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Title: Informality and corruption in cross-border trade: evidence from West Africa

A large share of cross-border trade in sub-saharan Africa is informal, i.e. avoids legal customs. How this impacts the economies involved depends on the costs of trade in the informal sector, relative to legal trade, and on distortions affecting it. Deardorff and Stolper (1990) have argued that, « in African conditions », informal trade may improve welfare because the costs of legal trade thus avoided are high.

In this paper, we bring evidence on the structure of the informal trade sector, and on its costs, using data from an original survey which covers informal cross-border trade at all land borders of a West African country, Benin. A large part of this trade employs small-scale transport modes, such as motorcycles, pirogues, pedestrians, and cars. We show that the choice of transport mode is linked to trade barriers: lighter, less efficient transport is used more often to transport high-tariff products. We then show that bribes are an important component of informal trade costs, and identify determinants of bribe payments and levels. We show evidence of price discrimination in bribes. Lighter transport also serves to avoid, or reduce, expected bribe payments; the availability of alternative routes lowers bribes. Transporting goods facing more restrictions exposes to higher bribes, however, trade of liberalized goods also face frequent bribes. This indicates that both coercive and collusive corruption coexist. Bribery is less frequent within WAEMU, a customs union.

Overall these results show evidence of inefficiency and distortions in trade in sub-saharan Africa. A large share of actual trade is diverted from legal to informal channels. This form of trade is inefficient, and faces pervasive corruption. Reductions in trade barriers (tariffs, but also compliance costs, such as delays and red tape) could increase welfare by formalizing a larger share of trade and lowering transport costs. However, it is not clear that tariff reductions would suffice to reduce bribery. Cross-border institutions, such as regional agreements and customs unions, are needed to reduce corruption and inefficiency in regional trade.