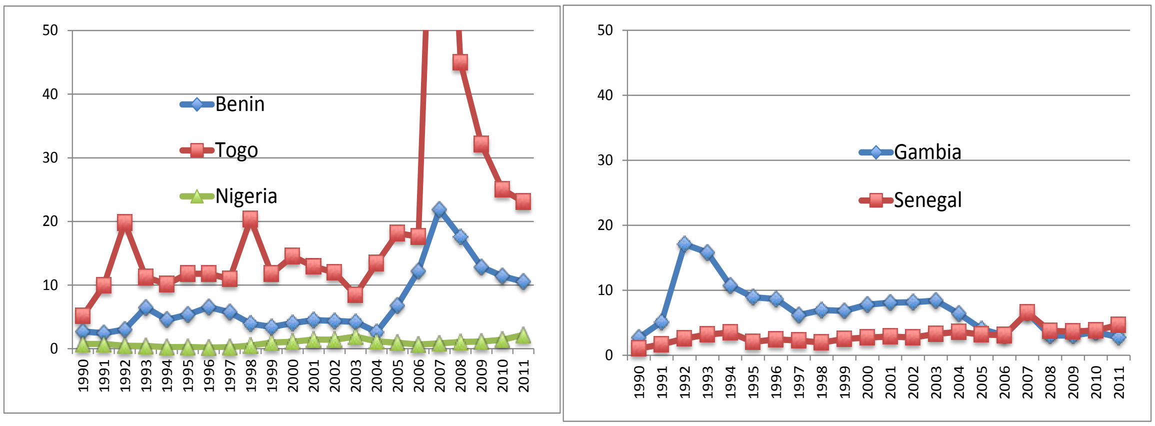
b. Cotton Cloth



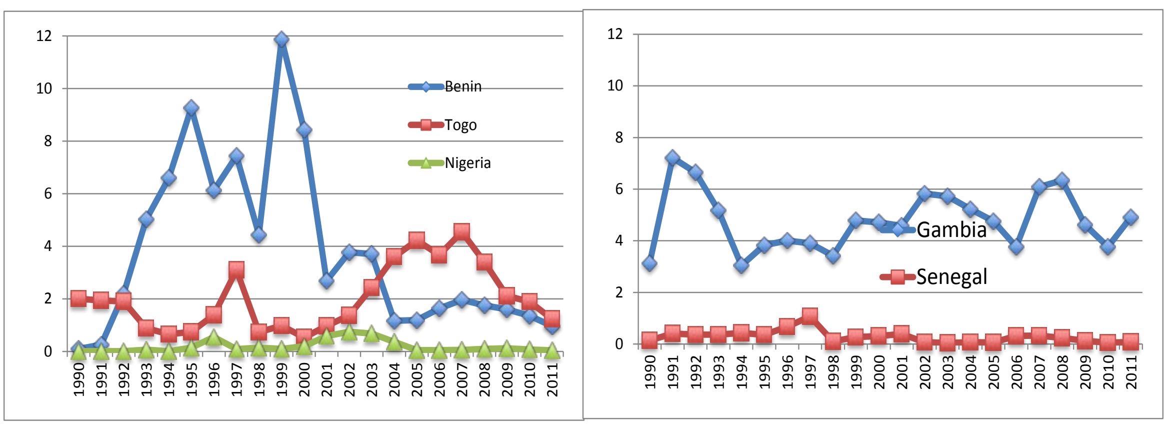
Source: UN Comtrade (trade data), World Bank World Development Indicators (population) and authors' calculations.

Figure 2, continued
Imports per Capita, as Measured by World Exports to Designated Country (US Dollars)

c. Clothing



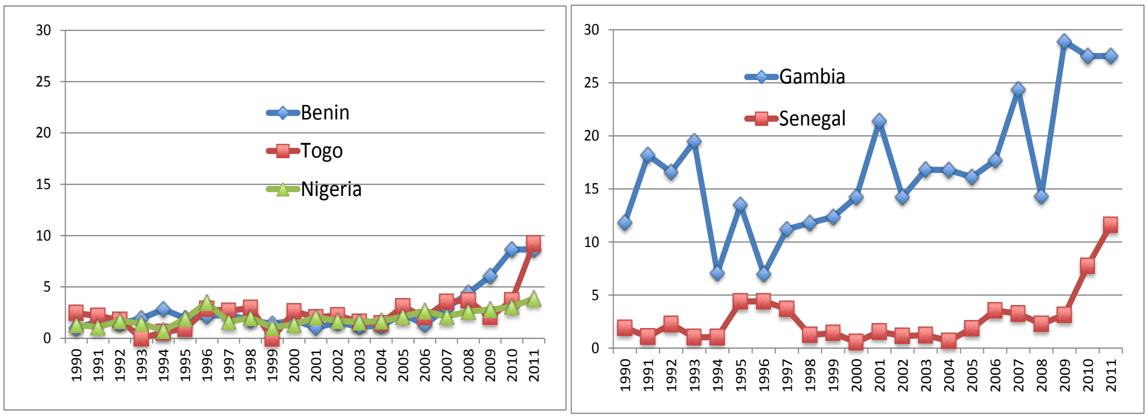
d. Cigarettes



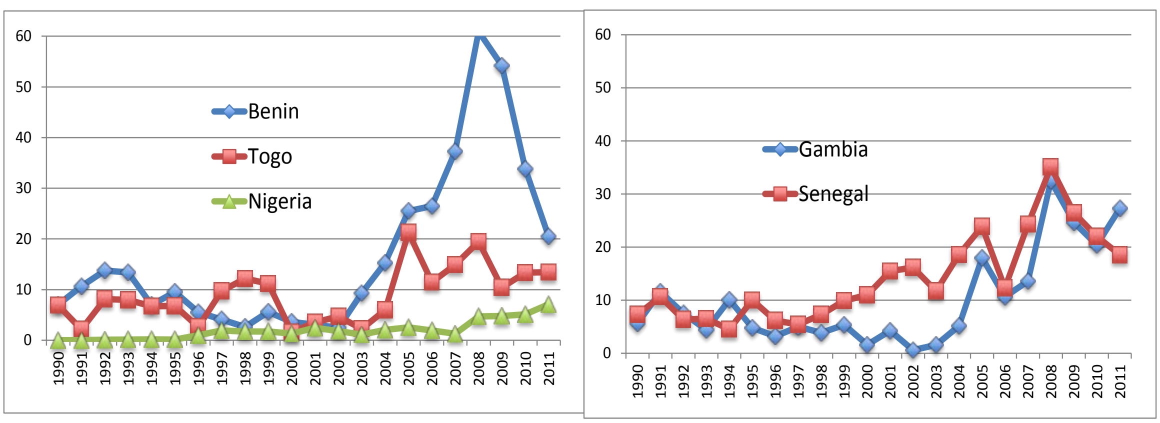
Source: UN Comtrade (trade data), World Bank World Development Indicators (population) and authors' calculations.

Figure 2, continued
Imports per Capita, as Measured by World Exports to Designated Country (US Dollars)

e. Sugar



f. Rice

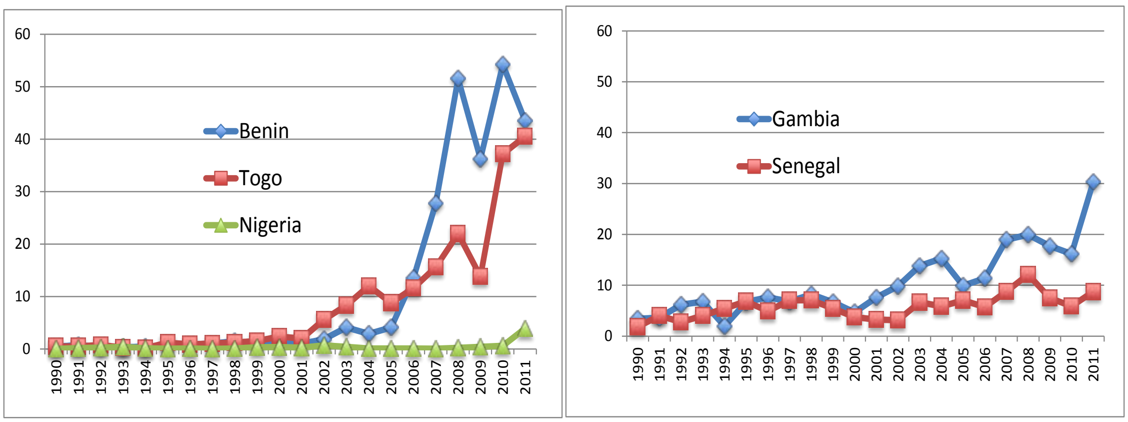


Source: UN Comtrade (trade data), World Bank World Development Indicators (population) and authors' calculations.

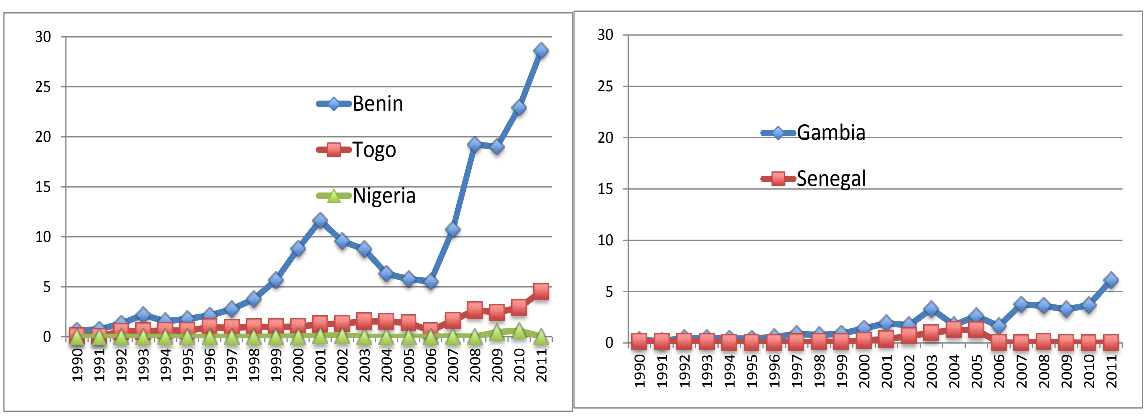
Figure 2, continued

Imports per Capita, as Measured by World Exports to Designated Country (US Dollars)

g. Vegetable Oil



h. Poultry Meat



Source: UN Comtrade (trade data), World Bank World Development Indicators (population) and authors' calculations.

Table 1

Bilateral Trade Flow Among Selected Neighboring West African Countries, 2004-2010 Annual Average (Percentage of Respective Country Total Trade)

a. Benin-Togo-Nigeria

Destination

		Benin	Togo	Nigeria	WAEMU	ECOWAS	SS Africa
Exporter	Benin	-	2.2	5.2	15.8	22.2	27.9
	Togo	11.5	-	6.0	40.0	59.8	62.5
	Nigeria	0.08	0.02	-	3.4	5.3	9.2

Source

		Benin	Togo	Nigeria	WAEMU	ECOWAS	SS Africa
Importer	Benin	-	2.3	1.7	8.2	13.9	13.4
	Togo	1.3	-	1.6	7.4	12.5	16.0
	Nigeria	0.07	0.08	-	2.5	2.7	5.1

b. The Gambia-Senegal

Destination

		Gambia	Senegal	WAEMU	ECOWAS	SS Africa
Exporter	The Gambia	-	1.5	2.1	4.4	8.0
	Senegal	4.5	-	26.6	35.9	42.4

Source

		Gambia	Senegal	WAEMU	ECOWAS	SS Africa
Importer	The Gambia		8.5	14.3	15.0	16.8
	Senegal	0.02		3.1	13.5	16.4

Source: IMF Direction of Trade and authors' calculations

Table 2
Comparison of Trade Taxes and Wholesale Prices:
Senegal and The Gambia, 2006 (%)

		Import Taxes*		Wholesale Price Difference
	Gambia	Senegal	Difference	Senegal - The Gambia
Bulk Items				
Sugar	22.5	103.8	81.3	90.5
Flour	22.5	56.6	34.1	33.2
Rice	16.8	22.7	5.9	13.1
Other Consumer Goods				
Cigarettes	58.0	97.7	39.7	29.4
Cooking oil	22.5	56.6	34.1	57.9
Tomato paste	28.3	56.6	28.3	62.6
Tea	28.3	37.3	9.0	23.1
Candles	39.8	44.8	5.0	70.4
Canned sardines	39.8	44.8	5.0	19.1
Matches	39.8	44.8	5.0	70.5
Mayonnaise	39.8	44.8	5.0	56.1
Toilet soap	39.8	44.8	5.0	24.9
Milk powder	22.5	27.1	4.6	39.5

Notes: Import Taxes (* includes sales taxes, fees, and other special taxes) expressed as percentage of value of imports; difference in percentage points. Difference in wholesale prices is Senegal price as percentage of price in The Gambia.
Source: Customs in The Gambia and Senegal and authors' computations.

Table 3
Selected Import Barriers in Nigeria, 1995-2013 (tariff rates in percent or bans)

	1995	2001	2007	2013
Beer	Banned	100	Banned	Banned
Cloth and Apparel	Banned	55	Banned	Banned
Poultry meat	Banned	75	Banned	Banned
Rice	100	75	50	100
Sugar	10	40	50	60
Tobacco and cigarettes	90	80	50	50
Used Cars*	Banned	Banned	Banned	Banned
Used Tires	Banned	Banned	Banned	Banned
Vegetable oil	Banned	40	Banned	Banned
Wheat dough	Banned	Banned	Banned	65

*Defined as more than 8 years old in 1994-2002, and more than 5 years in 2002-2004, 8 years since 2004-2008, 10 years since October 2008, and currently 15 years.

Source: Soulé (2004), Nigerian customs data provided by the World Bank, Nigerian import prohibition list https://www.customs.gov.ng/ProhibitionList/import.php, online reports (for 2013).