ECONOMIC DEVELOPMENT & INSTITUTIONS

BENIN INSTITUTIONAL DIAGNOSTIC WP19/BID09

CHAPTER 8:

BENIN'S INFORMAL TRADING WITH NIGERIA

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August 2019

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Acknowledgements

We thank the participants of the Benin diagnostics workshops held in Brussels in September 2018 and in Cotonou in March 2019 for their comments. We also thank Justin Clohounto and Serge Dejinou for helpful research assistance in Benin and Togo.

1 Introduction

Benin's approximately 800 km north–south border with Nigeria plays a critical role in Benin's economy. Nigeria's population of around 190 million is nearly 20 times larger than Benin's and the differential in gross domestic product (GDP) is even larger, with Nigeria's output equal to nearly 40 times Benin's, reflecting Nigeria's oil wealth rather than a higher standard of living. Thus, the economic relationship between the two countries is necessarily asymmetric, with Nigeria's influence on Benin much more powerful than vice versa. Moreover, Nigeria's combination of massive oil wealth, interventionist economic policies, and high levels of corruption has led to pervasive distortions and inefficiencies.

It is in this context, during the first oil shock in 1973, that Benin adopted a development policy centred on serving as an 'entrepôt state' vis-à-vis its neighbours, particularly Nigeria (Igué and Soulé, 1992). That is, Benin aimed to expand its role as a trading hub, importing goods and re-exporting them to Nigeria, thus profiting from the distortions in Nigeria's economy. Heibrunn (1999) aptly described Benin as the 'Flea on Nigeria's Back'.

Benin's dependence on Nigeria is not apparent from official trade statistics, with Benin's reported trade with Nigeria accounting for only about 6% of Benin's exports and 2% of Benin's imports in 2015–17[1]. These official statistics are very misleading, however, as they ignore the huge unrecorded informal trade between the two countries (Benjamin, Golub, and Mbaye, 2015). As we discuss in detail below, Benin imports very large quantities of consumer goods that are subject to high import protection in Nigeria and then transships them to Nigeria through elaborate institutional mechanisms. Conversely, Benin illegally imports a large proportion of its petroleum products from Nigeria, where consumer prices are highly subsidised. This two-way informal cross-border trade (ICBT) has in the past accounted for a large share of Benin's income, employment and fiscal revenues. Recently, however, the volume of this trade has dropped considerably due to a recession in Nigeria, revealing its fragile foundations. This chapter will analyse the nature, institutional foundations, and consequences of ICBT between the two countries, and it will draw out policy implications.

ICBT is pervasive in sub-Saharan Africa, reflecting a confluence of historical and institutional factors: artificial national borders established in the colonial era and maintained after independence; porous borders between contiguous nations; a long history of regional trade predating the colonial era; kinship groups that transcend national borders; weak border enforcement capabilities; corruption of high- and low-level officials who profit from collusion with traders; and perhaps most importantly lack of coordination of economic policies among countries sharing these borders (Golub, 2015). We will show how these factors play out in a particularly dramatic way in Benin.

An interesting dimension of regional ICBT is the intense competition between Benin and Togo for informal access to the Nigerian market. Togo is less well situated geographically than Benin for transshipping to Nigeria, since goods coming from Togo must go through Benin or Niger, but Togo compensates in part through lower taxes and fees (Golub, 2012).

[1] Based on data from International Monetary Fund (IMF) *Direction of Trade Statistics* online.

Although land-locked, Niger is also heavily involved in smuggling to Nigeria (Hashim and Meagher, 1999); so too is Cameroon, though to a lesser extent (Golub and Kobou, 2019).

Benin has developed elaborate institutional mechanisms to support ICBT, notably through specific customs procedures. In some respects these mechanisms are quite efficacious, belying the notion that institutions in Benin are dysfunctional. At the same time, however, the national priority placed on promoting unofficial trade is not a viable long-run strategy for development. The recent downturn in the re-export trade starkly reveals Benin's vulnerability to shocks in Nigeria. Even more so than for other countries of the region, Benin's economy is dominated by the informal sector, which provides a dubious foundation for sustainable long-term development (Benjamin and Mbaye, 2012; Mbaye, Golub, and Gueye, 2019).

Despite the vulnerability to shocks in Nigeria and the questionable sustainability of informal trade, Benin's heavy dependence on this trade for government revenues and the numerous beneficiaries among both formal and informal operators explains the government's reluctance to crack down on smuggling. Furthermore, even if the government were determined to shut down informal trade with Nigeria, it would be difficult to do so as long as the underlying incentives created by Nigeria's distortions remain. Large price differences between adjacent countries with porous borders are an invitation to smuggling that ingenious traders are bound to exploit. Thus, rather than focus on eradicating ICBT, the government should pursue policies to diversify Benin's economy to reduce its vulnerability to Nigeria's instability.

In this chapter, we focus on two of the main dimensions of Benin's ICBT with Nigeria: imports of goods subject to heavy protection in Nigeria, particularly used cars and rice, which are then re-exported to Nigeria; and Benin's imports of petroleum products, which are highly subsidised in Nigeria. The remainder of the paper is organised as follows. Section 2 provides historical background. Section 3 discusses the effect of divergent economic policies as a key driver of informal trade between Benin and Nigeria, particularly Nigeria's high import protection and fuel subsidies. Section 4 provides evidence on the magnitude of informal trade. Section 5 describes the institutional processes governing informal trade, particularly the role of customs administration, with illustrations in the cases of used cars, rice, and petroleum products. Section 6 analyses the effects of informal trade on Benin's economy, particularly fiscal revenues. Section 7 concludes.

2 Historical economic relations between Benin and Nigeria

Benin and Nigeria have deep historical economic ties, reflecting their geographical and cultural proximity. The two countries share several languages and ethnicities. Trade within the region predates the colonial period, was altered by colonial economic and political relations, and further adapted to post-colonial political and social developments, most importantly divergent trade and other economic policies.

Yoruba, Hausa, and Ibo trading networks operated prior to the colonial era, but expanded in response to the arrival of European traders in the 17th century (Igué and Soulé, 1992; Hashim and Meagher, 1999). Long-distance caravan trade routes linking coastal West Africa with the Sahara and the interior were based on artisanal and ecological comparative advantages, but even in pre-colonial times trade patterns of taxation and tolls impinged on trading routes. The kingdom of Dahomey, corresponding geographically to contemporary Benin, had highly developed institutions that facilitated economic ties with Europe, notably the slave trade centred around the town of Ouidah. English, Portuguese, Dutch, and French ships arrived in Ouidah loaded with tobacco, liquor, guns, and miscellaneous items of cheap junk much prized by the local population, which were exchanged for large numbers of slaves. The slave trade was a major source of revenue for the kings of Abome, who designated a special representative ('Yovogan' or 'chief of whites') to administer the trading relationships between leading local merchants with European slave traders (Igué and Soulé, 1992).

In the second half of the 19th century, as the slave trade collapsed, traders switched from slaves to palm oil, transacting with French trading firms from Marseille, which created trading posts in Dahomey exporting palm nuts and oil in exchange for tobacco, guns, cloth, and vegetables.

The official colonisation of Dahomey in 1894 by the French altered trading relationships for several reasons. The French colonial government granted a monopoly to French trading companies, spurring the creation of unofficial networks by displaced local businessmen. The geographic situation of the new colony of Dahomey, sandwiched between German-controlled Togo and English-controlled Nigeria, provided a corridor for French trade with their land-locked colonies, Niger and Upper Volta (now Burkina Faso), creating a precursor to Benin's role as an entrepôt. Furthermore, Dahomey's relatively advanced educational system reinforced its advantage as a commercial hub. The Yoruba group's spread provided a network across the region along the Gulf of Guinea.

The colonial borders between Dahomey and Nigeria were largely retained as national frontiers when the countries gained independence in the 1960s. These borders artificially separated people sharing similar cultural backgrounds, who largely disregarded official borders in their social relations. As Isyaku (2017, pp. 210–213) describes it: 'The traditional rulers have always refused to accept this situation [partition]...The socio-cultural relationship between the two states is further fostered by the fact that Yoruba groups occupying the contiguous localities claimed a common origin from Ile-Ife, spoke… dialects of the same language and possessed similar political, social and religious institutions. Economic links, particularly commercial routes and markets, contributes to this cultural uniformity.'

In the post-colonial period, kinship groups continued to play a major role in organising informal trade between Benin and Nigeria, notably the Yoruba (Igué and Soulé, 1992; Igué, 2003; Golub and Hansen-Lewis, 2012). Along the northern frontier between the two countries, the Hausa are dominant. Adherence to Islam is a source of solidarity and motivation for both the Hausa and Yoruba, providing security for transactions, mutual assistance, and credit, all based on trust rather than formal contracts (Sudarkasa, 1985). In recent years, however, there have been numerous clashes between Yoruba and Hausa traders over control of markets (Porter *et al*., 2010).

Informal trade was boosted by the instability in Nigeria following the Biafra war in 1967, with an influx of Ibo refugee traders into Benin, and Benin supplying goods to sections of Nigeria cut off from supplies. During the war, Benin became a major cocoa exporter, despite non-existent production of this product, as Nigerian cocoa was diverted through Benin.

Starting in 1973, Benin adopted low-tariff policies to facilitate the entrepôt role of Cotonou to take advantage of the oil boom in Nigeria following the first oil shock. Benin also took steps to expand access to credit to importers by opening up the banking system, and deregulated the importation of key products, such as rice, formerly monopolised by state-owned firms. The Marxist government of Benin deployed the nationalised banking system in favour of the re-export trade. These credits were limited to Beninese nationals, with defaults on these loans contributing to the banking crisis of the late 1980s (Hashim and Meagher, 1999). During the 1980s and 1990s, Benin took several further steps to liberalise its imports. Customs duties were waived on the two main items re-exported to Nigeria at that time: rice and cloth. In 1985, the state monopoly on imports was eliminated. In 1993, all remaining quantitative restrictions on imports were removed. In 1994, a simplified system of customs duties with a maximum rate of 20% was established, with rice and cloth still exempt (IMF, 1996).

The West African Economic and Monetary Union (WAEMU), a group of mostly francophone countries of which Benin is a member (and of which anglophone Nigeria is not), established a common external tariff (CET) in 2001 that lowered import duties for most member countries but raised them for Benin (and Togo), particularly for cloth, rice, and other important re-export goods (Soulé, 2000, Table 7.3). Nevertheless, the WAEMU duties remained well below those in Nigeria. Moreover, Benin has found ways of circumventing WAEMU import taxes by exercising customs valuation with consideration discretion, and most importantly making greater use of special customs regimes for transit and re-exports, through which it imports at very low tax rates. These customs regimes are described in detail in Section 5 below.

Both Benin and Nigeria are members of the larger regional group the Economic Community of West African States (ECOWAS), which encompasses both the francophone and Anglophone nations of West Africa. ECOWAS has progressed far less than WAEMU in regional integration. Some cooperative regional efforts have advanced, particularly in the political realm, but Nigeria is large enough that it has seen little need to coordinate with its much smaller neighbours, and it has sometimes obstructed or failed to implement ECOWAS harmonisation efforts (Hoffman and Melly, 2015). After numerous delays, ECOWAS agreed to a CET in 2013. Although Nigeria is among the countries that have adopted the CET in principle, in practice it has not fully implemented this regime or has availed itself of escape clause provisions that allow higher protection. Thus, a number of Nigerian imports face tariffs which exceed the ECOWAS maximum of 35%, and there remains a list of items facing outright bans, as discussed below.

Nigeria has made repeated threats to eradicate smuggling, but with little lasting effect. 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 km of the border with Benin, in a futile attempt to curb smuggling. Heilbrunn (1999) observes that the effects of the border closures were short-lived at best and that the recession in Nigeria in 1985 had far larger effects on lowering ICBT than the ineffectual measures of the Nigerian authorities.

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 loss in the 1996 presidential elections.

In August 2003, the border was closed for a week following a confrontation between the Nigerian and Beninese governments precipitated by the harbouring of a suspected Nigerian criminal in Cotonou.[2] Only when he was turned over to the Nigerian authorities following a meeting between Obasanjo and President Kerekou of Benin in Badagry, Nigeria, was the border re-opened. Following the meeting, the two presidents issued the 'Memorandum of Badagry', which committed the Benin and Nigerian governments to fostering formal trade relations while curtailing smuggling and criminality. In March 2008, Nigeria initiated a crackdown on imports of used cars, holding up car convoys at the usual crossing points such a Kraké and Igolo[3]. More recently, President Buhari has taken a number of measures to curb smuggling from Benin, notably prohibiting imports of rice and car imports through land borders once again.

Notwithstanding these occasional border closings and frequent threats from Nigeria, the re-export trade has always recovered as the enforcement of border controls reverts to its normal laxity. A sharp downturn in informal trade in 2015–2017 for some products, notably used cars, has yet to be fully reversed. As discussed below, this prolonged decline is likely due more to the recession in Nigeria dampening demand than to border closures. Regardless, these episodes reveal Benin's acute vulnerability to economic shocks from Nigeria.

Officials from Benin and Nigeria have recently announced joint efforts to curb smuggling.[4] Further, the two governments have just opened a joint centre for customs control at the largest official border crossing between the countries—the Seme-Kraké corridor. As commentators have noted, however, most smuggling does not go through official border

[2] The case involved the assassination of one of then-Nigerian President Obasanjo's nieces 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 released by the Benin judiciary after having been arrested.

[3] 'Difficultés commerciales entre le Bénin et Le Nigeria: Embargo sur les véhicules d'occasion venues de Cotonou,' *Le Matinal* (Benin), 14 March 2008.

[4] www.illicit-trade.com/2018/08/nigeria-niger-and-benin-to-hold-counter-rice-smuggling-summit/, 7 August 2018.

posts, so the utility of this initiative is questionable.[5] More generally, the implementation of anti-smuggling measures is likely to remain ineffectual given the disparate interests of the countries involved, and, more importantly, given the beneficiaries of smuggling within them, as described below.

[5] www.jeuneafrique.com/depeches/654673/politique/entre-le-nigeria-et-le-benin-un-nouveau-poste-frontiere-sur-la-route-de-lenfer/

3 Causes of informal trade: Nigeria's pervasive distortions incentivise smuggling

The most important underlying source of Benin's informal trade is Nigeria's dysfunctional economic policies, which provide incentives for traders to profit from circumventing them. It is beyond the scope of this chapter to analyse in detail the reasons for Nigeria's corruption and mismanagement, but it surely reflects a combination of Nigeria's size, ethnic fractionalisation, and oil wealth. Indeed, Nigeria has been one of the starkest examples of the 'resource curse', whereby natural resources such as oil contribute to inefficiencies and corruption (Venables, 2016). Revenues from natural resources crowd out manufacturing and agriculture. Nigeria has attempted to maintain its industrial and agricultural base through import substitution, but this has largely fostered inefficiency and incentives for evasion. Worse, large resource rents can provide an irresistible political temptation to engage in the notorious wasteful spending and corruption that occur in Nigeria.

In effect, therefore, Nigeria's resource curse and institutional weaknesses have been transmitted to Benin. The distortions in Nigeria fuelled by oil and corruption provide economic rents to smugglers in Benin, so much so that much of Benin's institutions, both formal and informal, have evolved to capture these rents.

The dominance of the informal sector and the artificial nature of national borders in West Africa are also crucial underlying causes of the informalisation of trade. Throughout West Africa, and particularly in Benin, the informal sector represents approximately 50% of GDP and 90% of employment. The ascendency of the informal sector, including ICBT, is both the cause and effect of the weakness of the formal sector. With the economic crisis and subsequent structural adjustment programmes of the 1980s, government employment dropped sharply in Benin as in other sub-Saharan countries and formal private sector employment failed to pick up the slack as the business environment remained poor (Golub and Hayat, 2015). The informal sector became the employer of last resort, particularly for young people newly entering the labour market, even those with substantial education (Benjamin and Mbaye, 2012; Mbaye, Golub, and Gueye, 2019). Many of the informal gasoline transporters and retailers are young people with secondary education who are unable to obtain formal jobs. The booming informal sector in turn contributes to the hostile climate for formal business investment, creating a vicious cycle.

Moreover, contrary to common perceptions, the informal sector is in some respects better organised than the formal sector, with large informal firms often rivalling formal firms in size, and kinship groups linking together informal operators into networks that cross borders and even continents. The Yoruba and Hausa are particularly important for Benin–Nigeria ICBT, as previously noted.

3.1 Import protection in Nigeria

Nigeria has long had some of the most restrictive import barriers in the world, including very high tariffs and import prohibitions, while Benin (and Togo) have deliberately maintained low import taxes to foster their roles as entrepôts for Nigeria (Igué and Soulé, 1992). Recent research has confirmed the importance of Nigeria's import barriers in driving unofficial exports from Benin to Nigeria (Golub, 2012; Raballand and Mjekiqi, 2010; Bensassi, Jarreau, and Mitaritonna, 2018).

Table 1 displays Nigeria's import restrictions on some of the key products of the re-export trade as they have evolved over time. Unlike Benin (and Togo), Nigeria has aggressively promoted domestic manufacturing and agricultural industries through import substitution, unfortunately usually resulting in highly inefficient production, with powerful interest groups favouring continued protection. While Nigeria has liberalised some sectors as part of the ECOWAS harmonisation efforts noted above, including reducing the number of goods that are subject to import bans, progress has often been reversed. For example, in 2015 Nigeria lifted its import ban on textile (cloth and clothing) imports but then raised the import tariff to 45% in 2016 and placed textiles on a list of goods that were ineligible to use the official foreign exchange market, in effect raising transactions costs via a *de facto* additional tax on imports to the extent that the unofficial exchange rate tends to be depreciated relative to the official rate.

Import taxes on goods for domestic consumption have generally been lower in Benin than Nigeria. With the advent of the ECOWAS CET in 2015, these differences have declined for many goods but for goods on domestic consumption and others subject to special protection in Nigeria large gaps remain. Furthermore, import duties in Benin are largely irrelevant for unofficial trade to Nigeria as products destined for diversion to Nigeria are mostly imported via special transit and re-export regimes with very low tax rates, rather than for domestic consumption, where normal duties and value added taxes apply. In cases where Nigerian protection is particularly elevated, it can still be advantageous to import goods for domestic consumption and re-export to Nigeria, but clearly importing under transit and re-export status is even more attractive. The extent to which imports intended for Nigeria enter under a regime for transit rather than for domestic use varies considerably by product and over time, as we discuss further below.

Table 1: Nigeria's import barriers on selected products, import tax rates (%) and import bans 1995–2018

	1995	2001	2007	2013	2018
Beer	Banned	100	Banned	Banned	Banned
Cloth and apparel	Banned	55	Banned	Banned	45/ Forex ban**
Poultry meat	Banned	75	Banned	Banned	Banned
Rice	100	75	50	100	70***
Sugar	10	40	50	60	70
Cigarettes	90	80	50	50	95
Used cars*	Banned	Banned	Banned	Banned	Banned / 70
Vegetable oil	Banned	40	Banned	Banned	Banned

*The maximum age of cars banned from import has varied over time: it was more than eight years old in 1995, and was more than five years old in 2001; it then moved back to more than eight years old in 2007 and is now more than 15 years old. In addition, imports via land borders have been banned since 2016 .

**Banned from using the official foreign exchange market.

***Rice imports through land borders banned since 2013.

Sources: Soulé (2004), Nigerian customs data provided by the World Bank, Nigerian import prohibition list, online reports, World Trade Organization *Nigeria Trade Policy Review* 2017.

3.2 Macroeconomic and exchange rate policies in Nigeria

Macroeconomic policies, particularly exchange rate policy, are another relevant factor driving cross-border trade, with Nigeria having a crawling peg to the US dollar but an inconvertible exchange rate regime, while Benin is a member of the WAEMU *Communauté Financière en Afrique* (CFA) franc single currency, formerly pegged to the French franc and now to the euro.

Nigeria's economy is highly dependent on oil, and thus subject to shocks from fluctuations in world oil prices. The recent recession in Nigeria in 2015–2017, associated with a sharp downturn in world oil prices, provides a clear example of the spillover effects of Nigerian macroeconomic developments on Benin. The Buhari administration resisted devaluing the Nigerian naira (NGN) despite severe balance of payments pressures. As a result, a shortage of foreign currency exacerbated the recession in Nigeria. Equally important, the black market exchange rate depreciated sharply while the official exchange rate remained fixed, as shown in Figure 1. With ICBT largely operating in the parallel foreign exchange market, the purchasing power of Nigerian consumers fell further as the black market exchange rate depreciated precipitously. At the end of 2014, Nigeria's black market exchange rate was at less than a 10% discount under the official exchange rate of about NGN 180 per US dollar. As the foreign exchange shortage worsened, in early 2016 the black market rate had depreciated to about NGN 350 per US dollar. A 30% official devaluation in June 2016 temporarily eased pressures but the situation soon deteriorated again after the official exchange rate was repegged at NGN 300 per dollar. By February 2017, the black market exchange rate had tumbled again to about NGN 500 per dollar. Since mid-2017 the black market discount has declined considerably due to the recovery of the price of oil and Nigeria's balance of payments.

The recession in Nigeria and the depreciation of the black market exchange rate were major causes of the sharp downturn in Benin's ICBT in 2016–17, as described in the following section.

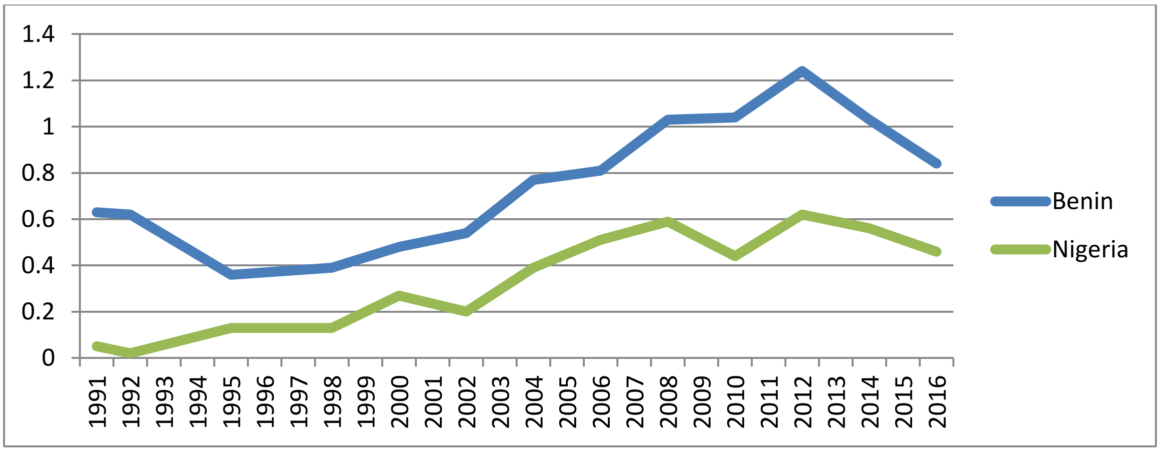
3.3 Subsidised fuel prices

The main underlying source of the pervasive informal trade in petroleum products is differential official pricing mechanisms between Nigeria and its francophone neighbours. Nigeria has long delinked domestic and world prices of fuel and set very low domestic prices, whereas Benin has largely aligned domestic prices to world prices. Figure 2 shows that official prices of gasoline in Benin have greatly exceeded those in Nigeria for the past three decades. Similar differentials exist for other petroleum products, although the gap for diesel is smaller. Consequently, Benin imports almost all its fuel informally.

Figure 1: Nigeria's official and black market exchange rates (NGN per US dollar)

Source: Central Bank of Nigeria, Webinrate.com

Figure 2: Average official gasoline prices in Benin, Cameroon, and Nigeria, 1991–2016 (US dollars per litre)



Source: World Development Indicators and Globalpetrolprices.com

3.4 Port efficiency

Nigeria's adverse business climate and particularly poorly functioning port and customs also contribute to the attractiveness of Cotonou as an entrepôt. Table 2 compares Benin and Nigeria on some of the measures of the 'trading across borders' category of the World Bank *Doing Business* indicators.

Table 2: Indicators of trade facilitation, Benin and Nigeria, 2018

	Trading across borders overall rank (190 countries)	Time to import: border compliance (hours)	Time to import: documentary compliance (hours)
Benin	107	82	59
Nigeria	182	264	144

Source: World Bank *Doing Business* Indicators 2018.

Nigeria is ranked among the worst in the world by the World Bank as regards the ease of trading across borders, at 182nd out of 190 countries, despite efforts to improve port functioning. Benin's ranking is mediocre, at 107th in the world, but far better than Nigeria. Correspondingly, the time to comply with border and documentary procedures is about three times longer in Nigeria and Benin. Various studies have documented the greater efficiency of the Port of Cotonou relative to Nigeria (Hoffman and Melly, 2015; Hoffman and Melly, 2018; Ezeoha *et al*., 2019), motivated in part by Benin's efforts to boost its entrepôt status.

While Benin endeavours to maintain better trade facilitation than Nigeria, that is a low bar: Benin is indeed superior to Nigeria in port functioning but the Port of Cotonou is still far from global best practices. This is even more true for other aspects of the business environment, where Benin is often ranked below Nigeria. Benin's overall ranking in the *Doing Business* indicators is 153rd, slightly worse than Nigeria's 146th. Benin does particularly poorly on important areas such as electricity provision and contract enforcement.

In short, Benin's trade facilitation institutions function better than Nigeria's, but Benin's overall business climate is poor.

4 Magnitude of entrepôt trade between Benin and Nigeria

This section provides estimates of the magnitude of ICBT between Benin and Nigeria for Benin's smuggling of imported goods into Nigeria and Benin's informal imports of petroleum products.

Smuggling is of course difficult to measure but can be estimated indirectly through the magnitude of official imports per capita into Benin compared to Nigeria and other countries (Benjamin, Golub, and Mbaye, 2015). Our previous work showed that imports per capita into Benin of certain products that are heavily protected in Nigeria are far too large to be explained by Benin's domestic consumption. In this section we update our comparisons of imports per capita in Benin, Togo, and Nigeria for some of the key products of the entrepôt trade—namely those that are heavily protected in Nigeria. We confirm that imports into Benin (and also Togo) are much too large to be explained by domestic consumption. Recently, however, Benin's imports of some of these key products have dropped off sharply. Figures 3a–d show imports per capita for cars, rice, cotton cloth, and poultry, respectively, for Benin, Togo, and Nigeria.[6]

While there is some domestic Nigerian production of these products, which is, after all, why they are protected, it is typically low relative to domestic consumption, or not large enough to explain the very large differences in import patterns displayed in these figures.

Cars. Nigeria has banned imports of used cars beyond a certain age in an effort to protect its highly inefficient auto industry. While the permissible age of cars has gradually increased, all imports through land borders were banned in 2016. Nigeria also recently implemented an increase in tariffs. Despite this high protection, Nigerian automobile production has steadily declined to very low levels[7]. 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 in Benin grew rapidly to very high levels until 2015, after which they dropped sharply. At their peak, car imports per capita in Benin reached about $80 in 2012–2014, about eight times the ECOWAS average level of about $10 per person (Figure 3a). Starting in 2015, however, car imports into Benin dropped dramatically. Togo's per capita car imports have also been well 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. Box 1 in Section 5 below describes Benin's ICBT in cars in more detail.

Cloth. Perhaps no product is of more importance to low-income but fashion-conscious West Africans than cotton cloth. Nigeria developed a highly inefficient and protected textile industry and most firms have either disappeared or operate at very low capacity[8]. Imports of cloth in Benin and Togo far exceed those in Nigeria (Figure 3b). Nigerian official imports are almost non-existent. In Benin and Togo, imports have surged since the early 2000s, to over

[6] Imports are from the UN Comtrade database online, measured as the US dollar value of world exports to the respective country. Population is from World Bank *World Development Indicators* online.
[7] 'Nigeria's Automobile Industry: A Shadow of Itself', *Vanguard*, 13 April 2013, www.proshareng.com/news/19796/Nigerias-Automobile-Industry-A-shadow-of-Itself-.
[8] See 'Nigeria: Reviving the Textile Industry', http://wazobiajournal.com/index.php/nigeria-reviving-the-textile-industry/ 10 March 2013.

$100 per capita in 2008–2014, more than 10 times the average ECOWAS levels of about $7 per capita. Togo's relative success in smuggling cloth, as compared to cars, reflects the fact that cloth is easier to transport, as well as Togo's historical role as a regional centre for the textile industry. As in the case of cars, however, cloth imports dropped steeply in 2015–2017.

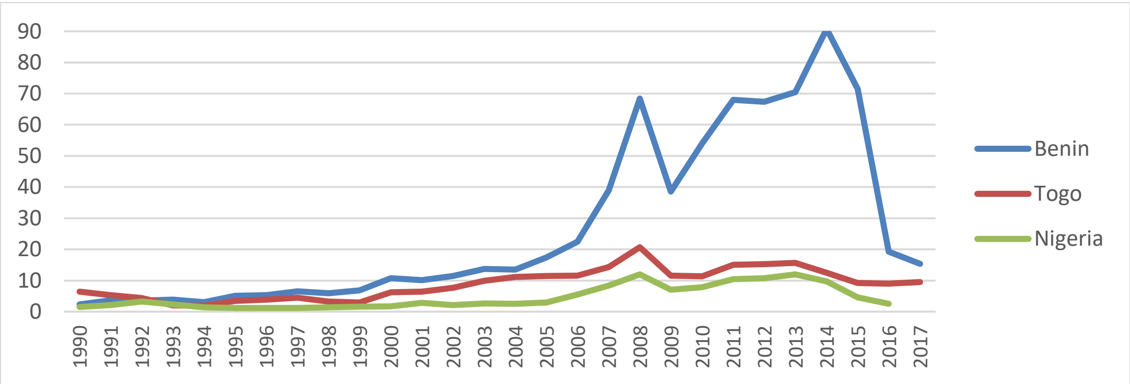
Rice. Nigeria has prioritised the development of domestic rice production using stringent import protection. Nigerian rice production remains far below domestic consumption, with the market substantially supplied by Benin, and to a lesser extent Togo and Cameroon. Rice imports into Benin exploded around 2012, while Togo's imports rose more modestly (Figure 3c). A downturn in Benin's rice imports occurred in 2015, as in the case of cars and cloth, but unlike those two, rice imports recovered sharply in 2016–2017, despite continued efforts by the Nigerian government to stifle smuggling, with a ban on imports of rice through land borders in effect since 2013.

Almost all of Benin's rice imports are of parboiled rice, the preferred type of rice in Nigeria but not in Benin. This provides additional evidence that the large volume of rice imports in Benin is intended primarily for Nigeria.[9]

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 over $30 per person in 2014 (Figure 3d). Nearly all of Benin's imports are intended for Nigeria.[10] Probably due to the high cost of transportation and refrigeration, Togo has not imported much frozen poultry, but an uptick from the mid-2000s until 2015 can be seen. Benin's imports have dropped sharply since 2015.

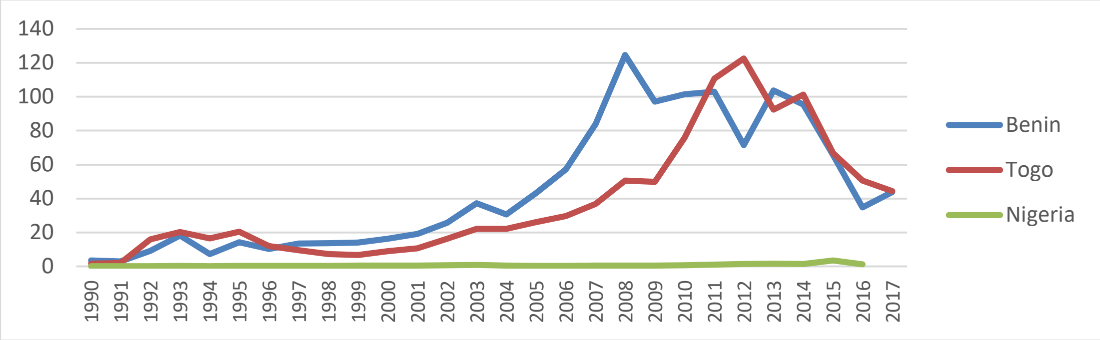
Figure 3. Imports per capita in US dollars for Benin, Togo, and Nigeria

a. Cars

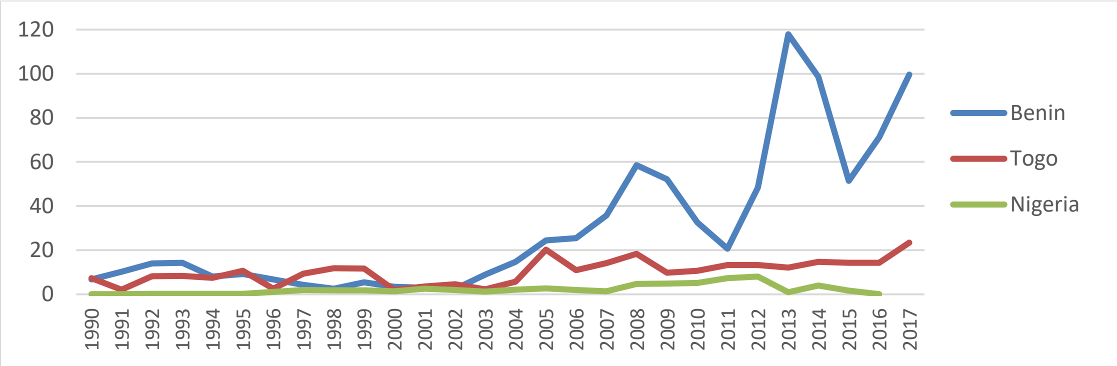


[9] For example, see www.proshareng.com/news/Agriculture/Smuggling-of-Parboiled-Rice-from-Across-the-Borders/37718, 19 December 2017.
[10] 'Nigeria: The Ban On Poultry Products', *by J.E. Oshiotse, This Day, 8 October 2002 http://allafrica.com/stories/200210080108.html*

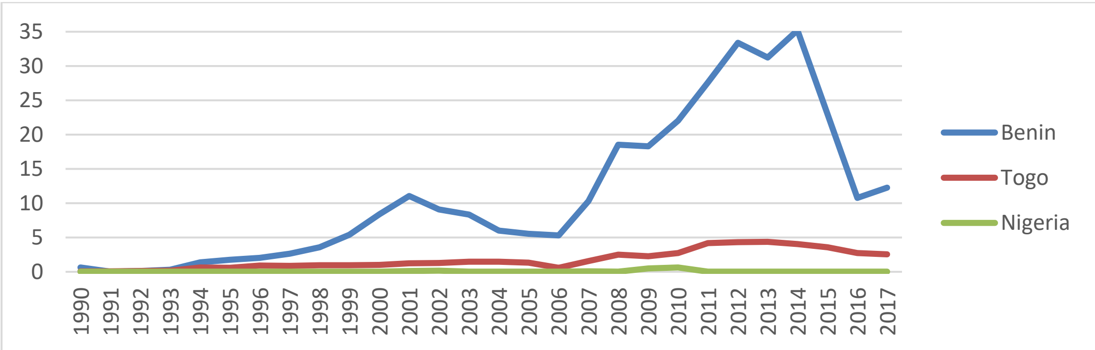
b. Cotton cloth



c. Rice



d. Poultry



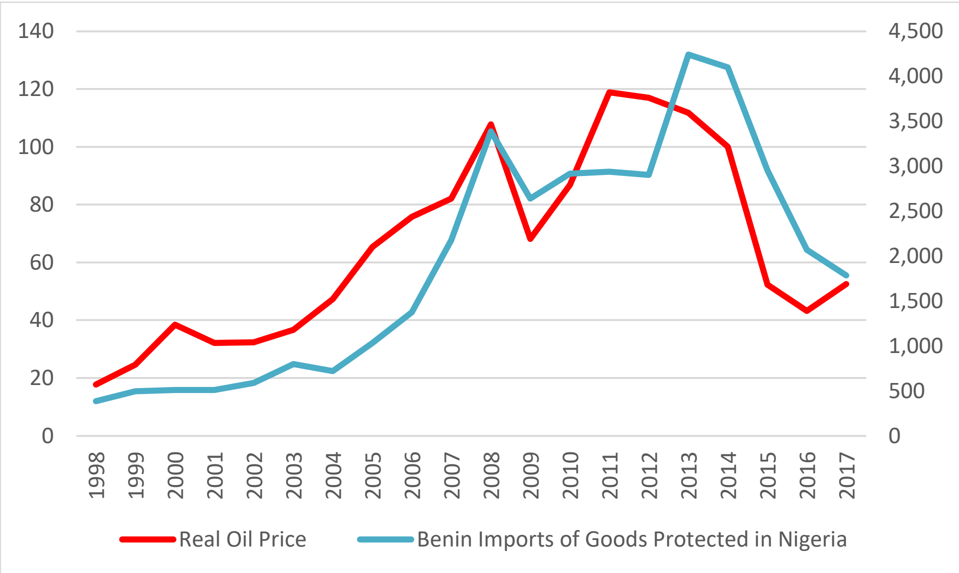
Source: Authors' calculations using UN Comtrade, World Bank World Development Indicators.

Summary on entrepôt imports: Entrepôt imports into Benin are very large but also highly volatile. The sharp downturn in entrepôt trade in 2016–2017 illustrated in Figure 3 is a case in point. There are two main causes of this recent decline: the recession in Nigeria, with an accompanying sharp depreciation of the naira, and President Buhari's efforts to close the border to smuggling from Benin. Of these two, there are several reasons why the recession in Nigeria is likely to have been far more significant than the Nigerian government's crackdowns. First, the efforts to curb smuggling have a long history of ineffectiveness. Traders are skilled in evading official detection and, more importantly, there are numerous beneficiaries from smuggling in Nigeria, including customs officials. Furthermore, Figure 3 shows that imports into Nigeria also declined in 2016–2017, whereas they should have risen if supply from Benin was cut off, given that Nigerian production did not rise during this period for these products. In particular, car production in Nigeria remains minuscule. Also, the fact that rice imports in Benin declined only briefly in 2016, before shooting back up in 2017, is consistent with the fact that rice is a basic necessity, more so than the other goods shown in Figure 3. Thus, rice demand is likely to have fallen less as incomes plummeted in Nigeria. All of this suggests that a fall of demand in Nigeria rather than the Buhari administration's hardened policies on smuggling is the primary cause of the decline in Benin's entrepôt trade. A sharp increase in Benin's taxation of entrepôt imports of cars in 2012–2015 likely also contributed, as discussed below.

The importance of the world oil price in driving Nigeria's economy, and in turn Benin's imports of goods intended for transshipment to Nigeria, is illustrated dramatically in Figure 4. The left axis shows the world oil price and the right axis the value of imports of nine products that are subject to import protection in Nigeria (cars, rice, cotton cloth, new and used clothes, poultry, sugar, and cigarettes) in millions of US dollars. Both series are deflated by the US GDP deflator. Changes in the world price of oil are followed with a short lag by very similar movements in Benin's imports of key products. In 2011–2014, when world oil prices peaked, imports of these nine products alone rose to about $4 billion, equivalent to about half of Benin's GDP. About 80% of these imports were likely destined for Nigeria. When the price of oil collapsed in 2015–2017, Benin's imports declined by around 50%. As seen in Figure 3, individual products have some idiosyncratic variation but generally followed this general pattern, illustrating their sensitivity to the world oil price due to its importance for the Nigerian economy.

Import taxes and competition with Togo are also factors affecting the volume of entrepôt imports in Benin, as described in more detail in Section 6. In particular, Benin raised transit taxes on imported cars in 2012, leading to a dip in Benin's imports and a rise in Togo's. This explains why Figure 4 and Table 3 show that Benin's entrepôt imports dropped in 2012 despite the high price of oil at that time.

Figure 4: Benin's imports of selected key products that are subject to protection in Nigeria (right vertical axis, 2015 US$ millions) and the world price of oil (left vertical axis, 2015 $US per barrel)[a]



[a]The products are cars, rice, cotton cloth, new and used clothes, poultry, sugar, and cigarettes. Benin's imports are measured by rest of world exports to Benin of these products, in millions of US

dollars. The oil price is the average annual Brent crude price in Europe. Both series are deflated by the US GDP deflator to remove common trends due to inflation.

Source: United Nations Comtrade database, Saint Louis Federal Reserve Bank database.

Benin informal imports from Nigeria. Petroleum products constitute by far the largest informal import from Nigeria (Bensassi, Jarreau, and Mitaritonna, 2018). While precise measures are difficult to obtain for petroleum product imports into Benin, informal imports are estimated to supply about 80% of Benin's consumption (Mbaye, Golub, and Gueye, 2019). Box 2 provides a description of the trade in petroleum products.

Benin also informally imports a variety of manufactured products from Nigeria, although the volumes are low relative to petroleum products (Golub, 2009).

Comparison to other estimates. The overall magnitude of informal trade is difficult to measure precisely, but generalising from these sectors, as well as the evidence on imports by customs regime discussed in the following section, it is clear that informal trade is much larger than formal trade, perhaps double in size. These estimates are larger than those in most previous literature because, as noted in Golub (2009), previous studies have ignored the role of goods declared in transit regimes. The following paragraph shows that goods declared in transit and re-export regimes are about double the value of goods declared for domestic use.

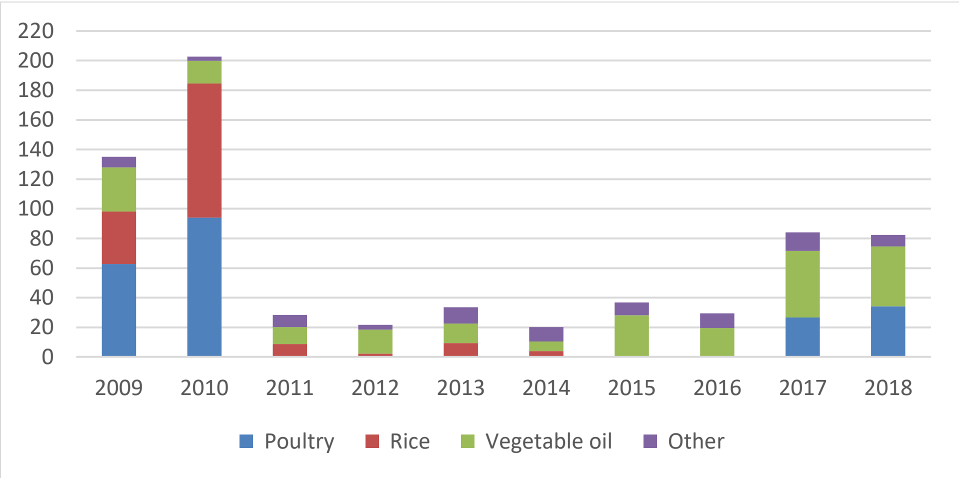
In 2011 Benin's *Institut National de la Statistique et de l'Analyse Economique* (INSAE) carried out a large-scale survey of informal trade in Benin over a 10-day period, as described in Bensassi, Jarreau, and Mitaritonna (2018). The INSAE study involved thousands of interviews at unofficial border crossing posts on the Benin–Nigeria border. While the survey had some important limitations, such as only taking place during the daytime and the fact that the veracity of the answers provided by traders can be questioned, the survey provides the only available direct estimates of the composition and magnitude of informal trade. Bensassi, Jarreau, and Mitaritonna (2018) focused only on domestically produced goods but the INSAE dataset also surveyed trade in entrepôt regimes.[11] An examination of the summary INSAE data by product and regime reveals that the key smuggled products identified above constitute the bulk of goods reported in entrepôt status. That is, cars, rice, cloth, clothing, poultry, vegetable oil, and cigarettes accounted for about 60% of the goods reported by traders as transit and 90% of the goods reported as re-export. The INSAE magnitudes, however, are well below those estimated indirectly, as the surveys undoubtedly did not cover many traders, particularly those crossing at night, when the largest traders generally operate. On the side of exports from Benin to Nigeria, the INSAE data report that over 90% of Benin's informal exports to Nigeria consist of petroleum products. Thus, the INSAE data corroborate the focus of this chapter on a few key entrepôt goods subject to high levels of protection in Nigeria and petroleum products, which are heavily subsidised in Nigeria.

It may also be of interest to compare our indicators of unofficial trade with officially reported Benin–Nigeria trade. As already noted, official bilateral trade is very low. Figures 5 and 6 show the composition of official Benin exports to and imports from Nigeria, in US dollars. Interestingly, the most important products in official trade are much the same as those that

[11] We thank Joachim Jarreau for sharing the INSAE data.

are smuggled, although official trade is much smaller, highly volatile, and three products accounted for almost all of official Beninese exports to Nigeria over 2009–2017: poultry, rice, and vegetable oil (in sharply varying proportions). Whereas total entrepôt trade approached $5 billion at its peak, the vast majority of which was destined for Nigeria, official Benin exports to Nigeria peaked at $200 million in 2010 and have since been below $100 million. In 2009–2010, poultry and rice were the two largest of Benin's official exports but these two dropped sharply starting in 2011. Recently, vegetable oil has been the largest official Benin export to Nigeria. These fluctuations likely reflect shifting degrees of enforcement of Nigeria's restrictions on informal trade for selected products, with these products sometimes allowed to enter Nigeria officially.

Figure 5: Official Benin exports to Nigeria, principal products, in US$ millions

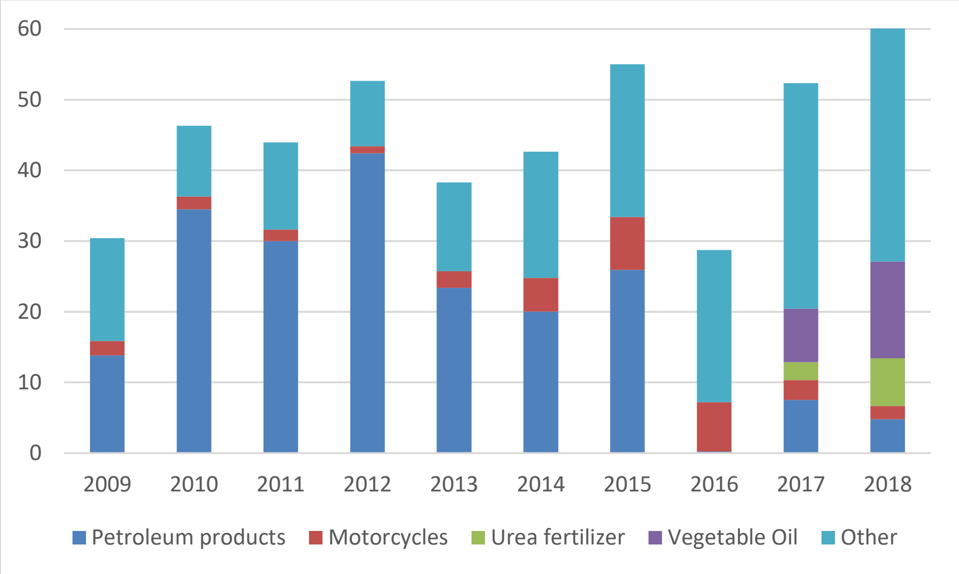


Source: Data provided by Benin government and authors' calculations

Figure 6 shows that reported imports to Benin from Nigeria are even smaller. Petroleum products are usually the largest official import by far, although these official imports are dwarfed by smuggling of gasoline and diesel.

In short, the composition of official trade between Benin and Nigeria seems roughly similar in structure to that of unofficial trade, but it is much smaller and subject to erratic changes in product composition.

Figure 6: Official Benin imports from Nigeria, principal products, in US$ millions



Source: Data provided by Benin government and authors' calculations

5 The institutional structure of ICBT in Benin: highly organised informal trade

This section describes the institutional processes through which goods are transshipped to Nigeria and fuel is smuggled into Benin.

5.1 Customs regimes

Goods imported into Benin are rarely ordered by the final consumers of these goods prior to arrival in the port. Instead, large importing companies, both domestic and foreign-owned, bring goods into the ports of Cotonou to sell to domestic and regional buyers. Only when the goods are purchased are they declared under one of three main customs regimes:

a. *mis à la consommation* (for domestic use);
b. transit; and
c. re-export.

If declared for domestic use, the purchaser must clear all import taxes, including customs duties, value added taxes, and several other smaller taxes. The import duty rates are set by the ECOWAS CET. For final consumer goods the total tax rates are about 45%.

There are two main regimes for the transshipment of goods in Benin and Togo: transit and re-exports. The classification of goods into these two categories is complex, with rather minor differences often determining whether transactions are classified as re-exports or transit. These two rubrics include a variety of sub-categories of transshipment based on practices that have evolved over time. In any case, the differences between the two regimes are quite small and the main point is that under both of these regimes imports are taxed much more lightly than when they are declared for domestic use, as explained below. In practice, the magnitude of transit trade is much higher than re-exports in almost all cases. We will use the term 'entrepôt imports' to describe both transit and re-exports. Togo has very similar regimes for imports.

Transshipped goods do not necessarily – or even usually – end up in the stated destination country. Most goods in transit in Benin are declared for Niger, but everyone knows that most of them end up in Nigeria. On-site visits by the authors to car parks in Benin confirmed that the buyers of vehicles are overwhelmingly Nigerian. Numerous international and local press reports also observe smuggling from Benin to Nigeria. As discussed below, entrepôt imports are affected by Benin's competition with Togo, as well as by events in Nigeria.

Table 3 displays Benin's imports according to the three customs classifications noted earlier – domestic use, transit, and re-exports – over 2002–2017 as a ratio of Benin's GDP. These data are reported by Benin's customs, whereas the trade values in the previous section are from the UN Comtrade database as reported exports from Benin's trade partners. The overall magnitudes of the Beninese data and the UN Comtrade data are similar. The advantage of the Benin customs data is that they disaggregate by customs regime, but they are not available on a consistent basis for as long a time period as the UN Comtrade data. The Benin customs data importantly also include revenues collected, and thus enable a computation of effective import tax rates for each customs regime.

Benin's entrepôt trade (transit and re-exports) is generally much larger and more volatile than imports declared for domestic use. While imports for domestic use are stable at around 20% of GDP, entrepôt imports vary from 20% to 60% of GDP.

The composition of imports between domestic use and entrepôt trade may be affected by differential taxation of the two regimes. Tax competition with Togo may also play a role, as discussed in Section 6. Statutory taxes on entrepôt imports in Benin are generally very low, with the notable exception of used cars. Statutory rates are largely irrelevant, however, as there is substantial discretion in applying tax rates. In particular, tax rates are much lower if goods are labelled for land-locked countries, usually Niger, but in reality the stated destination is almost always modified from Niger to Nigeria once the goods leave the port. Thus, in the analysis we use actually applied tax rates, measured by tax revenues divided by value of imports, rather than statutory tax rates.

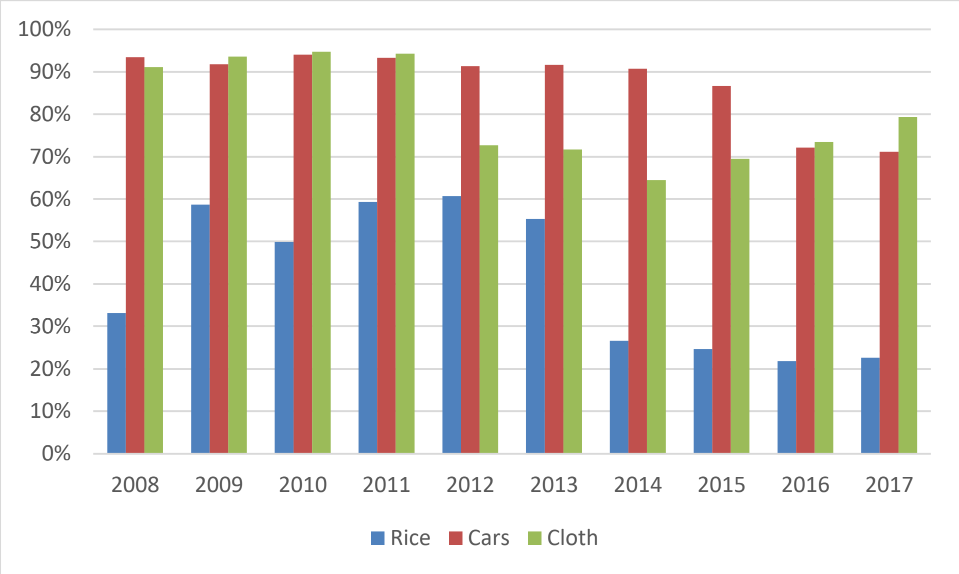
Table 3: Value of Benin's imports by customs regime (percent of GDP), 2002–2017

	Domestic use	Transit	Re-exports	Total imports	Transit and re-exports
2002	21%	53%	5%	79%	58%
2003	21%	20%	2%	44%	22%
2004	22%	23%	0%	45%	24%
2005	19%	28%	0%	47%	28%
2006	18%	41%	0%	59%	41%
2007	18%	44%	1%	63%	45%
2008	21%	53%	2%	75%	54%
2009	20%	58%	1%	79%	59%
2010	20%	70%	1%	91%	71%
2011	16%	50%	1%	67%	51%
2012	16%	28%	1%	45%	29%
2013	20%	39%	3%	62%	41%
2014	26%	41%	15%	83%	57%
2015	22%	33%	3%	58%	36%
2016	21%	24%	1%	46%	25%
2017	23%	31%	1%	54%	32%

Source: Authors' calculations based on Benin customs data (imports), World Bank World Development Indicators (GDP)

Figure 7 shows the share of entrepôt imports of total Benin imports for the three most important products exported informally from Benin to Nigeria: cars, cotton cloth, and rice. The figure shows that for cars, and until recently cloth, imports in entrepôt status constituted about 90% of total declared imports, or, equivalently, imports declared for domestic use were only 10% of total imports. The entrepôt share for cars and cloth dropped in 2016–17 to around 70%, likely due to the general reduction of informal trade to Nigeria, most of which is declared in transit or re-export. To the extent that domestic consumption in Benin did not fall as much, the share of imports for domestic use rose. The share of imports of rice declared in entrepôt regimes was lower than for cars and cloth, at about 50% from 2009 to 2013, and then dropped quite sharply in 2014–2017 to about 25%. This was likely due to a reduction in taxes on rice imports for domestic use, from 33% prior to 2014 to 14% in 2014–2017. Thus, for rice it became less advantageous to use transit status relative to importing through the regular channel for distribution in Nigeria, and a sizeable share of imports of rice were shifted from the transit regime to import for domestic use.

Figure 7: Share of Benin's key imports declared in entrepôt regimes (transit and re-export): cars, rice, and cloth (percent of total imports of respective products)



Source: Authors' calculations based on Benin customs data

5.2 Social organisation of informal trade

Although goods are sometimes imported legally by formal firms, distribution is dominated by informal or semi-formal operators, both foreign and domestic, once the goods are sold and exit the port storage depots. Smuggling is largely controlled by sophisticated and well-organised networks, 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 continents, and enable the provision of credit and transfers of funds.

In many cases, importers and distributors are large informal firms, as described in Benjamin and Mbaye (2012) and Mbaye, Golub, and Gueye (2019). These firms have a large volume of business yet in other respects operate in much the same way smaller informal firms do, i.e. they are controlled by a single businessman, have falsified accounts, and do not pay regular business income taxes. Their financing is sometimes through banks but more typically from own or family savings and retained earnings. The fate of the firms is inextricably linked to that of the owner, who often relies on political connections to maintain his status as a large businessman operating outside of the legal and regulatory system.

For bulk items, such as rice, wheat, and sugar, importers purchase directly from international brokers, with whom they are in regular contact. A few major importers dominate the rice market, with Difezi et fils controlling more than half of sales.[12] Likewise, Cajaf Common, owned by Sébastien Ajavon, is the dominant importer of frozen chicken ultimately destined for Nigeria. Lebanese business networks dominate the used car trade.

Importers of second-hand goods, such as used cars, often travel abroad or have foreign correspondents who provide information about sourcing opportunities. Overall, traders display a remarkable flexibility in adapting to changing market opportunities (Golub, 2009; Golub, 2012).

ICBT has developed a sophisticated infrastructure, often organised much more efficiently than public services. Goods can cross the border by land or water. By land, there are numerous and ever-changing tracks used by traders along the long borders. A complex network of canals is also used, with new canals being dug when customs agents patrol existing routes. Specialised warehouses for various goods, such as rice, are located along the Benin–Nigeria border, built and operated by brokers or private traders. A network of markets also dots both sides of the Benin–Nigeria border, with sister markets on either side of the frontier.[13]

Complex relationships between traders and government officials alternate between cooperation and conflict in both Nigeria and Benin. Importers have elaborate ruses for evading import taxes. Nigerian prohibitions on imports through land borders are evaded quite easily considering that the number of unofficial crossing points far exceeds official border posts. Bans simply lead to declining traffic at official posts, in favour of unofficial posts, mainly in the northern part of the frontier or through Niger. Further, poorly paid customs officials often collude with traders to get around government efforts to curb smuggling. Traders refer to the bribes they pay as 'sacrifice'. A Nigerian trader with the pseudonym Delani vividly described the process of rice smuggling:

'I work within a group of about seven [smugglers]. The least any of us handles is 1,000 bags. When people say rice importation has been banned though the land border, people like us just laugh. We have a leader. How we operate is that each person shops for the rice he has been contracted to supply. Any week we have a large shipment, we gather everything together. We load them on some trailers. Sometimes it may be 5,000 bags…Then our leader approaches our contacts in customs to arrange how the cargo gets through the border. We pay the customs officials NGN 1,000 on each bag of rice and we are issued a time, date, and route we could pass through that is not being monitored. Usually, we cross the border around 11 PM.'[14]

Even if officials were to implement orders to crack down on smuggling, smugglers are frequently more heavily equipped and armed than customs and police officials. The situation is vividly illustrated by an incident where an anti-smuggling officer in Nigeria was shot dead by an army officer of the same nationality escorting a convoy of smuggled cars into the country.[15]

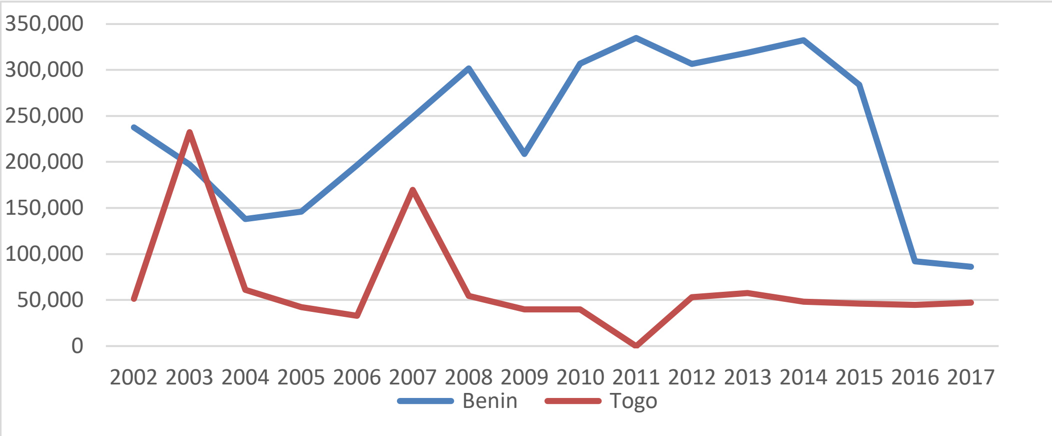
[12] www.lanationbenin.info/index.php/economie-2/144-economie/16850-commerce-de-reexportation-vers-le-nigeria-un-nid-de-fraudes-fiscales, 3 July 2018.
[13] Based on Golub (2009); Golub (2012); Mbaye, Golub, and Gueye (2019); and on site field research carried out in 2018.
[14] https://punchng.com/inside-nigerias-multi-billion-naira-rice-smuggling-business/, 16 September 2017.
[15] https://punchng.com/soldiers-smuggle-cars-captain-kills-lagos-customs-officer/, 14 August 2017.

Boxes 1 and 2 provide a more detailed description of Benin's trade in used cars and petroleum products, respectively.

Box 1: Trade in used cars[16]

Used cars have been by far the most important of Benin's entrepôt imports in terms of employment, income, and customs revenue since about 2000. Imports of vehicles in transit status rose steeply from 50,000 in 1996 to 200,000 in 2000, and to 250,000 in 2002 and 2003. After a dip in 2004–2005 to about 150,000, they then increased steadily to nearly 350,000 in 2014 (Figure 8). Cars imported for domestic use are of the order of 20,000, i.e. less than 10% of cars imported in transit status. However, car imports declared for transit plunged in 2016–2017, falling below 100,000, still far above domestic consumption but down to levels not seen since before 2000.

Figure 8. Number of cars imported in transit status, Benin and Togo, 2004–2017



Source: Data obtained from the Port of Cotonou and the Port of Lomé.

The used car trade is one of Benin's major industries. Huge car parks can be seen on the outskirts of Cotonou. The business is estimated to employ 10,000 to 15,000 people directly, in importing, selling, storing, and driving etc, and several thousand more indirectly (Golub, 2009). The value added generated by the distribution and handling of used cars has been estimated at about 10% of Benin's GDP, roughly the same as cotton.

Cars are imported into Benin through a process of elaborate subterfuge. The vast majority of cars imported in transit status are declared as having Niger as their destination, but it is common knowledge that at least 90% end up in Nigeria. For example, in 2014, of the approximately 332,000 cars imported in transit status, 326,000 were declared for Niger—obviously bearing no resemblance to actual shipments to Niger, where annual car purchases are almost certainly below 10,000. There is a well-established set of procedures for obtaining documents from customs authorising diversion of the cars to Nigeria.

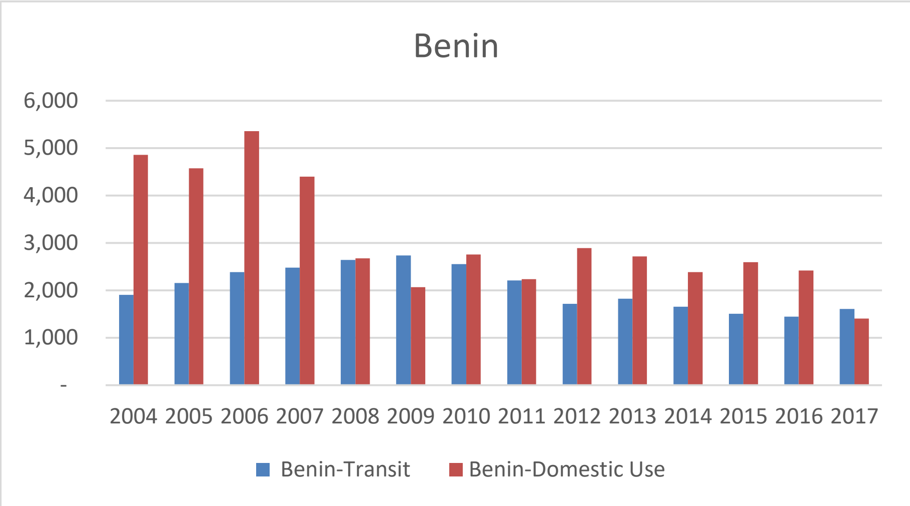
Used car imports follow an elaborate and well-organised circuit. Importers with connections in developed countries locate, purchase, and arrange for the transportation of the cars. Some of the importers are affiliated with international shipping companies, such as Grimaldi, that own their own boats. Others rent the boats. Freight forwarders ('*transitaires*') handle all the paperwork and authorisations. 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 specialising 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 bribe is routine and the amount is largely set by precedent, according to the *transitaires* interviewed. The cars then

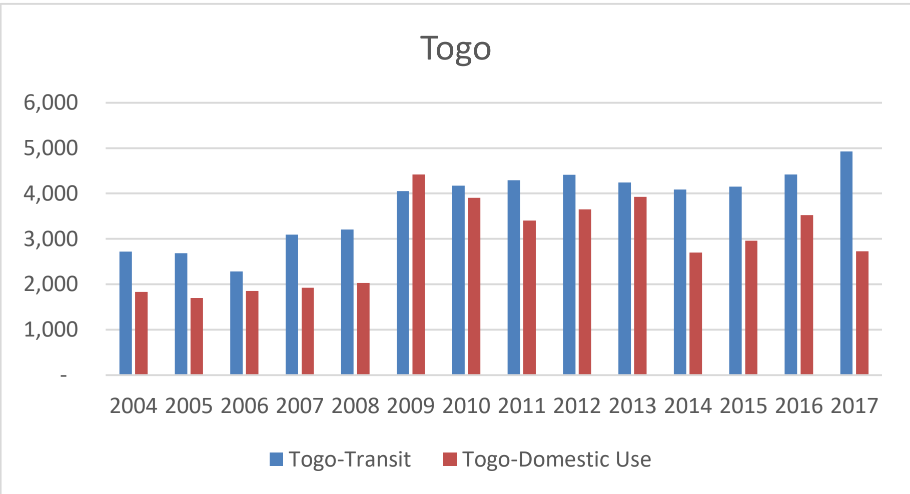
[16] This discussion of the used car market is based on Perret (2002), Golub (2012), and Mbaye, Golub, and Gueye (2019), and on field research carried out by the authors in Benin on several occasions since 2008.

receive valid licence 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.

Customs also applies considerable discretion in the valuation of imported cars, which alters the effective tax rate. A lower valuation may reduce the amount of *ad valorem* taxes collected. Figure 9 shows average customs valuations of cars declared for transit and for domestic consumption in Benin and Togo, measured in US dollars.[17] Presumably, cars imported in the two regimes are similar in quality since the per capita incomes and demand for cars do not differ much between Nigeria and Benin. In 2004–2007 cars imported for domestic use in Benin were assigned much higher values than cars in transit, a system that ceased from 2008–2011 and then resumed to a lesser extent in 2012. In Togo, on the other hand, customs valuations are higher for cars imported in transit than for domestic consumption. Customs officials in both countries are likely responding to domestic political pressure from consumers, other government branches, and smugglers.

Figure 9: Average valuations of cars imported under regimes for transit and domestic use, in US dollars





Source: Authors' calculations based on Port of Cotonou and Customs data.

[17] CFA francs are converted into dollars at a constant exchange rate of CFA 500 per dollar, to avoid valuation effects.

Togo competes intensely with Benin for access to the Nigerian market. Togo charges lower fees for a speedier service in handling car imports, in an attempt to offset Benin's geographical advantage.

The ample supply of ageing vehicles in developed countries and low incomes in West Africa provide a natural basis for trade in used cars. Toyota, Mercedes, and Peugeot cars predominated in the early 2000s but 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 but the car industry has been moribund in Nigeria for many years. In 1994, Nigeria banned imports of vehicles more than eight years old. In 2002, the law was further tightened to a ban of all cars more than five years old. Since then the permissible age has gradually increased. In 2013, steep tariffs were implemented as Nigeria unveiled another attempt to revive the auto industry with the Nigerian Automotive Industry Development Plan. Vehicle production increased moderately at first but has fallen back to very low levels in the last few years, declining even more rapidly than the rest of the manufacturing sector.[18]

Nigeria has repeatedly banned imports of cars by land routes. These bans, however, 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. The recent sharp downturn in Benin's imports is likely more due to the recession in Nigeria than to the effectiveness of the import ban. Regardless, the collapse of car distribution in Benin has had severe effects on income and employment. A recent article describes the change vividly: 'Residents say drivers used to pass by in huge convoys, speeding towards the border, beeping their horns in celebration. Bars that sprang up to cater to visiting clients have closed and dozens of Lebanese, who dominate the import business in West Africa, have departed.'[19]

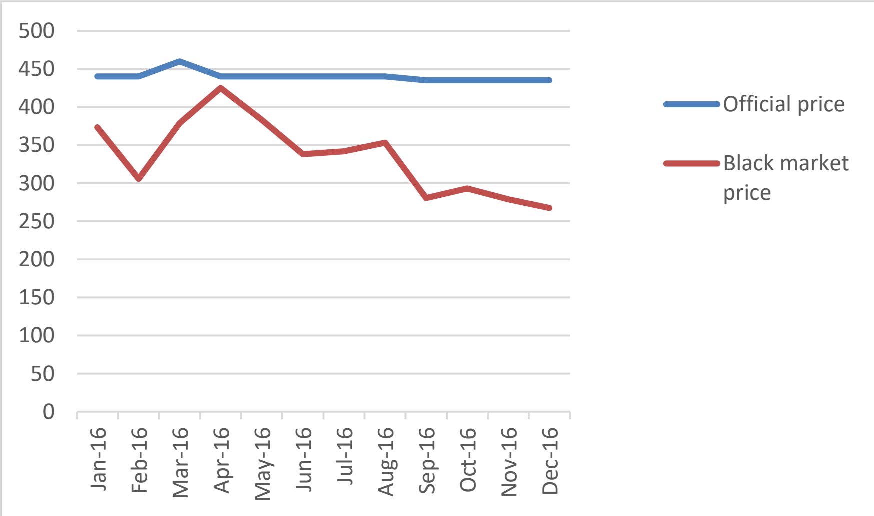
[18] www.eiu.com/industry/article/695039253/nigerias-automotive-industry-is-struggling-for-traction/2017-01-24.
[19] www.reuters.com/article/us-nigeria-benin-smuggling/nigeria-recession-deals-blow-to-smuggling-hub-benin-idUSKBN17125X, 30 March 2017.

Box 2: Petroleum product imports from Nigeria

Smuggling of oil products into Benin began around 1980 and increased dramatically in 2000. Like the entrepôt 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, including at the highest levels of the military. In this case, however, the main factors are the large subsidies in Nigeria, along with the alignment of domestic to world prices in Benin, which together result in much lower consumer prices in Nigeria compared to Benin (Morillon and Afouda, 2005; Mbaye, Golub, and Gueye, 2019). In recent years, Nigeria has partially deregulated petrol prices, but they remain well below Benin's, although to a lesser extent for diesel than for gasoline.

The black market price in Benin is determined by a mark-up on the Nigerian official price and has little connection to Benin's official price. In 2016, our field research revealed a persistent although variable differential between the official and black market price (Figure 10).

Figure 10: Official and black market gasoline prices in Benin, CFA per litre, 2016



Source: Field research in 2016.

The share of gasoline supplied by informal imports from Nigeria rose from about 10% in 1998 and 1999 to about 50% in 2000, and to 83% in 2001 and 2002, only tapering off slightly in 2003–2004 to 72% (Morillon and Afouda, 2005). Despite some increases in Nigerian gasoline prices, the share of smuggled gasoline was estimated at about 80% of Benin's domestic consumption in 2013 (Mbaye, Golub, and Gueye, 2019).

The dominance of the informal market in Benin is reinforced by the lack of official gas stations, and the lack of stations 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, there is a very dense network of service stations in Nigeria, which readily supply the informal traders who smuggle the gasoline into Benin.

The distribution network in Nigeria includes large wholesalers who have storage depots along the border that hold up to 1,000 litres 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 the gasoline through the border by pirogue, 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 is also a source of employment and income for traders and distributors, accounting for about 1–2% of GDP and 15,000–40,000 jobs, depending on the method of estimation (Golub, 2009).

6 The effects of informal trade on Benin

The effects of ICBT on Benin are mixed (Galtier and Tassou, 1998). Golub (2009) estimated that ICBT generates about 20% of Benin's GDP, and a somewhat smaller but still large part of employment, most of it in the handling of used cars and the distribution of petroleum products. The effects on fiscal revenue are particularly important. On the negative side, informal trade contributes to an institutional environment that favours informality, and that thus may impede the development of a modern formal private sector. There are also allegations of an association of informal trading with more insidious forms of illegal trade in arms and narcotics, but we do not have access to information about its extent.

6.1 Effects on national income and employment

The contribution to national income from informal trade derives from the value added in the handling and distribution of entrepôt trade and petroleum products, including tax revenues. There are no official measures of the value added of smuggling, but rough estimates can be derived from the previous analysis. Together, our calculations suggest that the handling and distribution of entrepôt trade and petroleum product imports account for approximately 20% of Benin's GDP. Of these two, entrepôt trade is by far more significant.

For this purpose, we can consider three main categories of entrepôt trade:

- Cars imported in transit status: Cars require much more domestic handling in Benin than other goods, as described in Box 1. Cars are also subject to relatively high transit taxation of about 20%, as described below. We thus assume that the share of value added in car handling, shipping, and taxation is 70% of imported value.
- Other goods imported in transit status, such as rice, cloth, and frozen poultry: These goods imported in transit status face minimal transit taxation and relatively little domestic handling, so we assume that domestic value added is only 20% of imported value.
- Goods imported for official use but in fact transshipped to Nigeria, notably rice and frozen poultry: These goods imported in regimes for domestic use face import taxes averaging around 45% (30% for rice) but relatively little domestic handling, so we assume that value added is 50% of imported value.

We assume further based on the trade data that: 1) total imports intended for transshipping to Nigeria are 50% of Benin's GDP; and 2) the share of cars, goods falsely declared for domestic consumption, and other goods in entrepôt status constitute, respectively, 20%, 20%, and 60% of informal trade with Nigeria. Under these assumptions, the contribution of value added in entrepôt status amounts to 18% of GDP.

The effects of imports of petroleum products on Benin's GDP are even more difficult to estimate but are much smaller. The most detailed study is Morillon and Afounda (2005). Their estimates of the gross margins of distributors suggest that the value added in informal trade of petroleum products amounts to about 2% of GDP. The extent to which traders' incomes are a net addition to GDP is questionable insofar as the informal distribution of petroleum products displaces official distribution and, in the process, results in loss of government revenues. As Morillon and Afouda (2005) rightly observe, however, the informal import of petroleum products involves a terms of trade gain since Benin can import gasoline at prices below world levels. Nigeria's subsidised petroleum products are in effect a transfer to Benin. Morillon and Afounda's (2005) calculations suggest that this trade gain is around 1% of Benin's GDP.

There are likewise no official measures of employment in informal trade. Perret (2002) estimates that direct employment in the used car trade in 2001 was about 15,000, with indirect employment creation of around 100,000. Morillon and Afouda (2005) estimate that employment in smuggled petroleum products ranged from about 20,000 to 40,000, mostly traders and sellers, in the early 2000s. At the peak of the re-export trade around 2014, employment was likely much higher. The decline in entrepôt trade since 2015 has had significant negative effects on employment, particularly on the car distribution sector.

While ICBT with Nigeria accounts for a sizeable share of national income and employment, the longer-term effects on economic growth and diversification could be negative. ICBT attracts entrepreneurial talent into illegal or semi-legal informal activities. Furthermore, the implication of government officials at all levels in informal activities makes reform much more difficult. Nevertheless, ICBT does not necessarily preclude investment in sectors where Benin has strong potential comparative advantage, such as horticulture and agro-processing. There is abundant under-employed labour in Benin and improved opportunities in formal industry would likely attract many of the small-scale traders who work in informal trade as a last resort.

6.2 Effects on government revenues

Benin's system of import taxation has revolved around maximising the income from entrepôt trade, by taxing goods when they enter Benin at a rate well below that in Nigeria, or taking advantage of Nigeria's import prohibitions. However, avoidance of indirect taxes on smuggled petroleum products from Nigeria mitigates this revenue gain from entrepôt trade.

Table 4 shows Benin's high dependence on import tax revenues, which account for about half of tax revenues, far above the average share of about 10% of international trade taxes in tax revenues in low-income countries (Coady, 2019). A substantial drop in the tax revenue to GDP ratio from 14.5% in 2015 to 12.6% in 2017 was mostly due to reduced revenues from international trade taxes. This drop in international trade taxes was in turn due to a sharp decline in revenues from entrepôt trade (Table 5).

Table 4: Benin's dependence on import taxation

	2011–2014	2015	2016	2017	2018
Tax revenue (% of GDP)	14.6	14.5	12.6	13.2	13.4
Tax on int'l trade (% of GDP)	7.7	7	5.7	5.9	6
Tax on int'l trade (% of total tax)	53%	48%	45%	45%	45%

Source: IMF

Table 5 shows the effective tax rates in Benin and Togo on entrepôt imports. These are calculated from customs data provided by the governments in both countries as the value of revenues from taxing imports in the transit and re-export regimes divided by the value of entrepôt trade. The table presents information for cars as well as aggregate trade. A number of interesting features appear from these data.

First, the tax rates on Benin's imports of cars in transit status are much higher than the rates for other goods. The effective tax rates on goods imported in transit status other than cars are well below 1%, whereas the rates on cars are in double digits. Second, Benin sharply raised the effective tax rate on cars imported in transit from about 13% in 2008–2010 to above 30% in 2012–2015. With the recession in Nigeria lowering demand, Benin rolled back the effective transit tax rate on cars to 23.6% in 2017. Third, Togo's effective tax rates on entrepôt trade are very low both for cars and other goods, at well below 1%. Undoubtedly, this reflects Togo's efforts to remain competitive despite its geographical disadvantage in smuggling goods, particularly cars, into Nigeria. Togo lowered transit taxes on cars in 2016–17 like Benin, but starting from a much lower level of only 0.8%.

Table 5 also presents the contribution of entrepôt trade regimes to tax revenues in the two countries. Not surprisingly in view of the effective tax rate differences, Benin collects much more revenue than Togo. Furthermore, and also related to the high rate of taxation on cars, cars account for more than two-thirds of Benin's revenue from entrepôt trade. At its peak in 2012–2015, entrepôt trade regimes contributed 41% of customs revenue, with cars alone accounting for 25%. With the sharp downturn in trade with Nigeria, the share of entrepôt trade in revenue collection dropped dramatically, falling in 2017 to 11% for all trade and 6% for cars. Togo, on the other hand, receives very little revenue from entrepôt trade due to its low tax rates. However, Togo did experience an increase of this ratio from 0.3% in 2008–2011 to 3% in 2012–2015, due both to a slight increase in its effective tax rates and more importantly to a surge in entrepôt trade likely incentivised by trade diverted to Togo due to Benin's higher tax rates. Like Benin, Togo's revenues fell in 2016 and 2017 because of the recession in Nigeria.

The estimates in Table 5 do not include revenues from goods imported under the regime for domestic consumption. Some of these goods, particularly for rice and a few other key products, are likely intended for Nigeria, although the proportion is difficult to ascertain precisely. Since goods imported for domestic consumption face higher import taxes than those in entrepôt status, such imports have a disproportionately higher effect on government revenues, although they constitute a relatively small part of smuggling (we assumed it constituted 20% of entrepôt trade in the calculation of value added). Including these goods labelled for domestic use but intended for Nigeria raises the share of import tax revenue from informal exports to Nigeria to about half of total import tax revenue, i.e. 3–4% of Benin's GDP prior to the recent downturn.

Against this, Benin's loss of fiscal revenue due to smuggling of petroleum products from Nigeria was estimated by Morillon and Afouda (2005) at about 1% of GDP. A recent government estimate reported in the press put these losses at $37.5 million, or also about 1% of GDP.[20] This suggests that the net contribution of fiscal revenues from informal trade with Nigeria was equivalent to about 2–3% of GDP in 2012–2015, before the recent recession in Nigeria.

[20] https://energies-media.com/benin-perd-pres-375-millions-dollars-an-carburant-contrebande/

Table 5: Entrepôt trade tax rates and revenues in Togo and Benin, 2008–2017

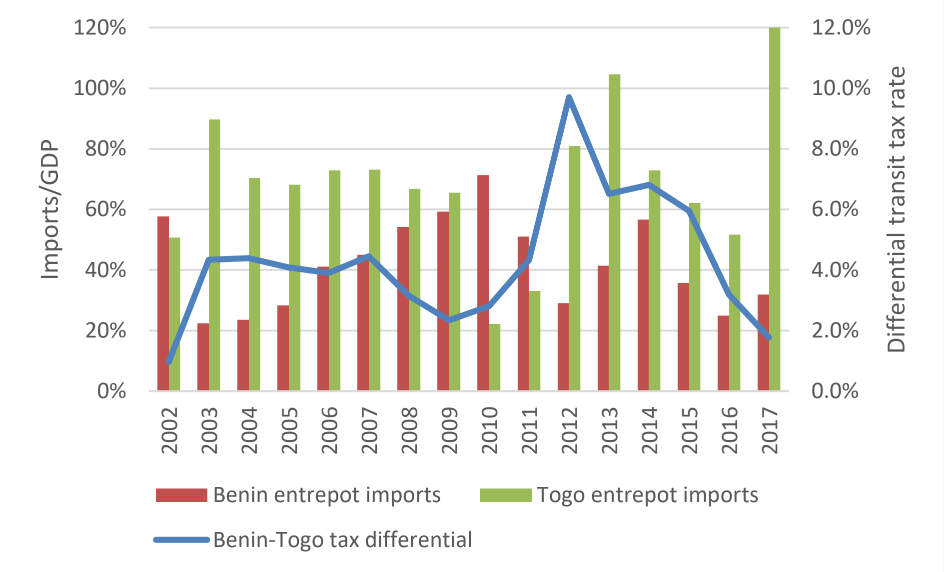
	2008–2010	2011	2012–2015	2016	2017
Effective tax rates on transit and re-exports					
Benin – Cars	12.9%	16.4%	33.6%	29.7%	23.6%
Benin – All goods	3.4%	4.4%	6.9%	3.6%	2.1%
Togo – Cars	0.8%	0.8%	0.5%	0.4%	0.4%
Togo – All goods	0.4%	0.1%	0.5%	0.5%	0.5%
Share of import tax revenue due to transit and re-exports					
Benin – Cars	15.8%	21.9%	25.1%	11.5%	6.3%
Benin – All goods	25.8%	38.7%	41.1%	17.5%	11.3%
Togo – All goods	0.3%	0.3%	3.0%	2.2%	2.4%

Source: Authors' calculations based on Benin and Togo customs data.

Figure 11 looks more closely at the effects of tax competition between Benin and Togo over the period 2002–2017. The blue line shows the differential in the average effective tax rate on entrepôt trade between Benin and Togo (right axis). The two bars show Benin and Togo's entrepôt trade to GDP ratios respectively (left axis). Until 2015, a correlation between the tax differential and entrepôt trade is discernible, with Benin's trade falling and Togo's rising when the tax differential rises. In particular, Benin raised its taxes in 2003, and again in 2012, and Benin's entrepôt trade fell while Togo's rose. After 2014 the correlation breaks down due to demand-side shocks coming from Nigeria, causing Benin's trade to fall despite a declining tax rate. Over the period 2002–2014 the correlation coefficient of the tax differential with the entrepôt to GDP ratio is -0.44 for Benin and 0.52 for Togo, confirming the visual impression.

In summary, informal entrepôt trade constitutes a large part of national income and fiscal revenues, but they are subject to high variability due to competition from Togo and shocks in Nigeria.

Figure 11: Entrepôt tax rate differential (Benin minus Togo, in percent) and Entrepôt trade in Benin and Togo (percent of GDP)



7 Summary and policy conclusions

Much of Benin's economy is under the spell of the policies and institutions of its giant neighbour Nigeria. Nigeria's power as the largest economy on the African continent is unfortunately distorted by the resource curse of dependency on oil in a setting of weak institutions. A rather unhealthy, even parasitic, relationship has developed between Benin and Nigeria. Resource rents in Nigeria are ultimately transmitted to Benin through smuggling rents.

Benin has developed a sophisticated institutional structure to support its role as a smuggling hub for Nigeria. The resulting entrepôt trade has become one of Benin's largest industries. This trade can be quite lucrative, both for the participants and for Benin's government, which collects substantial revenues from it. Used cars are by far the most important industry in terms of national income and fiscal revenue, accounting for about two-thirds of aggregate import tax revenue from entrepôt trade. Customs administration in particular is configured to enable smuggling. The Benin tax authorities balance the priority to raise additional revenues against fostering the growth of this trade.

These benefits of ICBT to Benin, however, are very fragile, dependent as they are on the vagaries of economic policy in Nigeria. The repeated closures of the border are ominous demonstrations of Nigeria's ability to shut down the re-export trade if it chooses to do so. Likewise, if Nigeria ever did really harmonise its trade policies within ECOWAS, the raison d'être of this trade would largely disappear. Perhaps of greater immediate concern is Benin's vulnerability to macroeconomic shocks emanating from Nigeria. The recent sharp drop in most entrepôt imports in Benin is due primarily to the recession in Nigeria rather than border closures. The severe shortage of foreign exchange in Nigeria in 2015–2017, combined with a fixed official parity, led to large depreciation of the naira on the black market. This black market depreciation has exacerbated the downturn, as Nigerian consumers must pay higher prices in naira for goods invoiced in foreign currencies.

At a broader level, a case can be made that the flourishing of informal trade has retarded Benin's development. The large fiscal benefits of re-exporting have reduced the government's impetus to promote productive economic activities. The lure of the rents in Nigeria's distorted markets exacerbates a culture of corruption and tax evasion that is not conducive to a productive economy. It is doubtful that a development strategy based on smuggling and fraud is a viable long-run path to emerging market status.

In principle, it would be desirable for Benin to coordinate macroeconomic and trade policies with Nigeria, to avoid creating incentives for Benin to circumvent discrepancies in prices between countries. It is highly unrealistic, however, to expect Nigeria to coordinate its policies with Benin. Benin is far too small to exert any substantial influence on Nigeria's policies and Benin has limited autonomy insofar as it is tightly integrated into WAEMU. Nigeria is unlikely to abandon the protection of influential industries any time soon. For Nigeria, domestic interest groups and perceived national interest are going to trump Benin's interests. Thus, the numerous announcements of separate or joint efforts to combat smuggling by the two governments, such as those discussed in Section 2, have had no discernible long-run effects on informal trade. The incentives to take advantage of large pricing differences due to Nigeria's high import barriers and subsidies are very powerful inducements both to traders and border officials to engage in or enable smuggling. The only sustainable solution is for Nigeria to realise that it is not in its interest to pursue policies of relying on import protection to boost inefficient domestic industries and subsidising gasoline use.

Benin can work within ECOWAS to gradually promote harmonisation of policies, but Nigeria is unlikely to cede a great deal of sovereignty to ECOWAS either. ECOWAS does have agreements to combat child trafficking and other illegal activities but has no programmes to stop smuggling in legal goods, as far as we know. For example, Nigeria has retained an import prohibition list for which there are no provisions in ECOWAS. The Buhari government's refusal to join the Africa Continental Free Trade Area (ACFTA) further reveals Nigeria's intention to continue to protect domestic industries. Benin is also one of the three remaining countries that have yet to sign ACFTA (Eritrea is the third).[21]

Instead, Benin should focus on improving its own institutions and productive capabilities. In some respects, Benin's combination of formal and informal institutions supporting entrepôt trade are quite sophisticated and effective in their objective of promoting Benin as an informal trade hub. The problem is that a development policy oriented towards informality and smuggling is unsustainable. The challenge for Benin is therefore to channel its evident energy and creativity in a more viable direction. Benin is well placed to continue to serve as a regional trading and service centre for legal trade and services, benefiting from its proximity to Nigeria and links to the land-locked countries to the north. Moreover, if Benin moves away from smuggling towards formal trade, avenues for cooperation with Nigeria could open up.

Rather than focus on eradicating smuggling, which it is largely impossible to do under current Nigerian policies, Benin should take measures that improve the business environment for legal businesses. The 2005 Benin Diagnostic Trade Integration Study (DTIS) (World Bank, 2005) argued that Benin could emulate Hong Kong.[22] Hong Kong transitioned from being an entrepôt for illegal trade to China in the 1950s into a diversified manufacturing and service economy (Chau, 1997). Hong Kong developed world-class institutions, particularly trade facilitation (port and customs), a reliable legal system and property rights, and efficient infrastructure. Hong Kong managed to maintain the efficiency and probity of its own public services even as it served as an entrepôt for illicit trade. In Benin, by contrast, the institutional underpinnings of a market economy, such as the legal system and infrastructure, are better than Nigeria's but generally still poor.

The recent sharp downturn in entrepôt trade due to the recession in Nigeria and Nigeria's efforts to close the border to smuggling from Benin should be a wake-up call to Benin to initiate fundamental reforms. The 1951 United Nations embargo on China was a major impetus to Hong Kong's shift from an entrepôt economy to a producer of manufactured and service exports for developed countries.[23] At the same time, if Nigeria is able to rein in corruption and tap its own massive potential it could then benefit Benin, just as Hong Kong

[21] 'African Union urges Nigeria to join New Trade Zone', *Financial Times*, 9 May 2019, www.ft.com/content/b1d880a2-723b-11e9-bf5c-6eeb837566c5
[22] Stephen Golub was the lead consultant and author of the 2005 Benin DTIS.
[23] As Chau (1997) describes, Hong Kong's traders were able to adapt their entrepreneurial skills to manufacturing remarkably easily, contrary to the view, which is often voiced in Benin, that trading and production are antithetical. Also, Hong Kong benefited from the movement of entrepreneurs from China, just as Benin can take advantage of the influx of Nigerian businesspeople.

re-invented itself as a financial and organisational service centre for Chinese manufactured exports with China's opening to the world economy in the 1980s.

Benin is much less developed than Hong Kong but the precedent set by Hong Kong in transitioning from illicit to formal trade is still relevant as providing a general plan. In particular, Benin needs to follow Hong Kong's example in two ways: 1) reinvent itself as a legal commercial centre serving the region; and 2) develop competitive domestic industries. In the case of Hong Kong, export diversification involved shifting into labour-intensive manufacturing; Benin has a comparative advantage in tropical produce and horticulture. At present, Benin's trade facilitation institutions and business climate are sufficiently superior to Nigeria's to circumvent Nigeria's trade barriers, but inadequate for serving as a regional service centre for legal trade and facilitating foreign and domestic investment. The mediocre quality of public services in Benin extends to the port and customs administration, which are critical for a country with ambitions to serve as a trading centre.

The two Benin DTIS (World Bank, 2005; World Bank, 2015) provide detailed recommendations for improvements in trade facilitation and other institutions that could contribute to Benin becoming a hub for formal trade with Nigeria and other countries in the region. These include: modernisation of customs, using more information technology and formal management procedures that improve accountability and transparency; improved port logistics; and linked rail and road infrastructure investments. Some progress in this regard has been made. The Millennium Challenge Corporation's programme for improving the Port of Cotonou was found to have a considerable success in raising operational efficiency, lowering costs, and reducing petty corruption (Millennium Challenge Corporation, 2018). While past reforms of customs have largely failed, more recently progress has been made in the adoption of a new customs code and modern international practices, such as the SAFE framework of Standards of the World Customs Organization, the revised Kyoto Convention, and the Agreement on the Facilitation of WTO Trade (World Bank 2018)

More broadly, Benin needs to upgrade its institutions to boost investment in productive activities, as discussed throughout this book. A positive agenda for encouraging investment is more promising than cracking down on informal trade with Nigeria. The latter largely depends on Nigeria adopting more sensible policies while the former is much more in Benin's own control. In terms of the availability of resources, there is no need to eradicate informal trade with Nigeria for Benin to expand formal production of goods and services. There are plenty of under-employed people who will gladly switch to better-paying and less hazardous formal sector jobs if these were to be created. The binding constraint is the adverse business climate that deters foreign and domestic investments in productive activities. Improvements in the business climate in turn require better governance. The question then is whether the pervasiveness of informality precludes reforms to the business climate. There is obvious cause for concern in this regard. Despite some significant improvements in trade facilitation, little progress has been made in improving governance and reducing corruption. There are numerous interest groups that benefit from and perpetuate Benin's high level of corruption who will oppose efforts to create a more inclusive and transparent business climate. It remains to be seen if President Talon has the vision and leadership skills to catalyse reforms of the business environment that support formal investment. His background as a successful entrepreneur in the cotton sector is promising. An important symbolic step would be for Benin to join ACFTA.

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Discussion of ‘Benin’s informal trading with Nigeria’

Benin–Nigeria relations are based on close ties reinforced by the disparities created by historical, geographical, and colonial factors. These disparities were amplified by the discovery of oil in Nigeria in the 1950s and the spread of oil revenue in neighbouring countries. For Benin, the result was the adoption of a re-exporting policy introduced in 1973 by the revolutionary government, to take better advantage of Nigeria's oil revenue. This re-exporting system, which turned the country into an 'entrepôt state', has remained in force to this day, despite the various upheavals the country has gone through.

Benin–Nigeria relations also play an important and specific role in the Beninese economy. As such, they have long been the subject of comprehensive studies by various authors, particularly within the Regional Analysis and Social Expertise Laboratory (LARES). From this perspective, the study presented by S. Golub and A. Mbaye is interesting because of the specific approach they take, i.e. analysing the institutional constraints. Rather than discussing, refining, or adding to some of the points they raise, the discussion below will primarily focus on the future prospects of Benin–Nigeria relations, based on the current situation of the Benin economy. The first section will cover the difficulties facing the Beninese economy following the economic slowdown in Nigeria, and the second will cover the strategies to be developed for the future.

1 The impact of Benin–Nigeria trade relations on Benin's economic sector

Despite the enormous benefits of Benin–Nigeria trade relations for the population and public revenues, they constitute serious obstacles to vital sectors of the economy. For the public, re-exporting and imports from Nigeria are the main activities, both in cities and in the border regions. As regards public revenues, the activities of customs authorities, and even the tax department, largely depend on these relations. As for the vital sectors of the economy, the competitiveness of the Nigerian market compared to the Beninese market paralyses industrial activity. Various economic sectors are the victim of the trade relations between Benin and Nigeria. The most affected are industry, distribution, and transport. In the industrial sector, the most affected sectors are manufacturers of reinforced concrete and the food industries, including SOBEBRA, the Beninese brewing company. Still in the food sector, fish farmers, such as the company Cossi et Fils, a company which specialises in breeding catfish, have seen a significant slowdown in their activities, as there are fewer and fewer Nigerian customers, the main buyers of these catfish. On top of these difficulties, sellers of imported fabrics, such as Indian merchants, located along Avenue Delorme, who sell lace and printed fabrics from China, no longer see large numbers of Nigerian buyers in their shops. Even Walkden, which specialises in selling wax fabric, is no longer immune. These leading merchants from the Dantopka market no longer sell in the quantities they used to.

But the main difficulty for industry arising from the Nigerian financial crisis of recent years is that borne by the cement sector, which faces stiff competition from cement from Nigeria, which is sold along the border at CFA 50,000 per tonne, versus CFA 65,000 for cement produced in Beninese factories. Given the importance of having your own home in Benin, this trade in cement is likely to lead to the same result as occurred in the trade in Kpayo petrol: it will destroy the cement factories in Benin.

All these crisis situations and collapsing sales weigh heavily on public revenues and people's living standards. In terms of public revenues, these are measured by customs revenues and the taxation of re-exporting activities, as well as the level of taxes paid by private companies. These revenues form the basis of the state's resources.

As regards the consequences of Benin–Nigeria trade relations for the public, these can be assessed in two ways. On the one hand, there are the negative consequences of the state's inability to ensure the vital needs of the population, which are partially met by the extraordinary development of the informal sector. On the other hand, these consequences can also be analysed positively in relation to the competitiveness of the Nigerian market, which is very popular with the Beninese public. Nigerian goods are cheaper, thereby enhancing the purchasing power of the Beninese. The markets for Kpayo petrol, beverages, and building materials imported from Benin's eastern neighbour also work in the same way. These products are less expensive, allowing Beninese to save money.

2 The future of Benin–Nigeria trade relations

The future of Benin–Nigeria trade relations depends on the envisaged strategies for improving trade relations with Nigeria and preserving the competitiveness of the Beninese economy vis-à-vis its neighbour to the east. These strategies concern both the administrative authorities and the economic actors themselves.

2.1 The strategies of the administrative authorities

As regards the strategies that should be adopted by the Beninese government, we can identify six different strands:

- Better organising Benin's economy around promising sectors, such as strengthening the service economy, for which people based in Nigeria (including ECOWAS managerial staff and international institutions) will need Benin (efficient educational institutions, benchmark health centres, a state-of-the-art communication system with an innovative and efficient financial system, etc.).
- Improving and promoting the agricultural sectors which are in high demand in Nigeria, including soybeans, maize, pineapples, and livestock.
- Better organising the actors of this economy, who are currently trying to penetrate the Nigerian market without any discernible plan, only an individualistic strategy, which means it is not possible to ensure the supply and quality of Beninese products on the Nigerian market. The aim should be to organise these actors into cooperatives, for each promising sector, to forge links with Nigerian economic operators in order to better negotiate the conditions for selling Beninese products in Nigeria.
- Setting up new bilateral cooperation instruments. Benin–Nigeria cooperation is governed by several bilateral agreements concluded within the framework of the Benin–Nigeria Commission, which meets periodically. Despite the existence of this legal framework, cooperation between Benin and Nigeria does not always meet the expectations of the public of these two countries, who have set up several cross-border cooperation associations in the border corridors. For Nigerian and Beninese companies, the free movement of people and goods rings hollow. They want these cooperation instruments to insist on ending the harassment of traders, that new infrastructure be put in place

along the border, such as central purchasing offices and storage warehouses, and that road crossings are cleaned up, etc.

- Setting up a new CFA–NGN exchange rate mechanism, by:
  - securing funds that need to be transported, better guaranteeing the system for transaction payments; and
  - a comprehensive reflection between the two countries to better stabilise the exchange rate between the CFA and the naira.
- Setting up a new Benin–Nigeria trade observatory, which has become necessary and urgent in order to better monitor the impact of the policies pursued by neighbouring countries on Benin's development.

2.2 The strategies of economic actors

Various economic actors who would like to do business in Nigeria have very little knowledge of the country and how its market functions. To correct this, it is vital for Beninese economic operators to do the following:

- Set up a mechanism for consultation and partnership between the chambers of commerce of the two countries, to resolve the problems of susceptibility linked to mutual mistrust. Beninese economic operators should also participate in initiatives that bring economic actors together in the region, such as that of Nextport Trade, a company that brings together businessmen looking to move into the regional market.
- Create cross-border cooperation associations involving all the economic actors who are active in the border corridors, in order to better secure and facilitate the movement of people and goods.
- Better inform entrepreneurs in Benin about how Nigerian companies operate, and about strategies to access the market. Entrepreneurs also need to accept to adjust their prices on the Beninese market, to be better able to respond to the Nigerian competition.

Benin–Nigeria trade relations will remain dynamic regardless of the crises affecting Nigeria and the reforms undertaken by the country. There are two reasons for this dynamism. The first is the proximity of the capital Lagos, which has a population larger than Benin's. (We are talking about an urban area where the purchasing power of the public is always higher than that of the Beninese, no matter how much the naira falls). The second reason is the fact that the reforms being made in Nigeria do not always take into account the fact that the statistical data in this country are approximations, resulting in fairly large margins that can be captured through local relations.

Nigerians are well aware of this, which is why at the public level everyone is interested in the relations between Benin and Nigeria. But in order for these relations to function properly, Benin needs to be attentive to all the developments going on in Nigeria, and to adjust its diplomatic economic policy accordingly.