The World Economy

The World Economy (2012)
doi: 10.1111/j.1467-9701.2012.01469.x

Entrepôt Trade and Smuggling in West Africa: Benin, Togo and Nigeria

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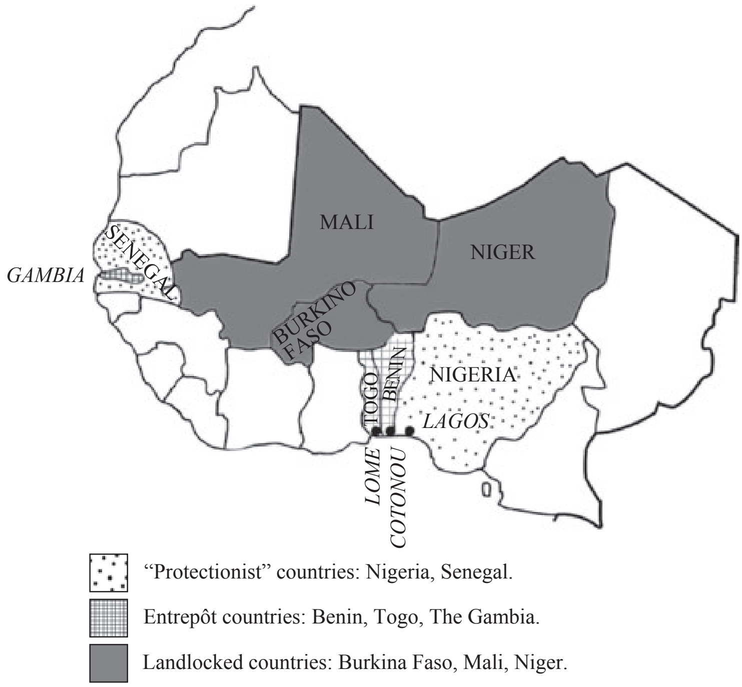
1. INTRODUCTION

SMUGGLING is pervasive in Africa. Perhaps the most pronounced version of this is the development of 'entrepôt states' in West Africa, notably Benin, Togo and The Gambia (Igué and Soulé, 1992), whose economic development strategies have been largely based on enhancing their attractiveness as trading hubs. These countries serve as conduits for both legal transit to land-locked countries in West Africa (Mali, Niger and Burkina Faso) and illegal trade to more protectionist neighbours (Senegal and Nigeria) (see Figure 1 for a map of the region). The entrepôt states have deliberately sought to maintain low import barriers and relatively well-functioning ports to lower costs of importing and transshipping. This paper explores the ways in which Benin and Togo function as smuggling havens and compete for access to Nigeria.

Theoretical analyses of smuggling, beginning with Bhagwati and Hansen (1973) and Deardorff and Stolper (1990), and surveyed in Azam (2007), have analysed the welfare effects of smuggling, focusing on whether smuggling raises or lowers transactions costs. These models often omit some important political economy effects, notably the effects on income and employment in

This paper is based on research projects for the World Bank in Benin in 2009 and Togo in 2010, for the Country Economic Memorandums (CEM) for Benin and Togo, unpublished internal World Bank documents (World Bank 2009, 2010). The author made several visits to both countries, and benefited from numerous discussions with government officials and traders. I would particularly like to thank Amana Agbenda and Jeremie Single of Togo's Customs and Josué Babalola of Benin Customs for providing the trade data used in this paper. I am also grateful to Bruno Boccara, Elke Kreuzwieser and especially Philip English for inviting me to participate in these projects and for their comments. All views expressed in this paper are personal. Jamie Hansen-Lewis of Swarthmore College provided capable research assistance.

FIGURE 1
Map of West Africa by Trading Status



the informal sector, loss of government revenues, and stunting of the growth of the formal sector.

On the empirical side, smuggling is inherently difficult to measure. Statistics published by organisations such as the IMF or the UN indicate very limited intra-African trade despite integration schemes which have lowered *de jure* regional trade barriers (Berg, 1985; Agbodji, 2007). For example, according to the IMF *Direction of Trade*, Nigeria accounts for only about 5 per cent of Benin's exports and 3 per cent of Togo's, contrary to common knowledge in both countries.

Several recent papers have analysed smuggling using 'mirror data', that is, matching importer and exporter reported bilateral trade flows. If the source country's reported exports exceed the destination country's reported imports, smuggling can be inferred (e.g. Fishman and Wei, 2004; Mishra et al., 2007; Berger and Nitsch, 2008). Intra-African smuggling, however, cannot be fully apprehended with mirror data, since official trade statistics from both the exporting and importing country fail to record cross-border trade. For example, smuggling cannot be inferred from examining recorded Benin-Nigeria bilateral trade, which is very small as noted above.

The best evidence for smuggling is from case studies.[1] This paper uses customs data from Togo and Benin, combined with interviews with numerous traders and officials in those two countries. A somewhat similar approach is used by Fishman et al. (2008) in studying Hong Kong's entrepôt trade *vis-à-vis* China. Golub and Maybe (2009) examined The Gambia's role as a conduit for smuggling to Senegal, but did not have access to the same kind of product-level customs data used in this paper.

Section 2 briefly presents the geographical, historical and institutional context of Benin's and Togo's trade with Nigeria. Section 3 focuses on the main cause of smuggling: large differences in the levels of import protection. Section 4 explains the customs regimes for imports in Benin and Togo. Section 5 presents measures of the total volume of cross-border trade and its composition. Section 6 elucidates tax competition between Benin and Togo, particularly in the crucial used car market. Section 7 sketches the major consequences of cross-border trade and Section 8 concludes.

2. GEOGRAPHICAL AND INSTITUTIONAL CONTEXT

Regional cross-border trade has long played a major role in Benin and Togo's economies.[2] They are small countries with populations of nine million and seven million, respectively, in 2009, near to Nigeria, the most populous country in Africa (150 million). They are also well placed to serve as gateways to land-locked Sahelian countries. Nigeria's high levels of protection, poorly functioning ports, and currency controls provide an open invitation to smuggling.

Togo and Benin are members of the West African Economic and Monetary Union (WAEMU), a group of mostly francophone countries, and of the larger Economic Community of West African States (ECOWAS) which encompasses both the francophone and anglophone countries, including Nigeria. WAEMU is a full-fledged customs and monetary union, whereas ECOWAS has until recently made little progress in reducing barriers to intra- and inter-regional trade, largely because of Nigeria's reluctance to liberalise highly protected industries. ECOWAS and WAEMU have agreements allowing free circulation of goods in transit within the region, but these provisions have never been applied in practice in either WAEMU or ECOWAS. Trucks line up for days or even weeks at border crossing points, particularly on the Togo-Benin border. In addition, roads are often poorly maintained, and there are numerous check-

[1] Azam (2007) and Lesser and Moisé-Leeman (2008) survey the literature on case studies in Africa, the former focusing on West Africa and the latter on East Africa.

[2] Igué and Soulé (1992) provide a fascinating historical chronicle of economic policy and smuggling in Benin. Azam (2007, Chapter 2) provides a brief survey of previous studies of smuggling into Nigeria from adjacent countries, including Benin.

points slowing commercial traffic. Despite these handicaps, it is common knowledge in the region that a large volume of unrecorded trade takes place.

Since the 1970s oil boom in Nigeria, Togo and Benin have competed to serve as entry points for smuggled goods into Nigeria, as well as in transit trade with Burkina Faso and Niger. Benin has the advantage of sharing a long border with Nigeria. Togo in turn has a long border with Benin, so that traders must cross through Benin or take a circuitous route through Burkina Faso and Niger to Nigeria. This disadvantage is particularly acute for perishable products or those requiring refrigeration.

Lomé's port, however, permits access to larger ships than Cotonou's, requires less frequent dredging, and has generally been better managed (World Bank 2010). When crossing borders with smuggled merchandise, traders must either bribe customs agents at the border or slip across through the countryside on dirt roads or canals.

Benin charges a 6.3 per cent transit fee on goods passing through Togo on the way to Nigeria. Benin also attempts to police its border with Togo and limit crossings of goods in transit to authorised points. In its efforts to limit smuggling of imported products, Benin at times blocks cross-border shipments of local produce from Togo in contravention of WAEMU's free trade provisions. Togolese traders have developed elaborate circuits for smuggling goods into Benin, for both the Beninese and the Nigerian markets.[3]

Long-standing cultural affinities unite the people of the various countries in West Africa, transcending nationality. Togo, Benin, Nigeria and other countries are characterised by North-South ethnic and religious divides, providing an impetus for East–West trade that crosses borders. The Yoruba are the largest of several ethnic groups scattered across Nigeria, Togo, and Benin, and heavily involved in commercial networks. Traditional trading routes, including trans-Saharan trade, were in use before the colonial era. A class of well-to-do coastal merchants continued to operate in Togo and Benin in the colonial era despite repression from the colonial authorities and expanded their economic and political influence after independence (Igué and Soulé, 1992; Heilbrunn, 1997). Women play an important part in unofficial shipments of goods across borders.[4] Togo's 'Nana Benz' is a famous example.[5]

[3] 'Secteur Oleagineux au Benin: Quand la Contrabande fait la Nique a l'Etat,' http://gnona.wordpress.com/2007/03/21/secteur-oleagineux-au-benin-quand-la-contrebande-fait-la-nique-a-l%E2%80%99etat/

[4] 'Commerce Transfrontalier: Les Femmes Béninoises, Véritables Vedettes du Secteur', *Le Progrès*, 15 July 2007.

[5] The Nana Benz are large-scale cloth importers in Lomé, with their nickname deriving from their proclivity to own Mercedes cars. See Heilbrunn (1997), Ayina (1987) and 'Togo's Mercedes-Benz Girls' *Christian Science Monitor* October 30, 1990. Their role has diminished in recent years.

In Africa in general and West Africa in particular, national borders established in the colonial era are artificial and porous (Herbst, 2000) and the sense of nationality is often secondary to clan or ethnic groups. Many villages straddle borders, providing a haven for smugglers. Weak nation states unable to police them nevertheless often adopt highly interventionist trade, exchange rate, and pricing policies, providing incentives for smuggling (Berg, 1985). Poorly paid customs officials are easily persuaded to look the other way. Nigeria is one of the most extreme examples in Africa, with a wide array of highly distorted prices, including artificially low petroleum prices, very high tariff peaks and outright import bans (World Bank 2009; Raballand and Mjekiqi, 2010).

3. TRADE POLICIES IN BENIN, TOGO AND NIGERIA

a. Trade Policies in Benin and Togo

As already noted, Togo and Benin have deliberately maintained low import barriers to facilitate entrepôt role. With the implementation of the WAEMU Common External Tariff (CET) in 2000, Togo and Benin lost some of their competitive advantage *vis-à-vis* other WAEMU countries. The CET provides for four tariff bands: essential social goods – 0 per cent of CIF value; basic raw materials – 5 per cent; intermediate inputs and products – 10 per cent; consumer goods – 20 per cent. In addition, imports for domestic use must also pay an 18 per cent value added tax (VAT) and several other smaller taxes and fees.

The CET, VAT and other taxes cumulate to a maximum of about 45 per cent for final consumer goods. While the CET appears to limit tax competition between Togo and Benin, customs officials in both countries have historically exercised considerable discretion in the valuation of goods to alter effective rates. Also, taxation of transit and re-exports is not harmonised in WAEMU. Togo's taxes and fees on goods in transit and re-export are very low, well below Benin's, in an apparent effort to compensate for its geographical disadvantage in access to the Nigerian market.

b. Nigeria's Trade Policies

Despite long-standing ECOWAS plans for a customs union, little progress has been made, largely because of Nigeria's unwillingness to participate. It has maintained one of the most protectionist trade policies in the world, with very high tariff spikes and a large number of import bans. Unlike Benin and Togo, Nigeria has relatively developed but often inefficient manufacturing

TABLE 1
Selected Import Barriers in Nigeria, 1995–2007 (Tariff Rates in % or Bans)

	1995	*1997*	*1999*	*2001*	*2003*	*2005*	*2007*
Edible oil	Banned	Banned	55	40	Banned	Banned	Banned
Poultry meat	Banned	Banned	55	75	Banned	Banned	Banned
Beer	Banned	Banned	100	100	100	Banned	Banned
Wine	100	100	100	100	100	20	20
Milk products	55	55	50	50	100	20	20
Tomato preserves	45	45	45	45	45	20	20
Used clothes	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Tires	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Wheat dough[a]	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Used cars[b]	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Sugar	10	10	10	40	100	50	50
Cloth and apparel	Banned	50	65	55	100	Banned	Banned
Tobacco and cigarettes	90	90	80	80	100	50	50
Rice	100	50	50	75	110	50	50

Notes:
(i) [a] Import ban removed in October 2008.
(i) [b] Defined as more than eight years old in 1994–2002, and more than five years in 2002–04, eight years in 2004–08, 10 years since October 2008.

Source: Soulé (2004) and Nigerian customs data provided by the World Bank.

and agricultural industries, with powerful interest groups favouring protection. Table 1 presents the evolution of Nigeria's trade policies through 2007 for some important products. The highly discretionary application of policies is also notorious.

Recently, some progress has been registered in ECOWAS's efforts to liberalise, with Nigeria participating in negotiations (World Bank 2009). Nigeria had insisted on a fifth tariff band of 50 per cent. Whether or not agreement will be reached and if so, how many products will be included in the fifth band and the extent of Nigerian implementation will be crucial for the future of Togo's and Benin's transit/re-export trade. In October 2008, Nigeria removed 25 products from its list of prohibited imports, including some meat products, flowers, cassava, fresh and dried fruits, wheat, cocoa butter, biscuits, beer, some truck tyres, selected textile products, and bicycle frames. In many cases, it eliminated import bans that had been introduced in the last few years, returning the situation to roughly what it was in 2004. The most important remained in place, however (Table 2), including frozen poultry, textiles, clothing, footwear and used cars, although the allowed age used car imports was extended from 8 to 10 years. For a number of other important goods such as rice, cigarettes and sugar, high tariffs remain.

TABLE 2
Nigeria's Import Prohibition List, October 2008

Frozen poultry	Used car tyres
Meat (beef, pork, lamb, etc.)	Corrugated paper, paper boards, and boxes
Eggs	Toilet paper and facial tissues
Vegetable oils and fats	Textile fabrics of all types and articles of clothing
Spaghetti/noodles	Footwear and bags of leather and plastic
Fruit juice in retail packs	Hollow glass bottles for beverages
Waters without added sugar	Used air conditioners and compressors
Waters with added sugar	Used motor vehicles over 10 years old
Bagged cement	Furniture
Medicaments (various ones)	Electric generators sound proof casings
Used pharmaceuticals	Gaming machines
Finished soaps	Ball point pens
Mosquito repellant coils	Telephone re-charge cards
Plastics	
Tooth picks	

Source: Nigerian customs, provided by The World Bank.

4. MODES OF CROSS-BORDER TRADE IN TOGO AND BENIN[6]

Goods imported into Benin and Togo are rarely ordered by the final consumers of these goods. Instead, large importing companies, both domestic and foreign-owned, bring goods into the ports of Cotonou and Lomé to sell to domestic and regional buyers. Only when the goods are purchased, are they declared under one of three main customs regimes: *Mis à la consommation* (for domestic use); transit; and re-export. If declared for domestic use, the purchaser must clear all import taxes, including customs duties, VATs, and several other smaller taxes, as previously described.

In Benin, goods declared for domestic use are quite often smuggled to Nigeria, because Nigerian protection is so high that it is still lucrative to smuggle even after paying import duties in Benin (World Bank, 2009). This occurs for products banned in Nigeria such as frozen chicken and cloth as well as goods facing high tariffs such as rice. In Togo, such re-exporting of goods which have paid duties upon entry also occurs, although to a lesser extent, given the greater cost of shipping from Togo to Nigeria.

There are two main types of official transshipment of goods in Benin and Togo: transit and re-exports. The classification of goods into these two categories is complex. These two rubrics include a variety of sub-categories based on practices that have evolved over time. The distinctions mainly involve two key

[6] This section is based on interviews with customs officials and traders conducted in Benin in 2008 and Togo in 2009.

dimensions: first, whether the good is initially placed in a domestic customs regime upon arrival at the port, and second, whether transshipment is by land, sea or air. These are difficult to define precisely and customs officials themselves sometimes struggle to explain why some goods are placed in one or the other.[7] From an economic point of view, however, whether goods are classified as re-exports or transit does not matter much as the differences between the two are quite small and their effects on the domestic economy similar. Both are taxed much more lightly than domestic goods. What matters most is the extent to which there is value addition and employment creation from handling the goods when they are in transit, not how they are classified. As discussed below, there is a very wide range of value addition in entrepôt activities, depending on the goods in question. So for the remainder of this paper, the two modes of transshipment will often be lumped together and referred to as 'entrepôt' trade.[8]

Statutory taxes are minimal on re-exports and transit in Togo. Transit is subject to the *redevance statistique* (RD) of 1 per cent but even this is waived if goods are declared for the land-locked rather than coastal countries. Re-exports are also subject to RD, with shipments to land-locked countries again exempt. In addition, re-exports must pay a 1 per cent re-export tax. There are a few much smaller levies and fees. In short, depending on whether they are manifested for the land-locked countries and how they are classified, transshipped goods are taxed at very low rates of 0 to 2 per cent. Transit taxes are higher in Benin, but still well below import taxes on goods for domestic use. Goods in transit are subject to a total tax rate of 6.05 per cent, reduced to only 0.85 per cent if labelled for the land-locked countries. Re-exports are taxed somewhat more, at a rate of 14.37 per cent, but re-exports from Benin are insignificant, so this rate is largely irrelevant. In practice, customs has substantial discretion in taxing entrepôt trade. Evidence on actually paid transit taxes are provided below.

Transshipped goods do not necessarily or even usually wind up in the stated destination country. Most goods in transit in Benin are declared for Niger and for Burkina Faso in Togo, but it is widely known that most wind up in Nigeria. For example, Togo's customs data indicate that only 1 per cent of imported vehicles in transit are for Nigeria. On-site visits by the author to car parks in Togo and Benin confirmed that buyers of vehicles are overwhelmingly Nigerian. Traders in Benin and Togo report that the majority of other consumer goods imported in transit or re-export status wind up in Nigeria, particularly in

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[7] One former customs official went as far as to claim that it is fruitless to attempt to apply general principles to the procedures for classification of goods into transit or re-export status.

[8] Much of the literature, including IMF documents, use the term 're-exports' to designate entrepôt trade.

the case of Benin. Various international and local press reports also report on observed smuggling from Benin and Togo to Nigeria.[9]

Although the goods are usually imported legally, entrepôt trade is dominated by informal or semi-formal operators, both foreign and domestic, once the goods are sold and exit the port. Smuggling is largely controlled by sophisticated and well-organised networks, with many small operators involved. The trust and connections provided by these informal networks, often ethnic or religious in nature, facilitate market transactions spanning the continents and enable provision of credit and transfers of funds.

For bulk items such as rice, wheat and sugar, importers purchase directly from international brokers with whom they are in regular contact. For some products such as cigarettes, foreign companies have local representatives in Benin and Togo. Importers of second-hand goods such as used cars often travel abroad or have foreign correspondents, providing information about sourcing opportunities. A few large wholesalers dominate imports of frozen poultry in Benin; COMON has about 60 per cent of the market, employing 470 full time workers, and CDPA has 20 per cent of the market, with 150 full time and another 300 part-time workers. Overall, traders display a remarkable flexibility in adapting to changing market opportunities.

Entrepôt trade has developed a sophisticated infrastructure, often organised more efficiently than public infrastructure. Goods are smuggled across 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 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.[10]

5. THE VOLUME AND COMPOSITION OF CROSS-BORDER TRADE IN TOGO AND BENIN

There have been few previous studies of the magnitude and significance of re-exports and transit for Benin and Togo.[11] The following analysis is based on inferences from disaggregated trade statistics obtained from customs in Togo

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9 For example, http://www.agrimoney.com/news/smugglers-to-supply-half-of-nigerias-rice-imports–1412.html, 1 March 2010.

10 Based on Igué and Soulé (1992) and interviews in Benin and Togo.

11 Igué and Soulé (1992) and Galtier and Tassou (1998) provide some estimates of entrepôt trade for Benin. IMF reports for both countries include estimates of re-exports but provide little discussion (IMF, 2007).

and Benin along with some use of the United Nations Comtrade database.[12] Both countries have up to date time series on imports by customs regime (domestic use, transit and re-exports). As already indicated, declarations are sometimes misleading: some imports declared for domestic consumption are re-exported, while some goods declared in transit are sold on the domestic market. Nevertheless, careful inferences from the available data can shed considerable light on trade patterns.

a. *Overall Volume of Trade*

Tables 3 and 4 display imports according to the three customs classifications noted earlier. Table 3 indicates that Togo's entrepôt trade (transit and re-export combined) is larger than imports for domestic use by a substantial margin. Entrepôt trade reached a peak of 88 per cent of GDP in 2003, more than double the 2000 level of 43 per cent, and after a decline in 2004 to 66 per cent of GDP, increased again to 75 per cent of GDP in 2008. Transit is considerably larger than re-exports in Togo. Re-exports dropped sharply in 2008, but the rise in transit more than offset the fall in re-exports. As noted earlier, however, the distinction between re-exports and transit is rather fuzzy and the overall total and product composition matter more than the allocation between the two categories.

Benin's entrepôt trade is also much larger than imports declared for domestic use but has followed a generally inverse pattern over time from Togo's. Transit and re-exports gradually recovered from 26 per cent of GDP in 2004 to 62 per cent in 2008, back up to the level of 2002, with a particularly large jump in 2007–08. The jump in Togo's entrepôt trade in 2003 mirrored a large decline in Benin's (Table 4). Benin raised transit taxes and fees in 2003, and there was also a serious border dispute between Benin and Nigeria in 2003, both of which opened the door to increased shipments from Togo to Nigeria at the expense of Benin.

These aggregate comparisons must be nuanced, however. First, it should be noted that Benin's GDP is about double Togo's, even though its population is only slightly higher, so scaling by GDP hides the fact that Benin's trade is larger in absolute value. More importantly, in Togo about half of all transit and re-exports consist of petroleum products from Nigeria and cotton from Burkina Faso, which involve minimal domestic value added. Benin does not include cotton and petroleum in its database on transit and re-exports. If cotton and petroleum products are excluded from Togo's data, its transit/GDP ratio is well below that of Benin. Moreover, a substantial amount of Benin's imports labelled for domestic use is in reality also smuggled, so Benin's reported

[12] http://comtrade.un.org/db/.

TABLE 3
Togo's Imports for Domestic Use, Transit and Re-exports (Percentage of GDP)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Domestic use	25	24	23	24	24	28	32	32	34
Transit	33	31	36	61	47	43	46	49	59
Re-exports	9	9	14	27	19	27	27	25	16
Total imports	68	64	74	112	91	98	105	105	109
Transit and re-exports	43	40	51	88	66	70	72	74	75

Source: Togo customs and author's calculations.

TABLE 4
Benin's Imports for Domestic Use, Transit and Re-exports (Percentage of GDP)

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Domestic use	23	23	24	21	20	20	26
Transit	58	22	26	31	45	49	61
Re-exports	5.0	2.3	0.3	0.3	0.5	0.6	0.9
Total imports	86	48	50	53	65	70	88
Transit and re-exports	63	25	26	32	46	49	62

Source: Benin customs and author's calculations.

imports and transit are probably more underestimated than Togo's. For these reasons, a disaggregated matched comparison of the two countries' imports is more useful than aggregate imports.

b. Product-level Comparison of Togo and Benin

Table 5 provides a comparison of imports into Togo and Benin, covering the key products which are highly protected in Nigeria. Given the similarity of Togo and Benin's economies and populations, it is unlikely that domestic demands differ greatly in the two, although Benin's *per capita* GDP is somewhat higher than Togo's. Moreover, domestic production of most of these goods is very low or zero. Consequently, large discrepancies mostly reflect differences in the extent of entrepôt trade.

Table 5 reports imports for the most important goods subject to import bans and high import taxes in Nigeria. Frozen fish and motorcycles are two products imported in relatively large quantities in Togo and Benin but not restricted in Nigeria and shown for comparison. Used cars and cloth are products where imports in transit far exceed imports for domestic use or feasible domestic consumption. Benin's imports of these two are also much greater than Togo's. Rice and frozen poultry display a somewhat different pattern, with Benin a very large importer, but exclusively (frozen poultry) or mostly (rice) imported

TABLE 5
Selected Key Imports in Togo and Benin, 2008 (Billions of CFA Francs)

	Benin			*Togo*		
	Imports for Domestic Use	*Transit and Re-export*	*Total*	*Imports for Domestic Use*	*Transit and Re-export*	*Total*
Goods facing import bans in Nigeria						
Cars	25.7	398.7	424.4	10.9	69.7	80.6
Cotton cloth	17.9	350.5	368.4	2.3	30.4	32.7
Frozen chicken	58.6	0.0	58.6	4.4	0.0	4.5
Clothing	17.6	19.1	36.7	15.2	20.9	36.2
Used clothes	22.4	33.1	55.4	4.0	6.0	9.9
Medicine	18.8	10.2	29.1	17.7	15.5	33.2
Palm oil	35.0	27.2	62.1	3.5	6.6	10.1
Vegetable oil	0.3	11.7	11.9	1.1	6.6	7.8
Goods facing high tariffs in Nigeria						
Rice	88.4	43.7	132.1	4.2	8.7	12.8
Sugar	7.8	8.2	16.0	2.1	7.2	9.3
Cigarettes	2.6	19.2	21.9	8.8	11.9	20.7
Goods facing lower tariffs in Nigeria						
Frozen fish	4.6	0.7	5.3	2.1	4.9	7.0
Motorcycles	5.1	0.8	5.9	5.1	3.3	8.4

Source: Benin and Togo Customs and author's calculations.

for domestic consumption rather than transit. Given that Benin's imports of these two goods exceed those of Togo by a factor of more than 10, we can infer that imports are not in fact consumed at home but are smuggled into Nigeria from Benin in very large quantities.[13] In fact, it is well-known in Benin that almost all of the imported frozen chickens are smuggled to Nigeria to circumvent its import ban. Togo imports almost no frozen poultry, however, probably because Benin's location provides an insuperable advantage in view of the need for refrigerated transport. A number of other products, including sugar, palm oil, other vegetable oils, trucks and used clothes also display one of two characteristics to varying degrees: transit substantially exceeds imports for domestic use in one or both countries and Benin's imports substantially exceed those of Togo. For some other goods which are banned in Nigeria – cigarettes, medicines, clothes and condensed milk – imports into Togo are similar to or larger than Benin's. In the case of imported medicines, Togo and Benin both have rather large imports for both transit and domestic use, leading to the suspi-

[13] It is not clear why some goods are imported under domestic consumption status, paying full import duties, rather than under transit status, even when destined for Nigeria. In the case of rice, the import duties are low in Benin and Togo (5 to 10 per cent). In the case of frozen chicken, Benin may be competitive in smuggling even when imports are subject to the 20 per cent duty rate, given Togo's geographic disadvantage.

cion that much of these are diverted to Nigeria. The fact that Togo's imports of cigarettes for domestic consumption are much larger than Benin's suggests Togo is somehow more successful in smuggling even after payment of customs duties, as with frozen chicken in Benin. Goods that face low import barriers to Nigeria, frozen fish and motorcycles, show much lower levels of imports in transit status in Benin, than similar goods facing high barriers in Nigeria. For Togo, the same pattern emerges, but not as clearly.

Table 6 provides another set of comparisons for the three most important smuggled goods, cars, rice and cloth, this time also comparing the local Benin and Togo customs data to the mirror imports reported in the UN Comtrade database. That is, we examine three alternative measures of imports for the three products: Comtrade-reported imports; Comtrade-reported exports from rest-of-world (ROW); and customs import data from Benin and Togo, inclusive of re-exports and transit.

(i) Cars

Comtrade-reported imports of cars in Benin are far below both Comtrade-reported ROW exports to Benin and Benin's imports inclusive of transit and re-exports reported by Benin's customs. Likewise for Togo. This is not because cars are smuggled into Benin and Togo, rather because they are intended for transshipment to Nigeria. In fact, reported imports inclusive of transit in the national data always substantially exceed Comtrade-reported ROW exports of cars to these two countries. For example, in 2006, Benin's Comtrade-reported imports of cars are \$28 million, far below Comtrade-reported exports to Benin of \$184 million, which in turn is well below national Benin customs data showing total imports inclusive of transit of \$494 million. For Nigeria, however, there is little discrepancy between Comtrade imports to Nigeria and reported ROW exports to Nigeria, suggesting that cars are not smuggled directly but rather through Togo and Benin. This is also suggested by the fact that Togo's and Benin's car imports inclusive of transit together are about equal to Nigerian car imports in 2006 and 2007, despite Nigeria's much greater size.[14] In 2008, Nigerian reported imports rose considerably, but so did Togo's and Benin's.

(ii) Cloth

Cloth imports in Benin and Togo display a similar pattern to cars, that is, Comtrade-reported imports are always well below both Comtrade-reported ROW exports and customs-reported imports inclusive of transit, except that

[14] Unlike Benin and Togo, Nigeria has a domestic car industry, but the number of cars produced is very small in comparison to imports of cars, falling from 100,000 cars per year in the early 1980s to less than 10,000 in 2000 (Perret, 2002) and currently less than 5,000 (http://www.business-travel-nigeria.com/business-in-nigeria-automobile.html). In short, the Nigerian market is overwhelmingly supplied through imports. The next section discusses the car market in more detail.

TABLE 6
Comparison of Alternative Measures of Imports into Benin, Togo and Nigeria from UN Comtrade and Benin and Togo Customs[a] Millions of US Dollars

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Cars							
Benin							
ROW exports (Comtrade)	83.4	103.0	104.6	138.9	184.5	329.0	575.5
Imports (Comtrade)	22.1	26.6	23.3	25.8	27.7	NA	NA
Imports plus transit	442.4	244.7	278.4	332.9	494.5	671.0	951.4
Togo							
ROW exports (Comtrade)	40.3	53.7	0.0	64.8	67.2	85.3	125.4
Imports (Comtrade)	11.0	13.2	61.9	11.2	0.0	18.4	NA
Imports plus transit	118.4	207.3	202.8	188.8	163.3	218.8	179.9
Nigeria							
ROW exports (Comtrade)	271.6	340.3	337.0	411.8	777.0	1228.6	1360.7
Imports (Comtrade)	257.6	331.8	NA	NA	839.4	913.8	1630.9
Cloth							
Benin							
ROW exports (Comtrade)	196.1	280.7	247.7	353.2	477.2	720.1	1099.1
Imports (Comtrade)	48.3	48.9	41.5	36.3	36.6	NA	NA
Imports plus transit	133.0	145.0	183.7	216.3	278.5	450.8	822.4
Togo							
ROW exports (Comtrade)	96.5	122.4	55.2	154.3	178.8	225.5	318.3
Imports (Comtrade)	9.4	8.9	13.0	12.6	NA	24.1	NA
Imports plus transit	45.2	63.1	11.9	56.5	58.3	72.4	87.6
Nigeria							
ROW exports (Comtrade)	92.5	156.8	91.9	63.5	66.8	73.2	77.8
Imports (Comtrade)	5.8	95.4	NA	NA	1.0	132.3	113.9
Rice							
Benin							
ROW exports (Comtrade)	17.2	67.7	112.4	194.8	211.4	302.3	504.5
Imports (Comtrade)	23.1	39.4	54.1	100.7	112.3	NA	NA
Imports plus transit	41.1	86.3	88.9	154.3	176.9	298.9	294.8
Togo							
ROW exports (Comtrade)	21.2	11.7	36.2	110.2	67.7	84.2	99.0
Imports (Comtrade)	5.4	3.9	4.5	5.7	NA	8.6	NA
Imports plus transit	11.8	19.7	13.4	13.5	18.6	22.6	28.6
Nigeria							
ROW exports (Comtrade)	229.3	142.9	346.6	326.0	260.9	187.6	696.3
Imports (Comtrade)	234.8	231.2	NA	NA	423.6	480.7	946.9

Notes:
(i) [a] ROW exports (Comtrade) are total world exports to the listed country, reported by the exporting countries, from Comtrade.
(ii) Imports (Comtrade) are reported imports for the listed country, from Comtrade.
(iii) For Benin and Togo, Imports plus Transit is from national Customs databases and is the sum of imports for domestic use, transit and re-export.

now ROW exports exceed national data, particularly for Togo, suggesting some smuggling into Benin and Togo in addition to large-scale entrepôt imports. For Nigeria, Comtrade ROW exports substantially exceed imports until 2007 and 2008, when reported imports rise sharply but ROW exports do not. Nigerian imports of cloth are far below Togo's and Benin's, again suggesting that the first two are smuggling to Nigeria.

(iii) Rice

For rice, Benin and Togo's imports reported to Comtrade are also usually well below Comtrade-reported exports to these two countries as well as imports inclusive of transit in the national data, although less dramatically so for Benin. For Nigeria, Comtrade-reported ROW exports are generally in line with Nigeria-reported imports.

To summarise, there is substantial variation across the three commodities and over time but it is clear that Comtrade-reported imports in Benin and Togo greatly understate actual imports. Second, for Nigeria, the Comtrade data provide little indication of large-scale smuggling as reported exports are usually fairly close to reported imports. Third, Nigerian imports are often below Benin and Togo's imports inclusive of transit. All this suggests that smuggling into Nigeria takes place largely through neighbours rather than going through Nigerian ports. Overall, while it is impossible to prove that goods imported into Benin and Togo wind up in Nigeria, there is a very large volume of transshipment of precisely those products which are heavily protected in Nigeria. It is surely not coincidental that Benin's most important imports include items that are heavily protected in Nigeria. Although Togo is less reliant than Benin on the Nigerian market, this analysis suggests Nigeria is also a significant destination for much of Togo's imports of used cars and some other consumer goods banned in Nigeria such as cloth, medicines and cigarettes.

6. COMPETITION AND CUSTOMS PRACTICES WITH A FOCUS ON THE USED CAR MARKET

a. Transit Taxation in Togo and Benin

Togo's taxes on transit trade have fallen over time and are now considerably below those of Benin. In the 1980s, Togo's averaged about 8 per cent. In the early 1990s, transit taxes were lowered to about 4 per cent and now, as noted earlier, transit and re-export taxes are in the 0 to 2 per cent range. Table 7 shows the effective tax rate on transit in the two countries, obtained by dividing total customs receipts by import values. Table 7 confirms that actually paid taxes are very small for Togo, well below 1 per cent for most goods, and only 0.3 per cent for used cars.

In Benin, Table 7 indicates that tax receipts on transit were also quite low in 2002 at an average effective rate of 1.3 per cent for all goods and 3.2 per cent on used cars. In 2003, Benin raised transit taxes, especially on used cars, with the

TABLE 7
Effective Tax Rates on Transit, Benin and Togo (%)

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
	Benin						
All goods	1.3	4.6	4.7	4.5	4.3	4.8	4.5
Used cars	3.2	10.9	10.7	9.9	9.4	12.6	13.5
Cloth	0.7	2.6	3.1	2.5	2.0	1.2	0.4
	Togo						
All goods	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Used cars	0.3	0.2	0.2	0.2	0.3	0.2	0.3
Cloth	0.6	0.3	0.3	0.4	0.4	0.5	0.8

Source: Togo and Benin customs data on duties collected, and author's collections.

average rising to 4.6 per cent and the rate on used cars jumping to nearly 11 per cent. This transit tax increase, along with the border closing between Nigeria and Benin in 2003 in response to a political dispute, contributed to the sizeable decline in Benin's entrepôt trade and large increase in Togo's in 2003 as seen in Tables 3 and 4. One can conclude that Benin has sacrificed some of its transit trade to collect more revenue. Togo, on the other hand, collects very little revenue on transit and re-exports, to boost competitiveness. Benin's entrepôt trade nevertheless has recovered impressively since its 2003 slump, as seen in Table 4.

The greater speed and lower cost of port services in Lomé over Cotonou also result from the pressure on Togo to remain competitive.[15] It appears these very low taxes on transit and re-exports in Togo and the competitiveness of the port are consistent with a strategic decision by the government to promote the role of Togo as hub and compensate for the higher costs of reaching Nigeria from Lomé relative to Cotonou.

b. The Used Car Market

Competition in the used car market is particularly intense and significant given the greater value added and employment provided by trade in used cars. Large numbers of used cars are smuggled into Nigeria from Benin and Togo. Table 8 shows the volume of cars imported into Togo and Benin, by customs status. Used cars are rarely declared for re-export in either, but rather enter in transit. Benin's imports averaged around 200,000 per year over 2000–08, with a dip in 2003 and 2004 and a surge in 2006–08 reaching over 300,000 in 2008.

[15] Based on World Bank (2010, ch. 4).

TABLE 8
Number of imported Cars, By Customs Status, 2000–09 (in 000s)

	Togo									
	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*[a]
Total	57.3	83.3	80.4	91.8	71.0	67.4	75.1	67.9	91.9	46.9
Domestic use	10.1	8.6	10.0	9.8	7.8	8.0	9.0	9.2	11.4	5.4
Transit	47.1	74.7	70.4	82.0	63.2	59.4	66.0	58.7	80.5	41.5
	Benin									
Total	203	251.4	245.0	207.1	144.0	153.9	203.6	257.7	321.0	235.9
Domestic use	NA	NA	7.5	9.8	6.1	7.8	7.0	9.0	19.2	21.0
Transit	NA	NA	237.5	197.3	137.9	146.1	196.5	248.7	301.8	214.8

Notes:
(i) [a] First five months of 2009, annualised.

Source: Benin port of Cotonou, Togo customs, and author's calculations.

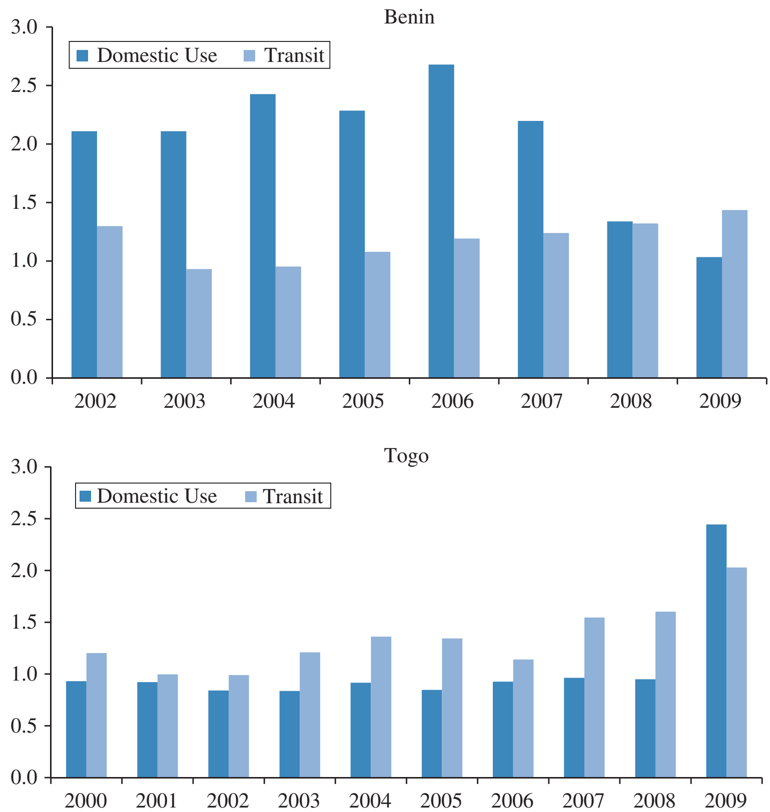
Of these, about 8,000 are declared for domestic consumption and the rest in transit, ostensibly mostly to Niger but in practice overwhelmingly to Nigeria. Togo's imports are less than half of Benin's, averaging about 70,000 per year in recent years, peaking at above 90,000 in 2003 and again in 2008. About the same number as in Benin are declared for domestic use, leaving the remaining 80 per cent for transit.[16] Togo's imports of used cars for both domestic use and transit dropped precipitously in the first five months of 2009.

Customs officials in Togo and Benin exercise substantial discretion in valuing goods, particularly used cars for which the value depends on the model and year, which can be difficult to verify. Figure 2 shows the average customs valuation for imported cars in Togo and Benin, distinguished by customs status into imports for domestic use and transit.[17]

[16] It is surprising that Togo's domestic purchases of cars appear to exceed that of Benin during 2007, given its lower population and *per capita* GDP. About one-third of the cars imported for domestic use in Togo are probably then smuggled out. Knowledgeable observers estimate Togo's domestic purchases of cars at about 500 per month. This would lower Togo's actual domestic consumption to about 6,000 cars a year. The surge in Benin's imports of cars for domestic use in 2008 and early 2009 also probably reflects increased sales to other countries in addition to rising domestic sales.

[17] According to customs officials, data on value and weight are more reliable than data on numbers of products. In particular, data on numbers of cars is of poor quality in Togo and are incomplete for Benin. The numbers of cars were therefore partially estimated based on the net weight of cars, assuming that imported cars weigh an average of one ton. Further it is assumed that cars imported for the domestic market and for transit have the same characteristics, on average. Given the socio-economic similarities of the countries in West Africa, and consequently the similarity of demands, this assumption seems reasonable.

FIGURE 2
Average Customs Valuations of Used Cars (CFA Francs per Car) 2000–09



Source: Benin and Togo Customs and author's calculations.

Customs practices are very important because they influence the amount of duties collected and therefore impact competitiveness in the car transit business as well as customs revenues. For cars declared in transit, valuations on official declarations may also affect the level of unofficial payments levied at border crossings and checkpoints by customs officers and the police, as bribes are related to the stated value of merchandise on official documents. Low valuations therefore increase competitiveness in transit trade by reducing unofficial payments. Moreover, undervaluations of cars declared for the domestic market lower import taxes and thus make it more feasible to profit from re-exporting these cars even when imported under domestic use status.

Based on Figure 2, it appears that Togo's and Benin's customs valuation practices differ strikingly and have changed over time. Until 2009, Togo maintained low average valuations of imported used cars for domestic consumption relative to cars declared in transit, while Benin did the opposite until 2008. For cars in transit, both countries had average valuations in the range of 1.0–1.5 million CFA francs (about \$2,000–\$3,000) through 2008, with a slight upward tendency over time.

An interesting natural experiment illustrates the operation of the used car market.[18] In December 2008, the private firm Compagnie Togolaise d'Evaluation et de Contrôle des Véhicules d'Occasion (COTEC) was awarded a contract in Togo to value imported used cars. Valuing used cars is complicated because of the large variety of models and years, which can easily be misrepresented on the bill of lading. Importers have an incentive to claim that cars are older and less valuable than they are in reality to lower import tax liabilities. The director of COTEC is an expert in the used car business and has access to global blue book values for all models of used cars. Moreover, he checks the chassis numbers to verify the accuracy of customs declarations by importers.

COTEC dramatically raised the average values on imported cars in 2009, doubling the values declared for the domestic market and raising values for cars in transit by about 25 per cent (Figure 2). A public outcry against higher prices received considerable attention in the press, with allegations that the higher prices are destroying Togo's used car business.

Defenders of COTEC justified the higher valuations on several grounds: first, higher valuations correctly reflect market prices. Indeed, the COTEC valuations are similar to those of Benin's imports for domestic use prior to the sharp drop in 2008; second, rich and well-connected buyers are the ones who are most affected given that valuations have been raised most on higher-end vehicles. Previously, high-level government officials benefited most from discounted customs values; third, even though import volumes are down, government revenues are up, particularly on cars for domestic use; fourth, the significant fall in sales in Togo is mostly due to the economic crisis in Nigeria and depreciation of the naira, not COTEC's higher valuations.

Meanwhile, in Benin, valuations of imported cars for domestic use, which were considerably higher than in Togo through 2007, were lowered sharply in 2008 and 2009. Not coincidentally, in Benin, a large increase in cars were declared for the domestic market in 2008 and 2009 from an average of about 8,000 in 2002–07 to 20,000 in 2008–09. Given the implausibility of such a large increase in domestic use, it is likely that some of these sold for domestic use are in fact smuggled out, facilitated by the lower effective tax rates because of undervaluation. Benin's imports declared as transit also rose sharply in 2008 to 321,000 before falling back in the first five months of 2009 to an annual rate of 235,000 (Table 8).

[18] This discussion is based on interviews with the director of COTEC, traders in the car market, and press reports. For example 'Le COTEC et ses Revers,' *Le Correcteur*, 3 June 2009 (Cotonou, Benin). Available at http://www.icilome.com/nouvelles/news.asp?id=45&idnews=12128.

To what extent was the sharp drop in sales in Togo in the first part of 2009 attributable to the rise in valuations versus the economic downturn in Nigeria? Some insight can be obtained by comparing Togo and Benin's imports. Togo's car sales fell sharply in the first five months of 2009 (annualised) over 2008, by 53 per cent for the domestic market and 49 per cent for transit, an overall drop of 50 per cent. In Benin, overall car imports were down too, but only by 26.5 per cent, with cars for domestic use up 9.5 per cent while cars imported in transit lower by 29 per cent. This suggests the Nigerian crisis explains about half of the decline in Togo's sales and that the new higher valuations were also hurting Togo's competitiveness.

Although COTEC increased valuations of cars in transit much less than for cars declared for domestic use, the customs values of cars in transit in Togo were raised well above those in Benin. From a national welfare point of view, the optimal policy for Togo might be to raise valuations of cars for domestic use to market levels, as COTEC has done, thereby generating additional revenues, while keeping low valuations for cars in transit to remain competitive with Benin. About 90 per cent of the tax revenues on used cars derive from cars declared for domestic use, even though they only account for 10 to 20 per cent of imported cars, because transit taxes on used cars are minimal in Togo, as documented above.

In June 2009, the Togolese government again altered its policy. While affirming the new system of car valuations and decrying the campaign of 'disinformation' against COTEC, the government announced reductions in taxes on used car imports through roll-backs of 15 to 30 per cent of used car valuations.

7. SIGNIFICANCE OF TRANSIT AND RE-EXPORT TRADE FOR TOGO AND BENIN

As seen in Table 3, the gross value of transit and re-export trade in 2008 was equivalent to about 75 per cent of GDP in Togo and 62 per cent of GDP in Benin. The question here is how much this benefits Togo's and Benin's economies.

a. Government Revenues

Taxes on trade provide more than half of government tax revenues in Benin and Togo. In Togo, however, almost all these revenues derive from customs duties and VATs on goods declared for domestic use, given the minimal taxation of transit and re-exports, whereas in Benin, the government obtains sizeable revenues from taxes and fees on transit, particularly on used cars. As much as one half of Benin's customs revenues are attributable to taxation of transit trade. The fact that Togo's government is largely able to refrain from overly taxing transit trade shows a remarkable appreciation of the other economic benefits accruing to this trade. The tradeoff between government revenue generation and competitiveness of entrepôt trade is illustrated by the recent controversy over valuations of used cars, discussed above. For Nigeria, on the other hand, smuggling entails a substantial loss of revenues.

b. *Employment and Income*

Transit trade is a very important source of employment and income. In Togo and Benin, the IMF assumes a rate of 15 per cent value added on entrepôt trade. There is substantial variation in the amount of value added that occurs, however, depending on the type of product and how much handling occurs, so a more disaggregated approach seems appropriate. For used cars and other vehicles, the value added in Benin and Togo for handling and shipping is substantial. Imported consumer items such as cloth, rice and sugar are intermediate cases involving some distribution activities as well as transport.

Used cars generate very substantial incomes. Freight forwarders ('transitaires') at the port receive about 400,000 CFA francs in Benin and 320,000 in Togo from the buyer of a used car valued at about 1.3 million CFA francs – or 25 per cent – to cover all port fees, including taxes, fees for various port agencies, handling, parking, side payments to customs officials, and a small profit margin for the transitaires.[19] Importers can be assumed to have profit margins of perhaps 5 to 10 per cent. Beyond the importer profits and transitaire port fees, used cars result in payments to a wide variety of local businesses beyond the port: hotels that lodge the buyers who arrive, mechanics, body shops, licence plate makers, electricians, painters, drivers, vendors of food and drink at the port and along the road, gasoline station attendants, and unofficial payments to officials at checkpoints along the roads. All told, a value added ratio of 40 per cent for used cars and other vehicles seems reasonable and is consistent with Perret's (2002) detailed study of the used car market in Benin. Perret estimated that the used car trade alone constitutes about 9 per cent of Benin's GDP in 2001. Given that used cars are only part of entrepôt trade, a total contribution of 20 per cent of GDP seems reasonable for Benin, and 10 per cent for Togo.

8. CONCLUSIONS

Benin's and Togo's role as hubs for unofficial as well as legitimate transit trade derive from location advantages, Togo's deep-water port, historical

[19] The level of fees on used cars imports is based on several interviews with transitaires in Togo and Benin, who all provided similar figures.

trading relationships, artificial national borders separating groups with close ethnic ties, and above all the lure of the highly protected Nigerian market. Togo competes at a geographical disadvantage to Benin for access to the Nigerian market and compensates by offering lower prices, largely in the form of lower transit taxation.

While it is not possible to prove that goods imported into Benin and Togo wind up in Nigeria, it has been shown that Benin, and to a lesser extent, Togo are the origin for a very large volume of transshipment of precisely those products which are heavily protected in Nigeria, such as used cars, cloth and rice. Imports of these products in Benin and Togo are usually declared for transit to land-locked Niger and Burkina Faso, but are much too large for this to be the case. In fact, it is common knowledge in Benin and Togo that imported cars, cloth, etc. are overwhelmingly intended for Nigeria.

Entrepôt trade is among Benin's and Togo's most important industries, with gross re-exports and transit trade equivalent to over 60 per cent of GDP in 2008, creating value added accounting for most likely more than 10 per cent of GDP. Goods imported in transit or for re-export are more than double imports declared for domestic use in both countries. This creates employment for large numbers of workers at the port and in handling and transport of merchandise upon exit from the port. Benin obtains sizeable fiscal revenues, but Togo reaps little in the way of fiscal windfalls, as it has lowered taxes on transit to near-zero in an effort to remain competitive with Benin.

For Nigeria, smuggling via Benin and Togo lowers government revenues with little gain in production and employment, since many of the industries that import bans and tariffs are intended to protect are largely defunct. Reducing import barriers consequently seems very likely to benefit Nigeria, but has proven to be politically difficult to achieve, perhaps in part because influential actors in Nigeria are involved in the smuggling operations.

More generally, it is doubtful that a development strategy based on smuggling and fraud is a viable long-run path to emerging market status. Much of this trade would vanish if agreement is reached in ECOWAS on harmonisation of import taxation and Nigeria implements any such agreement, notably the abolition of import bans and reduction of duties to a common maximum of 35 per cent. The battle to secure a larger share of smuggling has led to adversarial relations between Benin and Togo, with Benin seeking to block entry of goods from Togo, even those that are made in Togo. Smuggling also contributes to a culture of corruption and tax evasion that is not conducive to a productive economy. In the long run, therefore, Benin and Togo should transition towards more formal trading relationships as ECOWAS harmonisation proceeds.

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