

Informal Cross-Border Trade: A Perspective from Tunisia

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Abstract

This paper aims to put the accent on one aspect of informal economy, the informal cross border trade as a major development concern and to highlight its devastating implications on economic development. It then discusses some approaches that can contribute to curbing the phenomenon inspired from the Tunisian case. It finally highlights the need to enhance international cooperation towards its resolution.

Informal economy and informal trade

As part of economic informality, informal cross border trade may obey to some discussed features of informal economy while its specific characteristics make it dismiss many others.

Unlike informal economy, most of the current literature on informal cross border trade is conducted in the context of a specific country or a group of neighboring countries, which denotes that each case is unique in terms of the prevailing conditions, despite some overall common elements. In that regard, while some aspects of the overall subject remain relevant when it comes to the particular subject of informal cross border trade, like some causes explaining its expansion, others need to be specifically addressed to meet that accurate particularity, as is also the case of some specific actions to fight it. No unique precise definition is available for informal cross border trade. It encompasses the flow of importing or exporting goods that are passing through borders without being complying with import and export regulations, they are not recorded nor controlled.

The propagation of informal trade

The informal cross-border trade is widespread worldwide, and continues to thrive as a global phenomenon touching a variety of countries, including the most developed ones. While in developed countries, the phenomenon is confined and touches only a few products, e.g., tobacco and wine, it is dominating in most developing countries and concerns a variety of goods.

¹ These are personal views of the author.

Its important socioeconomic weight, measured by the part in GDP, or its dimension comparing to the formal trade is so high in some developing countries that it is integrated in the formal sector and cannot be treated as an independent sphere.

In Tunisia, the phenomenon has significantly developed in the last few years following especially the situation in the region.

While it is hard to exactly estimate the level of informal trade, the 2014 World Bank study reported that, “informal trade represents an important part of the Tunisia’s bilateral trade with Libya and Algeria, accounting for more than half the official trade with Libya and more than official trade with Algeria”.

It is worth saying that transactions conducted with relation to this trade have important economic and social impacts and are vital to the inhabitants of the border regions enabling the populations there making an income. Besides the vulnerable populations these activities also involve opulent and influential persons. They are conducted by individual traders, small enterprises such as transporters, street vendors, and ad hoc traders, wholesalers, to name only a few, by escaping fully or partially regulations, duties and taxes. While the rent is widely divided among the broad range of involved actors from a large part of the population, the greatest share of the profits goes to the minority elites.

Some of these transactions go through official border posts and are subject to under-invoicing, wrong classification and false declarations.

To have a complete picture, on the other hand, the wide variety of products and commodities offered through the cross-border informal trade, coupled with the high cost of living, more and more Tunisians are consuming within-budget smuggled products raising the demand for this trade.

It is important to note that smuggling is carried out through different methods; overland smuggling routes, ships and airplanes. Various techniques and skills are used and acquired through decades of performing these lucrative activities.

Main causes of informal cross border trade

It is indeed clear to any person that studies the phenomenon of smuggling that it is a complicated mixture of macro and micro level elements requiring the need to thoroughly consider the interaction of external and endogenous factors and the local patterns.

Consequently, the causes of the informal trade are complex and result of a combination of economic, social, and institutional factors.

The poor living conditions and the lack of economic opportunities for the border regions constitute strong incentives for the population to operate and trade informally.

The main reported reasons lying behind this large-scale informal trade in Tunisia are important arbitrage opportunities for border land communities stemming from differences in the levels of taxes and subsidies, making the informal transactions highly profitable activities. As a result, for example, the price of fuel in Algeria is around one-tenth of that in Tunisia.

Escaping regulatory requirements or formal procedures is one other motivation to operate informally. In addition, weak law enforcement at the borders facilitates the conduct of informal trade, and acts as an important trigger for it.

Main challenges of informal cross-border trade

Despite the fact that informal trade plays a role in alleviating the burden of poverty, and providing the outlet for the most vulnerable, this sedative not only alleviates superficially and temporarily the symptoms without curing the core morbidity, but also, its side effects are so important that they can seriously undermine the long term development prospects!

The main drawback usually referred to in relation with informal economy consists in the weakened government finances due to the tax losses , which depresses the public investment in the infrastructure and public services, necessary for development. For Tunisia, the financial losses were estimated at 1.2 billion dinars (\$650 million), accounting for 4.24% of the state budget in 2014.

Besides, the challenges linked to informal trade are much deeper and broader on the economy than the financial income loss.

Firstly, there is the risk of destroying the productive sector among which the agricultural sector is the most concerned. It is not a fantasy. Indeed, allowing some animal or plant products to informally cross the borders is responsible for bringing contagious diseases affecting the crops and the herd which can be, according to experts in the field, just devastating in every sense of the word.

In 2013, the informal cross border trade brought the Fire blight disease to Tunisian apples and pears crops, destroying the entire orchards in a single season.

The country's industry is also threatened with the dumping of cheaper, poor quality products.

Secondly, state inability to apply accurate public and trade policies because of the existing disqualified trade data and the incapacity to carry out any type of control on smuggled products. This causes also the loss of confidence on governmental institutions.

Thirdly, health issues are a major concern especially for informal traffic in foodstuff, arising from the low quality of products and their escaping from any regulation or control, besides the insalubrious transport conditions, storage and street market displaying.

Fourthly, the overwhelming informal trade is very harmful to the business climate since it creates an unfair competition, causing trade-diverting effects on both local production and other formal import-competing products and deters private investment intentions. As a result, economic fabric is damaged, growth perspectives are sharply undermined, job-creation is hampered, and development objectives are unmet.

Fifthly, high inflation rate levels caused by shortage in illegally exported subsidized products, and black market practices by smugglers.

Sixthly, informal cross-border trade involves implicit costs to the whole society by increasing corruption, rendering rule-making inefficient and hindering regulatory improvement.

Finally, the financial resources devoted to the informal trade deviate from the formal financing system, which will lack liquidity to participate in the finance of the economy, while the money coming from the cross-border trade will be more likely to finance other informal activities, and thus may heighten the downward spiral.

Thus, and given the severity and the large scale dimensions of problems caused by informal cross-border trade, it should be considered as a real impediment of economic development.

Proposed solutions

Many points have to be observed when conceiving appropriate approaches towards informal cross border trade.

1. Informal trade is a deep-rooted socio-economic problem, its fighting is a gradual and lengthy process, in the heart of which lies development prospects for the disadvantaged localities and neediest populations. A clear announced plan for development is therefore necessary.
2. Due to the specific combination and dynamic of the socio, political and economic factors surrounding the cross border trade, each case study

gives a unique specific picture that doesn't necessarily respond to ready-made solutions and has to be treated in a particular manner.

3. The heterogeneity of the cross-border trade as it reveals on the ground various operational characteristics among smuggling networks, especially in terms of conditions of access, the predictability of interactions and the willingness to invest capital.
4. Addressing the cross border trade needs to be carried out based on a holistic analysis, taking into account the relative importance of all included variables like the enforcement capacity of the state institutions, the routes used by smugglers, the functioning of the formal sector, the political environment and the power balance.
5. Moreover, and due to the strong heterogeneity of different actors working in this field, targeted policies require multiple scale approaches and actions
6. Given the high-complexity profile of the phenomenon on the ground, the huge connected economic interests, and the large numbers of related variables, it is clear that no single measure can bring reliable solutions in combating informal trade. Consequently, it has to be tackled by a joined set of supportive policies and actions.

It should be admitted that the phenomenon of cross border trade is neither the business of the only customs administrations nor solely of the ministry of trade. It is a national development issue.

Global experiences in this field have shown that a dissuasion and deterrence approach to combat the phenomenon has limited impact in addressing this highly lucrative business.

As a result, the conception and implementation of a comprehensive enduring national plan based on discursive reasoning and sequencing and subsequent actions to fighting informal trade is absolutely needed if the government is resolved to combating this scourge.

The main feature of the needed policy has to be at least two-pronged. A combination of strategies is required to make the smuggling a morerisky and less attractive transaction with a punitive approach while providing the economic alternative for renouncing the informal trade activities.

In most of the cases, fighting informal cross-border trade is not straightforward, and is likely to be faced by a strong opposition including

residents' protests and riots which has to be taken into account in the conceptual plan, with prepared responses to each possible situation.

1. The punitive approach

The cross border trade is a so lucrative activity that the measures against it can be dissuasive only if they hit hard. Indeed, the punishment level and the detection hazard need to overcome the expected gains of the transactions. In that regard, these measures are necessary:

- Strengthening government controls on the borders including by outfitting by equipment and infrastructure with the use of the advanced technologies.
- Firm repressive actions are needed against those implicated in the smuggling activities. This includes tough punishment including years of imprisonment, and paying high fines reaching the monetary value of products seized.
- Firmly fighting corruption and venality, and improving law enforceability.
- Conceiving and applying an incentive monetary and promotion reward system for customs officers who are efficient in trammeling and seizing smuggling transactions, and inversely, severe punitive system for implicated officers.
- Since smuggling goods are not only found in set apart markets but also in the formal circuits, a firm control and high fines need to be put for that also.

2. Providing alternative opportunities. Example: Supporting job creation, skills upgrading and matching

To be expected to achieve successful results, the punitive approach has to go hand in hand with measures providing tangible economic opportunities to whom that are willing or obliged to be engaged in the formal sector.

For the more powerful actors, a healthy business environment, with less fiscal charges can provide other more legal profitable opportunities.

For the most vulnerable, providing improved conditions for job creation and legal income sources can be a good alternative.

In that regard, solutions can be proposed in accordance with the individual situation of each country.

Looking to the Tunisian case, it is striking to notice a paradoxical situation in which unemployment is dramatically high especially among young people, and the serious deficits of skilled technical professionals in many fields of the economic activities, like the repair and maintenance sectors, the construction related services, and the domestic services sector.

In spite of the availability of free of charge public training centers in many specific professions affording education and training, the number of students certified from VET programs is insignificant. Indeed, incentives for carrying a vocational education and training (VET) in Tunisia are weak.

Hence, there seems to be a need to make it more attractive and of a high-quality option for young people including through improving the capacity of the system, its high quality outputs, and its ability to sufficiently match the market needs.

Improving the co-ordination between the training centers and business start-up support structures deserves a particular attention

The training centers have also an important role to play in developing an entrepreneurial culture and supporting students in business creation including by building links between learning and practice.

Finally, one important incentive is to provide sustainable mechanisms to a consequent easy access to credits for those who have pursued training courses to undertake a skilled professional career (associated to a help in achieving a good repayment performance).

That would not only help create more jobs, but also afford needed services to the society.

3. Legal measures to enhance formality

More generally, the Governments have to provide the strong foundations for a sustainable reversion to formality especially an enabling environment of job creation. In that regard, reforming trade and tax regimes, towards lower rates and broadening the tax bases with a better enforcement and enhanced transparency are of crucial importance.

It may also be appropriate to enhance reliable interactions between the public and the private sector through serious consultations enabling traders and operators to express their concerns or give their feedback and proposals related to trade regulations and enable government authorities to better recognize the constraints firms face when trading formally.

4. Tunisian plan to combat cross border trade

The Tunisian Government introduced a national plan to fight smuggling. Amongst the intended measures:

- Intensifying land and maritime border controls;
- Promoting the development outlook of border regions through the positive discrimination principle enshrined by the new Tunisian constitution;
- Creating free zones in certain border areas;
- Lowering the import taxes on the main products concerned.

In this context, the 2016 Finance Law simplified and reduced customs duty on imported goods so as to combat smuggling and the informal economy. Henceforth, two rates of customs duty apply on industrial products: zero on raw materials and semi-finished products, and 20% on consumer goods.

Furthermore, it introduced a considerable reduction in the consumption tax on some products, including alcoholic beverages, bringing it down from 683% to 50%.

Some products affected by informal trade and smuggling have also been exempted from consumption tax, as it is the case of tires and air conditioners.

Recently, the newly designated Head of Government has announced in front of the parliament that a battle against smuggling is among the top priorities of the Government's plan.

International cooperation

Informal trade flows are integrated in international economic systems which is an incentive for more effective multilateral cooperation.

Besides its aforementioned set of drawbacks, and since cross border illicit trade is largely admitted to be a financing means for terrorist networks and to allow money laundering, increasing transnational threats and challenges to the global governance system, an enhanced international cooperation is necessary to bring along a global response.

Indeed, despite the key role of the of national governments in sustainably fighting informal cross-border trade, the lack of cooperation and coordination including information sharing at the regional and international levels can be considered as a conducive element towards its thriving.

The already available WCO instruments and tools need to be strengthened since the phenomenon is more complex than a border issue.

In so far as international cooperation towards reducing informal trade flows can play an important role, a better gathering and dissemination of data, particularly through putting in place a sustainable governance and transparency mechanism can be considered.

Moreover, setting an internationally agreed framework for an efficient coordination, promoting some forms of convergence, for instance sharing best practices with countries that prominent responses have shown great successes with regard to diminishing informal trade and informal economy in general. Even though they cannot be systematically and simply duplicated from a country to another since the prevailing circumstances can be completely different, these efficient best practices can act as an incentive for a further experience sharing, and then enhance a closer cooperation with international bodies and can even provide perspectives for a common strategic impetus.

This needed international coordination has to be coupled with a close collaboration with neighboring countries as a common concern. In this regard, tax policies and subsidies related aspects are among the most pressing issues to jointly fight smuggling and fraud.

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