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National Trade Policies and Smuggling in Africa: The Case of The Gambia and Senegal

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Summary. — Much of inter-regional trade in Africa is unrecorded and consists of smuggling. The Gambia is almost wholly enclosed within Senegal, yet official trade statistics show almost no trade between the two countries, failing to capture large-scale smuggling. Smuggling reflects pre-colonial traditional trading relationships, the artificial nature of borders created in the colonial era, and the disparities in trade policies between the two countries following independence, inducing large cross-border price differentials for goods. This paper documents the magnitude of trade protection in the two countries, the resulting price differences, and estimates the volume of smuggling.

Key words — smuggling, international trade, re-exports, Africa, Senegal, The Gambia

1. INTRODUCTION

Much of inter-regional trade in Africa is unrecorded and takes the form of smuggling, but this kind of trade is intrinsically difficult to study systematically. This paper documents the nature, magnitude, and causes of "re-exports" from The Gambia to Senegal and other countries of the region. Re-exports are goods imported into The Gambia and then diverted to other countries of the region, especially Senegal, with no additional processing.

Intra-African trade has been shaped by a long history. Traditional trading routes preceded the colonial area. The colonial powers created artificial borders within the regions with long-standing ethnic, and cultural ties. Upon independence in the 1950s and 1960s, these countries often pursued erratic and widely divergent trade and exchange rate policies. Large differences in the rates of protection between countries provided an impetus to smuggling, which was facilitated by the weak enforcement abilities of African governments, the cultural and ethnic connections amongst people in these arbitrarily-defined countries, and the trading traditions among them (Berg, 1985).

The study of smuggling in Africa has mostly focused on whether this trade is beneficial. Azam (2007, chap. 2) provided an excellent overview of the literature on the welfare effects of smuggling. In an early contribution, Bhagwati and Hansen (1973) emphasized the waste of resources associated with smuggling activities, but Deardorff and Stolper (1990) pointed out that smuggling is a response to severe policy distortions and can alleviate those distortions. Relatively few studies have attempted to document the magnitude and determinants of smuggling in Africa. Unofficial trade between Nigeria and its neighbors has received considerable attention. [1] The effects of exchange rate overvaluation and parallel foreign exchange markets have also been studied (e.g., O'Connell, 1992).

Trade between The Gambia and Senegal provides a particularly vivid case study of the interplay between colonial legacy, post-independence trade policies, and unofficial trade. The Gambia is a tiny anglophone country of 1.5 million people completely surrounded by francophone Senegal except for a 60 km border on the Atlantic Ocean (Figure 1a and b). Senegal but not The Gambia is a member of one of the most ambitious regional integration efforts in Africa, the francophone West African Economic and Monetary Union (WAEMU). [2] Support from France has been an important factor in WAEMU's progress. Both The Gambia and Senegal are the members of the broader-based but much less integrated Economic Community of West African States (ECOWAS). [3]

Despite their close geographic and cultural links, political and economic cooperation between Senegal and The Gambia has been minimal. According to official statistics, as discussed below, there is virtually no trade between them. In reality, however, there is a flourishing unofficial "re-export" trade. The re-export trade, however, has received very little systematic study by either international organizations or scholars, and is not well understood by aid officials and others working in The Gambia.

The findings are based on both qualitative and quantitative research methods. Data on trade flows and trade policies were obtained from national sources in both Senegal and The Gambia. In addition, the authors conducted interviews in The Gambia and Senegal, mainly in October 2006. We interviewed

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Figure 1. *(a) Map of The Gambia. (b) Map of region and Senegal.*

customs officials, traders at all levels, and truckers. Traders included representatives of international shipping companies, large wholesalers, and "market women." In all about 25 interviews were conducted. Customs officials were interviewed both at the border and at headquarters in both countries. Four wholesalers were interviewed in each of Dakar and Banjul. "Market women" were interviewed at border crossings. The interviews were semi-structured, beginning with specific questions but leaving room for open-ended discussions to allow for exploration of the issues from each person's point of view. For traders, the focus of the interviews was on the nature of their business, the prices they faced and charged, the causal factors impinging on the volume of business, and trends and prospects for the future. The interviews with customs officials centered on estimates of the volume and forms of smuggling and the degree to which border enforcement was effective.

Section 2 provides an overview of the historical and conceptual framework for understanding smuggling in Africa. Section 3 more specifically reviews the historical and institutional situation of The Gambia and Senegal. Section 4 estimates the magnitude of unofficial trade. Section 5 presents the evidence of wholesale price differences, Section 6 discusses the factors influencing this trade, notably trade policies, and Section 7 concludes.

2. COLONIAL BORDERS, NATIONAL TRADE POLICIES, AND SMUGGLING IN AFRICA

Prior to the colonial era, states in Africa were not characterized by hard geographical borders, with rulers having only loose control over territory and movements of people (Herbst, 2000, chap. 2). At the Berlin conference of 1884–85 the colonial powers divided up Africa, creating territorial borders based on their de facto zones of control. These boundaries arbitrarily separated regions with long-standing ethnic ties and often without clear geographical separators (Young, 1994).

As illogical and porous as colonial borders were, they remained the basis for national boundaries following the end of colonialism in the early 1960s. Initiatives to consolidate countries into regional unions, including between The Gambia and Senegal as discussed below, failed due to the unwillingness of national political elites to cede authority (Herbst, 2000, p. 102).

Moreover, the newly independent post-colonial country states developed their own national economic policies, including monetary and fiscal policies, but more often than not these policies were wielded irresponsibly in the first few decades of independence. Trade policies were of particular importance as they served both to protect local industries and to generate government revenues (Berg, 1985). Taxes on international trade have historically provided an unusually large portion of government revenues in Africa, dating back to the colonial period and continuing to the present day. Direct taxes on income and wealth are difficult to enforce in Africa due to lack of state control over much of the population (Herbst, 2000, p. 116). Many countries, particularly those pursuing import-substitution strategies most vigorously, adopted very high import barriers, including tariffs and import prohibitions. The high levels of protection impeded legal trade within Africa and provided very large incentives for smuggling.

More recent regional integration initiatives, although much touted, have so far done little to promote legal trade within Africa or staunch smuggling. There are some 30 regional blocs in Africa, and on average each of the 53 countries on the continent are members of 4 often-overlapping groups. Yet official intra-African trade flows remain very low. Excluding South Africa, intra-African trade accounts for less than 10% of total African exports and imports (Yang & Gupta, 2005). There are several reasons for the failure of regional integration to promote official trade. First, in many regional groups, such as ECOWAS, effective harmonization of policies has so far been limited. Nigeria in particular has flouted ECOWAS agreements on harmonizing external tariffs and removing barriers to trade within the group. Second, regional integration has been asymmetric between francophone and anglophone countries. WAEMU, for example, has achieved a customs union, but this agreement is confined to the francophone countries of West Africa, leaving out contiguous anglophone countries, including The Gambia. Consequently, large disparities in trade policies remain the rule across Africa. Likewise, structural adjustment in the 1990s led to simplified and lower trade barriers in many countries but substantial disparities persist.

Smuggling in Africa is a natural outcome of the combination of economic, ethnic, and cultural connections transcending artificially-demarcated national borders with lack of coordination of trade policies across countries and weak state enforcement capabilities. Additionally, smuggling in a large variety of items ranging from basic cash crops, basic foodstuffs, imported manufactured products, gasoline, arms, and diamonds is spurred by long trading traditions in Africa, entrepreneurial dynamism observed in the informal sector everywhere, along with pervasive poverty, which adds to the drive to obtain goods at the lowest possible cost and to earn a living in whatever way possible.

The remainder of this paper analyses the interplay between artificial and porous borders inherited from the colonial era and differential trade policies of African nations through a case study of The Gambia and Senegal, but the analysis is relevant to many other countries. Large differences in trade and pricing policies and the resulting smuggling are widespread throughout Africa (Azam, 2007; Berg, 1985), with unrecorded trade likely exceeding official trade. For example, Nigeria's very high tariffs and import prohibitions have led to a large-scale smuggling from its francophone neighbors Benin, Niger, and Cameroon and near-neighbor Togo. Benin, in particular, has deliberately maintained import barriers below those in Nigeria to foster the "re-export" trade (Igué & Soulé, 1992), very much like what happens between The Gambia and Senegal.

3. HISTORICAL AND INSTITUTIONAL BACKGROUND ON THE GAMBIA AND SENEGAL

Even more than for most African countries, The Gambia's situation as a tiny English-speaking enclave within francophone Senegal reflects the accidents of colonial history. When the colonial powers divided up Africa at the end of the 19th century, the British were granted a sliver of territory in an area mostly controlled by France, running along the Gambia River. The formal partitioning of West Africa in 1885 followed over two centuries of commercial and military rivalry and conflict between France and England in the region, much of it revolving around the slave trade (Gailey, 1965).

Given The Gambia's near enclosure within Senegal, economic and political integration has been considered by the authorities in both countries. In 1963, prior to The Gambia's independence in 1965, the interim government of The Gambia and Senegal requested assistance from the United Nations in determining a suitable relation between the two countries, resulting in the Van Mook study of 1964 presenting various options for confederation. During 1965–82 some 30 treaties were signed between the two countries. But closer ties were always frustrated by the Gambian authorities' reticence to be swallowed up by Senegal as well as Senegalese irritation at the Gambia's increasing role as a haven for smuggling into Senegal. Senegalese incursions into The Gambia to curb smuggling lead to a number of border disputes.

National security issues along with the desire for autonomy have dominated political relations between the two countries. Economic cooperation has never been seriously pursued. The Gambia has no army to speak of and the government has relied on Senegal for protection. The only serious attempt at unification followed the Senegalese army's intervention to foil an attempted coup d'état against President Jawara of The Gambia in 1981 while he was abroad. At the same time, Senegal's ongoing concern that The Gambia provides at least tacit support to the rebels of Senegal's southern Casamance region has been a continuing source of friction.

The Gambia and Senegal formed the federation of Senegambia during 1982–89, following the above-mentioned Senegalese military intervention in 1981. The Senegambia treaty envisioned an eventual economic and monetary union as part of a deep integration process, but actual integration focused on security and little progress was made in economic integration. Tensions emerged quickly in The Gambia over continued presence of Senegalese soldiers in the country. The Gambian desire for autonomy along with the weakening of Senegal's government due to economic and political crises in the late 1980s set the stage for the breakup of the confederation. In 1991, the two countries agreed to a less binding friendship and cooperation treaty.

Relations between the two countries have deteriorated since the advent to power in The Gambia of Yahya Jammeh in a military coup in 1994, with recurring tensions over cross border traffic. Most recently in August 2005, The Gambia doubled the fee on ferry crossings over the River Gambia to cover the cost of higher oil prices, prompting a hostile response from Senegal, including a blockade of The Gambia's border posts by Senegalese truck drivers and a slowdown of Gambia-bound freight passing through the port of Dakar. Although the increased fee could be justified as simply passing on higher costs of fuel for the ferries, the decision was taken without consultation with Senegal, contravening a protocol to this effect. Some Gambians claim that the Senegalese used this incident as a pretext for adopting wider measures to impede trade. ECOWAS deemed the situation serious enough to appoint the Nigerian president Obasanjo as mediator in the dispute. Although the conflict over the ferry was resolved after The Gambia rescinded the fee hikes in October 2005, simmering tensions in relations between The Gambia and Senegal remain. [4] Other sources of contention include whether to build a bridge over the river, application of ECOWAS transit agreements, and fishing rights. Cooperation in the areas of mutual interest such as groundnuts, tourism, and air transport is minimal.

The Gambian re-export trade grows out a long tradition of trading networks in West Africa dating to the pre-colonial era. By the 1920s, The Gambia was as a regional hub for trade in foodstuffs, textiles, and footwear. Large expatriate trading houses were well established in The Gambia by the end of the World War II. The Gambia's favorable geographical location at the mouth of the most navigable river in West Africa provided the original foundation for the Gambia's position as an entrepot (Gailey, 1965). Its relatively liberal trade policies, in the British tradition, especially compared to the more protectionist and interventionist policies in Senegal, became increasingly significant over time. In Senegal, French investors set up manufacturing establishments which the colonial administration and then the independent government sought to protect behind high tariff barriers and other policies favoring incumbent firms (Boone, 1989; Golub & Mbaye, 2002; Mbaye & Golub, 2003). The Gambia, on the other hand, has never had much of a domestic industrial base to protect. Social harmony, tolerance, and relative political stability also have contributed to The Gambia's appeal to expatriates as a trading center.

The Gambia's economy has become highly dependent on its role as an entrepot, especially for government revenues. The only other important industries in The Gambia are groundnuts, which has been in decline since the 1970s, and tourism. With very little domestic manufacturing and little effort to promote industry through import barriers, trade policy is not much oriented by the usual protectionist or infant-industry motives, in contrast to countries such as Senegal and Nigeria. Instead, the Gambian authorities have sought to maintain trade taxes below those of neighboring countries to promote the role of The Gambia as an entrepot. At the same time, this entrepot role contributes substantially to government revenues, because imported goods destined for re-export generally pay full duties when entering the country. Consequently, trade taxes are even more important for The Gambia than for most other African countries, accounting for about half of tax revenues and 40% of all government income, although the dependence on trade taxes has fallen about 10 percentage points since the late 1990s. In short, the main objective of Gambian trade policy has been to maximize government revenue from trade taxes by keeping them as high as possible but below the level of duties in neighboring countries. Consequently, since independence in 1965 The Gambia has had a relatively liberal trade regime, as discussed in more detail in Section 6.

The re-export trade involves both global and regional dimensions (WTO, 2004): diamonds and gold originating from Sierra Leone, Guinea and Liberia to Europe; cashews produced in Guinea-Bissau to India; manufactured products from Asia to the West African sub-region and even East Africa; and most importantly by far, imports of foodstuffs and other consumer goods entering through the port of Banjul and re-exported to Senegal and other countries of the region. The main products are basic consumer goods for the average African low- or middle-income household consisting of bulk food items such as rice, sugar, and flour; processed foods such as tomato paste, cooking oil, condensed and canned milk, tea, and soft drinks; fabric of various sorts; used cars; and other basic household items such as batteries, candles, and matches. [5]

A complex and opaque re-export distribution chain has been in place for the past 50 years or longer. [6] Goods are brought into The Gambia by a handful of large wholesale importers, many of whom are Lebanese. These wholesalers import and sell legally, paying customs duties. The wholesalers then sell much of their merchandise to other traders, often Mauritanians, who have shops all along the border, and who in turn sell to small-scale traders, typically "market women," from countries in the region, mainly Guinea-Bissau, Guinea-Conakry, Mali and of course Senegal. These petty traders then smuggle the goods into Senegal either by going through the bush or paying off customs officials at the official border posts. Alternatively the wholesalers in Banjul sell directly to Senegalese businessmen who then transport the goods to the frontier in large trucks. Most of the truckers are Senegalese nationals. At the border, the trucks can then be unloaded and the goods smuggled through in smaller quantities, as described above. Sometimes, the truck crosses the border with the connivance of Senegalese customs officials, with the payment of bribes.

Goods can also be brought into Senegal by sea using pirogues operating at night. One Senegalese customs official said half-jokingly that pirogues are used more for smuggling than fishing. The sprawling informal markets in Dakar, notably Sandaga, and in other cities, are substantially supplied by contraband, much of it flowing from The Gambia, with the tacit acquiescence of the Senegalese authorities.

Social, religious, and cultural ties amongst the participants, notably through their frequent affiliation with Mouride muslim brotherhoods, greatly facilitate these transactions. The political influence of the Mourides, who became increasingly involved in trading activities in the 1970s and 1980s as a reaction to the crisis of the groundnut sector, also limits the Senegalese government's will to crack down on smuggling. The Mouride networks revolve around powerful marabouts based in the city of Touba, over which the federal authorities have no control. Marabouts have political connections to customs officials and other government authorities and can intervene in favor of traders. The Mouride networks are also sources of credit for traders, with membership in the group providing trust for the credit without other collateral.

Traders estimate that about half of the re-exports passing through The Gambia are destined for Senegal with the other half continuing on to Guinea—the destination of about one quarter of all Gambian re-exports—Mali, Guinea-Bissau, and sometimes even Cote D'Ivoire and Sierra Leone.

The re-export trade appears to be on a declining trend since its peak in the early 1990s, although there is considerable fluctuation over time. The factors contributing to this trend, as discussed in detail below, are the declining differentials in taxation of imports and the quality of trade facilitation between The Gambia and Senegal, as well as a hardening of Senegalese policies toward this trade.

4. ESTIMATES OF OFFICIAL AND UNOFFICIAL TRADE BETWEEN THE GAMBIA AND SENEGAL

Re-exporting involves importation of goods into The Gambia and subsequent shipment to another country with no additional processing or packaging, except for transport services. One can distinguish between transit and re-exports. Transit consists of imports of merchandise brought into The Gambia but manifested for a third country destination and escorted from the port of Banjul to the border. Goods in transit pay processing and ECOWAS fees of 2.05% and escort fees, but no customs duties or sales taxes in The Gambia. Re-exports, on the other hand, are imported into The Gambia as for domestic consumption but then shipped out of the country. Re-exports are therefore subject to all normal import duties and sales taxes in The Gambia. Re-exports in turn can exit the country officially or unofficially. If shipped officially to third countries, these goods are registered as re-exports and then in principle fully taxed again at the border of the destination country, raising the question of why anyone would find it advantageous to engage in this practice, since transit is clearly less costly. Transit, however, requires establishing contracts and payment well in advance, and in West Africa, this is not always feasible for traders. Of course, if smuggled, re-exports do not in fact pay import taxes again, and this appears to be quite prevalent, as discussed below.

(a) *The view from official trade statistics*

Official transit passing through The Gambia on the way to other countries is quite small. It accounted for only about 3–4% of total Gambian imports in 2004 and 2005 (Table 1). Official re-exports, that is, re-exports that are contracted in The Gambia and reported as such to Gambian customs, are even lower, about 1% of total imports on average over 2000–05, and peaking at a mere 2.8% in 2004, before dropping back to a minuscule 0.1% in 2005.[7] Quite evidently, these official re-export figures are completely inconsistent with the acknowledged major role that re-exports play in The Gambia. Domestically produced exports are also a very small fraction of imports, such that the official trade statistics indicate an enormous merchandise trade deficit, with total recorded exports, including official re-exports and transit, representing only about 5–10% of total imports in the recent years.

Official bilateral trade statistics from both The Gambia and Senegal report a tiny volume of bilateral trade. According to these official statistics:

1. The Gambia's bilateral exports and imports with Senegal each accounted for only about 3.5% of The Gambia's total exports and imports, respectively, over 2002–05.
2. Exports to The Gambia from Senegal greatly exceed Gambian exports to Senegal, with Gambia's exports to Senegal amounting to less than 4% of Gambia's imports from Senegal over 2002–05.[8]

It is particularly noteworthy that Senegalese trade statistics do not indicate significant imports arriving from The Gambia, since it would seem to be in Senegal's interest to capture import duties on such goods. According to these Senegalese statistics, there are almost no imports from The Gambia of the goods that are thought to be most prominently involved in the re-export trade such as sugar, textiles, tomato paste, and cooking oil.

(b) *Estimating re-exports*

The official statistics therefore seem at variance with reality. By all accounts, there is a very large volume of re-exports from The Gambia to Senegal and other countries of the region, in particular Guinea-Bissau, Guinea, and Mali. But there are no reliable estimates of the volume of this trade. This situation is consistent with the findings of Berg (1985) who concluded that the anomalies of African trade statistics are due mostly to smuggling.

(i) *Evidence from individual products*

Insight into the importance and time path of re-exports can be garnered by examining the pattern of imports entering The Gambia, under the assumption that these are recorded correctly at the port. As noted above, anecdotal evidence suggests that the re-export trade consists overwhelmingly of basic consumer goods and foodstuffs.

The Food and Agriculture Organization (FAO) reports matched production, consumption, and official trade data for key agricultural commodities in its FAOstat database. The volume of re-exports can be inferred by comparing net imports minus production to domestic consumption, since by definition consumption equals production plus imports minus exports. Because the FAO in part estimates consumption through this identity, use of FAO consumption data is likely to understate unrecorded re-exports. Consequently, Gambian consumption was estimated here by assuming that per capita consumption of these products was equal to that of Senegal.[9]

Figure 2 shows Gambian net imports (imports minus exports minus domestic production if any) divided by estimated consumption, for 1990–2004, for three basic commodities: sugar, wheat, and rice. If this ratio is 100% then there is no unrecorded trade, with consumption equal to production plus net recorded imports. Where this ratio exceeds 100%, The Gambia can be inferred to have corresponding unrecorded re-exports. Several observations can be made. First, re-exports are most prevalent for sugar, followed by wheat, with little evidence of re-export activity in rice, especially in the last few years. In the case of sugar, re-exports have averaged more than double consumption since 1998, with the exception of 2001. In 2004, sugar net imports were four times domestic consumption. The prominent role of re-exports in the case of sugar is not surprising given the notoriously high level of protection accorded to sugar in Senegal, as discussed below. This high volume of re-exports of sugar stands in contrast to official Senegalese and Gambian trade data which report no bilateral trade in sugar!

The time path of implied re-exports is also illuminating. Sugar and wheat follow roughly similar patterns. Sugar re-exports rose in the early 1990s, dropped in the years following the 1994 shocks (CFA franc devaluation in Senegal, coup

Table 1. *The Gambia's official imports, exports, re-exports and transit*

	2004		2005	
	D million	Percent of imports	D million	Percent of imports
Transit	282	4.00	209	2.80
Re-export	199	2.80	10	0.10
Domestic exports	342	4.80	137	1.80
Total imports	7105	100	7422	100

Source: Gambian government and the authors' calculations.

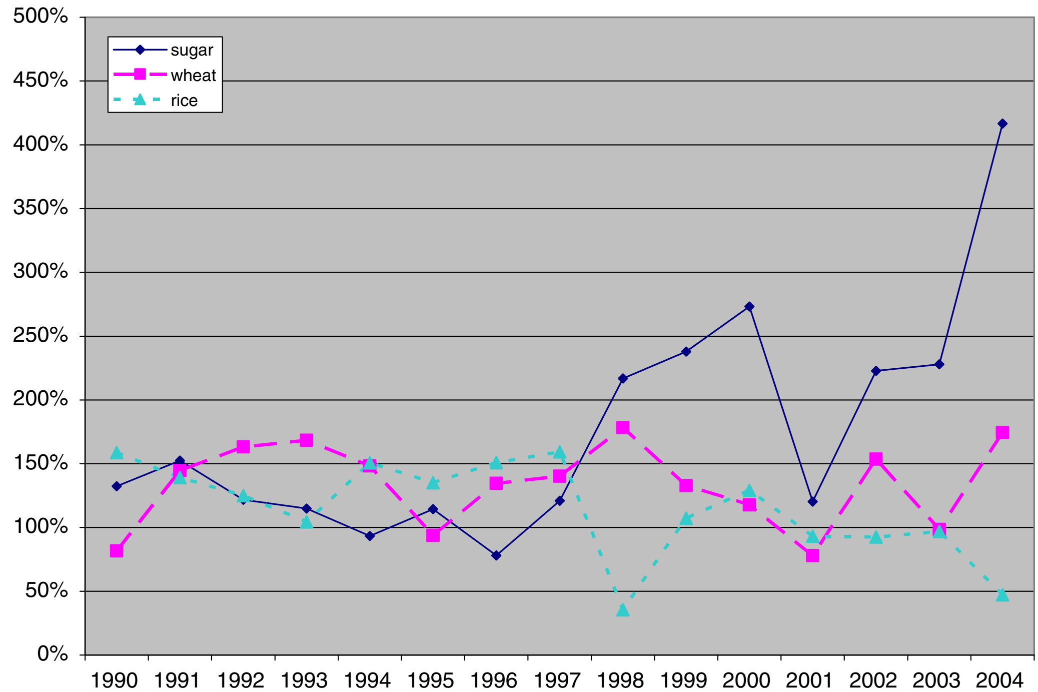

Figure 2. *Gambia net imports as a ratio of domestic consumption, selected products, 1990–2004. Source: The authors' calculations based on FAOStat data.*

d'état in The Gambia), started increasing again around 1997, and then dropped sharply in 2001, during an episode of macroeconomic turmoil (IMF, various years). The instability of the Gambian dalasi was a major impediment to commerce around 2001, according to wholesalers we interviewed. Sugar-re-exports boomed in 2002–04. Wheat followed a roughly similar but more attenuated pattern, except that wheat re-exports started to decline in 1999, and only returned to the 1998 level in 2004. Rice re-exports, on the other hand, appear to have largely ceased since 1997.

Import data for other commodities reveal substantial idiosyncratic variations. Imports of processed foods such as tomato paste and cooking oil have trended upward, but imports of textiles have declined sharply since the 1970s. In 1980, although The Gambia's GDP and population are only about 15% of those in Senegal, Gambian imports of textiles were 25% higher than Senegalese imports of textiles, reflecting the massive smuggling of textiles into Senegal at that time. This smuggling contributed to the demise of much of the Senegalese textile industry (Boone, 1989). Even in 1998, Gambian imports of textiles were equal to almost half of Senegal's, suggesting continuing re-exports although on a much smaller scale than in 1980. By 2003, however, WTO trade data reveals that The Gambia's textile imports had fallen to about 15% of their Senegalese counterpart, roughly in line with the respective sizes of the two economies, indicating that re-exports had largely ceased by then.

(ii) *The overall volume of re-exports*

The IMF estimates total re-exports, under the assumption that imports for re-exports are a fixed share of total imports.[10] The IMF estimates of re-exports amount to about four times domestically-produced exports or 80% of total exports, figures that are in line with the estimates of knowledgeable observers interviewed. While the IMF method is probably valid as a rough average over time, it does not allow for the fluctuations suggested by the commodity-level data.

As an alternative to the IMF figures, re-exports are calculated here as "surplus" non-fuel imports over and above some "normal" level of imports in relation to GDP. The normal level of imports was taken to be the long-term average non-fuel import-to-GDP ratio for Senegal over 1966–2005, which is about 25%.[11] The rationale for choosing Senegal as the benchmark is that Senegal and The Gambia have rather similar economic structures and preferences, but Senegal does not engage in large-scale re-export activities.[12]

Figure 3 shows the time path of our estimated re-export-to-GDP ratio over 1966–2005, indicating that re-exports boomed in the 1970s, declined in the early 1980s, and resumed growth in the later 1980s, reaching highs in the early 1990s. The decline in the early 1980s coincides with the occupation of The Gambia by the Senegalese army following their restoration to power of President Jawara, who had been overthrown in a coup in 1981. During the occupation, the Senegalese army patrolled the border and cut down on the cross-border smuggling (Boone, 1989). As noted for individual products, estimated re-exports dropped sharply with the 1994 shocks, and have not re-attained the early 1990s levels despite some resumption of growth up to 1998. Also consistently with the individual commodity results, re-exports dropped again sharply in 1998–2001. This decline in 1998–2001 can be attributed to several factors discussed below: the import duty reductions in Senegal with the phasing in of the WAEMU Common External Tariff over 1998–2000; the Gambia's implementation of a Pre-Shipment Inspection (PSI) requirement for imports in 1999; and the macroeconomic instability and central bank scandal that disrupted currency markets and the banking system in 2001. Re-exports picked up again in 2002–04 before falling back somewhat in 2005, according to this measure, but remained well below the peaks achieved in the early 1990s.

These estimates are subject to the limitations in the underlying method and data, but the patterns appear broadly consistent with information obtained from knowledgeable observers and Charbel Elhadj's (2000) discussion. Moreover, the magni-

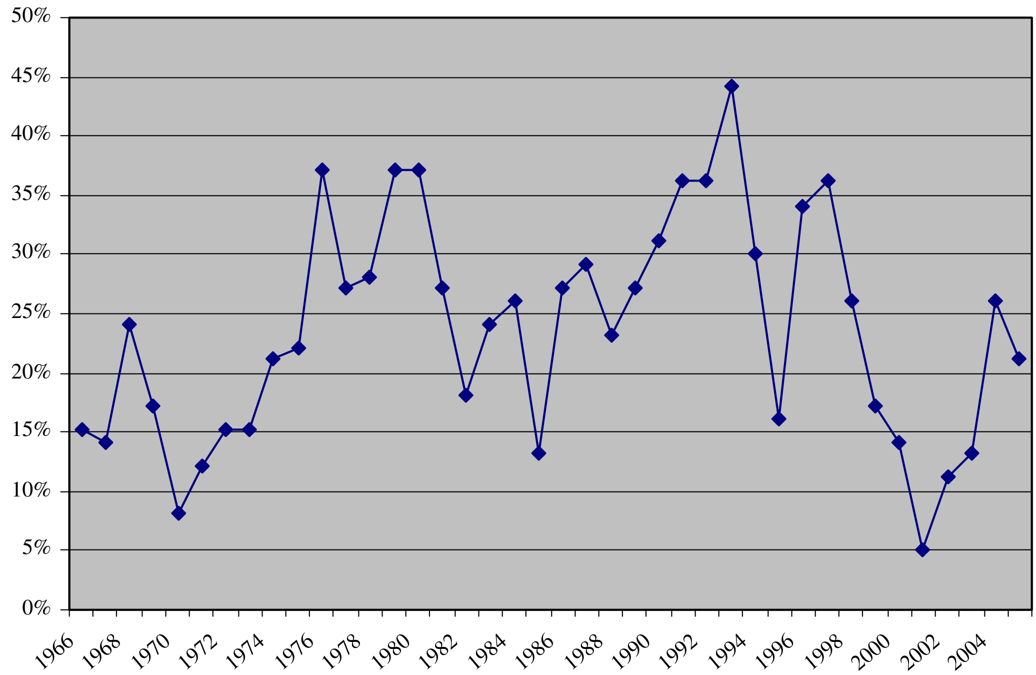

Figure 3. *Gambia estimated imports for re-export 1966–2005 (percentage of GDP). Source: World Bank world development indicators and the author's calculations.*

tudes of estimated re-exports are similar to those of IMF, that is, about 80% of total exports.

(c) *Discussion and implications*

The prevalence of re-exporting in The Gambia confronts three paradoxes:

1. Official trade between Senegal and The Gambia is a very small part of The Gambia's trade, especially for Gambia's exports to Senegal, according to both countries' official trade statistics.
2. Official re-exports and transit from The Gambia also account for a very small proportion of The Gambia's imports.
3. It is difficult to understand why anyone would find it profitable to engage in re-exporting as opposed to transit, since re-exporting involves paying duties twice, first when the goods pass through the port of Banjul and second when they are sent through the land border crossing to Senegal. For some goods, as shown below, the price differences between the countries are large enough to make such activities marginally profitable even if double duties are paid. But for most goods, it would not be profitable to re-export legally, paying duties twice.

All of these considerations fly in the face of the recognized importance of the re-export trade. The unavoidable implication is that either record-keeping is poor for goods crossing borders over land or that most re-exports are simply smuggled across the border. A combination of the two is of course possible and even likely. Goods may be brought through customs posts in Senegal, but by mutual agreement, a reduced duty is paid but not recorded, benefiting both the trader and the customs official.

Customs officials on both sides of the border, and traders themselves, often deny that smuggling is significant. Traders insist that they always pay duty at the border. But this is hardly surprising. It would be dangerous indeed for a trader to admit smuggling to a researcher they do not know well. But the reality must be that re-exports are mostly smuggled across the border to Senegal. Given that there are only a half-dozen official border posts and the difficulty of patrolling the wide-open frontier between the two countries, smuggling is relatively easy. [13]

5. EVIDENCE FROM WHOLESALE PRICE COMPARISONS

Evidently, there is an incentive to import goods into Senegal from The Gambia rather than directly. To investigate this, a comparison of wholesale prices in Dakar and Banjul was undertaken at the product level. A list of basic household products widely said to be involved in the re-export trade was compiled, and attempts were made to match the product characteristics as much as possible in the two countries. The products for which successful comparisons were possible are shown in Table 2. The products include key bulk items (rice, wheat, and sugar), various processed food products (tomato paste, cooking oil, mayonnaise, milk powder, green tea, and canned sardines) and other consumer goods (cigarettes, matches, candles, and soap). It proved too difficult to make price comparisons for the important case of fabric due to the much greater extent of product differentiation for this item.

Prices were collected by visiting wholesalers in the two cities around the middle of October 2006. Price quotes were received from two wholesalers in Banjul and four in Dakar. In all cases, prices were nearly identical within each country corroborating the wholesalers' and others' claims that the market is highly competitive. The prices shown in Table 2 are the median of the wholesale prices sampled within each country.

For the bulk items rice, sugar and wheat, we can be quite confident that the comparisons between Gambian and Senegalese prices are meaningful given that the products are homogeneous and therefore nearly identical. This is also the case for

Table 2. *Wholesale prices for selected goods, Banjul and Dakar, October 2006*

	Gambia		Senegal		Price difference (Senegal–Gambia)
	Dalasi	Euro	CFA	Euro	
Bulk items					
Sugar (50 kg bag)	690	19.7	24,560	37.4	**90.5**%
Flour (50 kg bag)	525	15.0	13,070	19.9	**33.2**%
Rice (50 kg bag)	495	14.1	10,460	15.9	**13.1**%
Other consumer goods					
Matches (carton)	620	17.7	19,750	30.1	**70.5**%
Candles (carton)	540	15.4	17,200	26.2	**70.4**%
Tomato paste (12 tins 2200 g)	780	22.2	23700	36.1	**62.6**%
Cooking oil (20 l jug)	400	11.4	11,800	18.0	**57.9**%
Mayonnaise (12 bottles)	420	12.0	12,250	18.7	**56.1**%
Milk powder (12 tins 500 g)	700	19.9	18,250	27.8	**39.5**%
Marlboro (carton)	11,000	313.4	266,000	405.5	**29.4**%
Toilet soap (box of 24 bars)	240	6.8	5600	8.5	**24.9**%
Green tea (carton)	500	14.2	11,500	17.5	**23.1**%
Sardines (carton)	550	15.7	12,240	18.7	**19.1**%

Source: Interviews with wholesalers in Banjul and Dakar and the authors' computations.

cooking oil and Marlboro cigarettes. For the other products we were not able to precisely match or identify the brand or quality of the products, but most such products destined for African consumers are reasonably standardized, so the price comparisons are likely to be approximately valid.

Table 2 shows prices in local currency and in euros for the two countries. The dalasi/euro exchange rate is the rate on October 16, 2006, at 35.1 dalasi per euro. The CFA franc/euro exchange rate is the fixed rate of 656 francs per euro. The results shown in Table 2 are generally in line with expectations. In all cases, wholesale prices in Senegal exceed those in The Gambia. The price differential, however, varies substantially, with a maximum of about 90% for sugar and a low of about 10% for rice. The high differential for sugar accords well with the well-known extraordinary protection of the sugar industry in Senegal, discussed in the following section. The low price difference for rice fits with the fact that the rice industry has been liberalized in Senegal, and reports by Gambian wholesalers themselves that they have largely abandoned trade in rice except for the local market. As one would also expect, wheat is an intermediate case, with a price differential of about one third. The imputed re-exports for these three commodities shown above in Figure 1 are also entirely consistent with these price differences. Prices for other items are bracketed within this range too, with significant variations. The goods with the highest price differentials are matches, candles, tomato paste, cooking oil, and mayonnaise, all of which have prices in Senegal that exceed Gambian prices by more than 50%. Price differentials for sardines, green tea, and soap, on the other hand, are below 25%, while cigarette and milk powder prices in Senegal are about one third above those in The Gambia.

In summary, wholesale prices in The Gambia are systematically lower than those in Senegal, but the size of the gap varies greatly. For some goods such as rice, the price difference seems too small to make re-exports lucrative. For others such as sugar, there remains a huge incentive to find ways of bringing goods from The Gambia into Senegal.

6. DETERMINANTS OF PRICE DIFFERENTIALS AND RE-EXPORTS

Among the factors that can explain the large and variable price differences and the resulting competitive advantage of Banjul over Dakar, the following can be considered:

1. Differences in customs duties and other trade taxes.
2. The functioning of the port and customs.
3. Relations with Senegal.
4. Fluctuations of the dalasi/CFA franc exchange rate.

Differential shipping costs from Europe, North America or Asia cannot be an explanatory factor, since the distance of shipping to Banjul and Dakar from any origin point is virtually identical. If anything, shipping to Dakar is cheaper insofar as Dakar serves as a regional hub for some of the major shippers.

(a) *Trade taxes in The Gambia and Senegal*

As noted above, The Gambia's relatively liberal trade policies in comparison to neighboring countries have undoubtedly contributed importantly to The Gambia's special role as a regional trading hub. The Gambia liberalized earlier and more aggressively than other countries of the region, notably Senegal, in a deliberate attempt to boost the re-export trade. Taxes on international trade in The Gambia and Senegal include customs duties, sales or value-added (VAT) taxes, fees, and special taxes on a few goods, such as cigarettes. The import tax differential in the 1970s through the early 1990s between Senegal and The Gambia was very large, with Senegalese import duties alone as high as 100% for goods such as textiles, while Gambian duties averaged around 30%.

(i) *Senegalese trade policies*

Up to the 1980s, Senegal pursued highly protectionist trade policies, seeking to support its relatively developed manufacturing sector. As in much of Africa, Senegal adopted more market-oriented economic policies as part of its structural adjustment agreements with the IMF in the late 1980s and 1990s, following serious fiscal and financial crises. Import barriers were liberalized somewhat starting in the late 1980s. Following the 1994 devaluation, as part of the ongoing structural adjustment policies followed in the region, import restrictions were significantly lowered and simplified, in particular with the elimination of variable levies ("valeurs mercuriales") and quantitative restrictions, except for a few products, notably sugar. The devaluation eased some of the opposition normally associated with tariff reductions by boosting the cost of imports. The implementation of the Common External Tariff (CET) in WAEMU countries in 1998–2000 entailed further declines in trade taxes in Senegal, posing a new challenge to the role of The Gambia as an entrepot, and contributed to the impetus for a substantial further liberalization.

The WAEMU CET has dramatically reduced the infamous complexity and lack of transparency of Senegal's tariff structure by consolidating tariffs into four categories, with the top import duty rate, applicable to consumer goods, of 20%. The VAT is currently 18% on all goods. Other fees, applicable to all imports, include the statistical levy, ECOWAS and WAEMU fees and the fee for the port handlers association COSEC. In addition, the Taxe Conjoncturelle à l'Importation (TCI) is a safeguard introduced to protect sensitive sectors exposed to greater competition following the tariff reductions associated with the TEC. As of 2006, the TCI was in force for flour, sugar, rice, tomato paste, cigarettes, and cooking oil, that is, many of the most significant re-export goods for The Gambia. In the case of sugar, notoriously protected in Senegal for decades, the TCI takes the form of a price-equalization tax whereby the tax is set so as to offset any difference between the import price and the target price. If the import price of sugar is below the target price, the duty is set equal to the difference between the two, thereby ensuring a minimum price for Senegalese sugar through endogenous levels of protection, currently estimated at about 50%. For the other goods subject to the TCI the rate is 10% ad valorem. An excise tax at a rate of 31% applies to cigarettes.

(ii) *Gambian trade policies*

In The Gambia, restrictions were increased somewhat in the 1970s, followed by liberalization under the Economic Recovery Program in 1985. All import bans, except for a few items relating to public health and safety, were eliminated at that time. Up to the late 1990s, The Gambia's trade regime was more liberal than those of its neighbors, but still involved considerable complexity and tariff peaks, with rates of up to 90% and 27 tariff bands (WTO, 2004).

In 2000, in response the implementation of the WAEMU TEC, The Gambia simplified its customs duties to 5 bands, with the highest carrying a rate of 20%, the same as the top rate in WAEMU. In 2001, the number of bands was further reduced to 4, and the top rate dropped to 18% (WTO, 2004).

After many delays, ECOWAS has made some progress toward harmonization of trade policies. The Gambia, as a very small country, has little choice but to adhere to the ECOWAS scheme, although it tends to undermine the country's competitive advantage in re-exporting. In January 2006, Gambian customs duties were aligned with the ECOWAS common external tariff, resulting in an increase in some rates. The maximum rate, applicable to most consumer goods, was raised back from 18% to 20%. At the same time, the sales tax on imports was increased from 10% to 15%, aligning the tax rate on imports with that on domestic goods. The fees applicable to imports (as well as exports) are a 1.55% processing fee and a 0.5% ECOWAS levy. There is a specific excise tax on cigarettes of 50 dalasi per kilogram, estimated to be equivalent to about 15% in ad valorem terms.

(iii) *Comparison*

Table 3 provides a summary comparison The Gambia's and Senegal's import taxes as of end 2006 for some of the key goods said to be involved in the re-export trade, aggregating the various taxes listed above. In all cases, Senegal's taxes are higher and sometimes much higher. Not surprisingly, the greatest differential is for sugar, where the Senegalese composite tax rate is about 80% above the Gambian tax rate. For flour, tomato paste, cooking oil, and cigarettes the differential is also quite high (25–40%). These tax rate differences accord generally well with the price differences for these same items noted in Table 2. For some items, however, the difference in tax rates is only about 5%. These include condensed milk, mayonnaise, soap, candles, matches, tea, fabric, and shoes. Yet at least some of these items are allegedly still re-exported in large volumes, as would be expected given the price differences shown in Table 3 for some of them such as matches and candles.

In summary, import tax differentials between The Gambia and Senegal were at one time very large. The differentials have narrowed significantly but Senegal's import taxation remains higher and more complex than The Gambia's, such that the latter retains a competitive advantage in re-exports.

(b) *Trade facilitation and the overall business climate*

It has been shown that trade taxes can explain much but not all of the observed wholesale price differences. What else can account for the price differences?

Table 3. *Comparison of trade taxes*[a]*: Senegal and The Gambia, 2006 (Percent)*

	Gambia	Senegal	Difference
Flour	22.5	56.6	34.1
Sugar	22.5	103.8	81.3
Rice	16.8	22.7	5.9
Tomato paste	28.3	56.6	28.3
Cigarettes	58.0	97.7	39.7
Soft drinks	39.8	48.2	8.4
Milk (canned liquid)	22.5	44.8	22.3
Condensed milk	22.5	27.1	4.6
Cooking oil	22.5	56.6	34.1
Mayonnaise	39.8	44.8	5.0
Toilet soap	39.8	44.8	5.0
Candles	39.8	44.8	5.0
Matches	39.8	44.8	5.0
Tea	28.3	37.3	9.0
Canned sardines	39.8	44.8	5.0
Shoes	39.8	44.8	5.0
Fabric	39.8	44.8	5.0

Source: Customs in The Gambia and Senegal and the authors' computations.
[a] Includes sales taxes, fees, and other special taxes.

(i) *Customs*

Customs practices are as important as statutory customs duties. These practices include customs valuation procedures and speed and ease of clearance of goods through the port and beyond. In Senegal, customs is said to engage in highly discretionary valuation practices. Senegalese customs apparently still apply reference pricing mechanisms to protect "sensitive goods" such as matches that are produced domestically, similar to but less blatant than the reference price maintained though the variable levy on sugar. The Gambia's relatively efficient customs are well known, especially in comparison to the more complex and bureaucratic procedures in Senegal. [14] The Gambia's introduction of a Pre-Shipment Inspection (PSI) scheme in 1999 adversely affected the re-export trade due to the extra fees (1.4% of cif value) and delays it entailed. The PSI was abolished in 2000.

(ii) *The port*

Another factor is the unusually efficient port of Banjul. Unlike other African countries, including Senegal, the port of Banjul is known for its rapid and efficient clearance of goods. While merchandise can languish for days or even weeks in most African ports, including Dakar, in Banjul clearance usually occurs within 24 h. In Dakar, port procedures are much more complex and subject to delays, although equipment is better. Port charges, on the other hand are roughly equal in the two countries. According to shipping officials and wholesalers, the advantage in favor of Banjul has been diminishing in the recent years. While Dakar is improving, Banjul is deteriorating, they say. In Banjul, port charges have increased, and efficiency has declined as the maintenance of infrastructure is inadequate, the stevedores are increasingly old and work practices are inflexible. The port practices have become less helpful, some traders say, for example, with regard to the length of time and cost of storing merchandise at the port. The port in Guinea-Bissau is also improving, although it too remains inferior to Banjul.

(iii) *The overall business climate*

Both Senegal and The Gambia benefit from social harmony and relative political stability. But, while Senegal suffers from the legacy of a French-style highly bureaucratized system, The Gambia's more laissez-faire tradition has contributed to the development of trading establishments in Banjul. Ease of access to foreign exchange through the banking system in particular is a plus for The Gambia. In all these areas too, however, other countries are narrowing the gap with The Gambia. In some cases, The Gambia is at a disadvantage. For example, the tax rate of profits is 35% in The Gambia, while it has been lowered to 25% in Senegal.

(c) *Relations with Senegal*

Quite evidently, Senegal looms large in the Gambian re-export business, given The Gambia's near-total enclosure within Senegal. For the same reason, economic relations with Senegal are critical. Yet relations with Senegal have not always been smooth, as noted in Section 3. Border disputes with Senegal can severely disrupt re-export trade. According to wholesalers, every significant border conflict with Senegal leads to a substantial drop in re-exports, and the subsequent recovery is always incomplete. The border dispute following the increase in ferry fees in August 2005, when Senegalese truckers blockaded the border crossings in retaliation, contributed to the recent decline in re-exports. While traders are to some extent able to avoid the official border crossings and slip across the frontier in the bush, the re-export trade was severely disrupted until the issue was resolved in October 2005 when The Gambia rescinded the fee increases.

A number of wholesalers and customs officials in The Gambia contend that the Senegalese have sought to obstruct trade through The Gambia despite the settlement of the ferry fee issue. According to these interviews, Senegalese customs has deliberately increased delays for trucks crossing the border. Also, Senegal has required that all transit trade destined for Mali pass through customs at Karang in the western part of The Gambia rather than go through the preferred route through Basse at the eastern edge of The Gambia and then through eastern Senegal on the way to land-locked Mali. The latter requirement has effectively stopped all transit trade to Mali, in effect blocking an agreement by Mali, Senegal and The Gambia to permit transit trade through The Gambia in destination for Mali. The Malians had decided in 2004 to ship 25% of goods in transit via The Gambia despite having a designated zone in the port of Dakar, presumably because of the greater ease of operating in the port of Banjul. The Senegalese claim that this decision to effectively halt Malian transit through The Gambia was taken because truckers were violating the transit agreements and diverting goods to Senegal ostensibly destined for Mali. The Gambians deny these allegations and view the Senegalese actions as excuses to impede transit through The Gambia so as to increase transit through the port of Dakar. So far, Senegal has not imposed similar measures to divert transit trade through Banjul destined for Guinea.

Gambian customs officials say they have made concerted efforts to improve relations with Senegal, but that the Senegalese refuse to relent and improve access for goods passing through The Gambia. Overall, relations between the two governments remain quite tense.

(d) *Currency movements*

The CFA franc is pegged to the Euro (formerly to the French franc), whereas the dalasi is floating. Depreciation of the dalasi vis-à-vis the CFA franc can impact the attractiveness of re-exporting. Although imported goods' prices are set in euros or US dollars, and therefore f.o.b. import prices are unaffected by fluctuations of the bilateral dalasi-CFA franc, the competitiveness of the transport services sector in The Gambia improves when the dalasi depreciates. The real depreciation of the dalasi in 2001–03 due to the macroeconomic instability in The Gambia during this period may explain some of the increase in re-exports since 2002. On the other hand, traders say that substantial exchange-rate volatility is inimical to the re-export trade as it makes arbitraging between markets more risky, accounting in part for the drop in 2001.

7. CONCLUSIONS

The pursuit of independent national economic policies within artificial post-colonial borders has led to distortions in economic behavior in Africa. Nowhere is this more extreme than in the case of The Gambia and Senegal. The Gambia is a tiny free-trading English-speaking enclave within the much more protectionist francophone Senegal. In the decades following independence, Senegal instituted trade barriers to protect its manufacturing industries. The Gambia, with almost no manufacturing base, adopted relatively open trade policies designed to undercut Senegal's so as to serve the Senegalese market via smuggling networks. The advantage for The Gambia is the economic activity, employment, and most of all, customs revenues that the re-export trade entails.

It could be argued that this tariff competition serves a positive social function by circumventing the highly restrictive policies in Senegal. The sustainability of a trade strategy which is substantially based on preying on the distorted policies of its neighbor is highly questionable, however. It has become clear that The Gambia needs a new and more durable basis for economic development in the face of increasing tariff harmonization in the region, crackdowns on smuggling, and efforts of other countries to increase their share of intra-regional trade.

The case of The Gambia and Senegal also underscores the extent to which regional integration, while much touted in Africa, has so far had limited effects in spurring intra-African trade. Both countries are the members of ECOWAS, the largely ineffectual regional grouping in West Africa, but so far ECOWAS has been largely irrelevant to realities of intra-regional trade. Recently, however, some progress has occurred in ECOWAS in harmonizing trade policies with potentially important effects in reducing incentives to smuggle.

It is self-evident that long-term growth and development requires cooperation amongst the small countries in Africa. In the case of The Gambia, better relations with Senegal and cooperation on a wide range of commercial issues are essential, given the geographic, historical and cultural ties to its larger neighbor.

NOTES

1. Azam (2007, pp. 15–22) summarizes the literature on Nigeria's trade relations with its neighbors, including Daubrée (1995).

2. The members of WAEMU, in addition to Senegal, are the francophone countries Benin, Burkina Faso, Cote D'Ivoire, Mali, Niger, and Togo, and the lusophone Gambia-Bissau. WAEMU countries share a common currency, the CFA franc, have formed a customs union, and moved to harmonize a wide range of policies and institutions. Nevertheless, intra-regional trade within WAEMU remains low.

3. In addition to all the WAEMU countries, ECOWAS membership includes the English-speaking countries of West Africa: The Gambia, Cape Verge, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone. ECOWAS's efforts to harmonize trade policies have been much more halting than WAEMU's and the deadline for the implementation of ECOWAS customs union has been repeatedly postponed.

4. A Senegalese official to whom the authors of this paper spoke to during our research referred to The Gambia as an "open sore" for Senegal, while Gambian officials often view their larger neighbor as a bully.

5. This information is based on interviews with customs officials and wholesalers in The Gambia.

6. This description is based on Lambert (1994), Boone (1989), Rice (1967) as well as our interviews with traders and customs officials in both The Gambia and Senegal in 2006.

7. In 2004, official re-exports were relatively large, consisting of temporary importation of machinery from Europe for dredging.

8. These statistics are based on data provided by Gambian and Senegalese authorities.

9. Given the large unofficial imports of sugar into Senegal, the FAO figures on Senegalese consumption of sugar were themselves also adjusted upward.

10. In fact, the reported IMF estimates of re-exports are not exactly a constant share of total imports, but the IMF's ratio of imports for re-exports to total non-fuel imports varies within a narrow range around 40%.

11. There is no discernable long-run trend in import/GDP ratios for The Gambia and Senegal over the 1966–2005 period. The Senegal average is computed as the simple average over this period, which is 25% of GDP.

12. Senegal has a larger and more diversified manufacturing sector, but the agricultural and service sectors are quite similar, with the informal sector accounting for a very large part of economic activity in both countries. Manufacturing only accounts for about 15% of GDP in Senegal. Moreover, the effect of the manufacturing sector on the import-GDP ratio is not so clear. While domestically produced manufactures may in some cases replace imports of final goods, the net effect on total imports may be small insofar as imports of intermediate goods are significant. For example, the Senegalese textile industry may import cotton and thread. Also some of the Senegalese manufacturing sector, for example, fish-processing, is export-oriented, and does not replace imports. Overall, therefore, it is reasonable to assume that in the absence of re-exports, the import-to-GDP ratio in The Gambia and Senegal are similar.

13. The descriptions in this section are based on interviews with wholesalers, and Lambert (1994), Boone (1989), and Rice (1967).

14. The Gambia's efficient trade facilitation is confirmed by the World Bank's Doing Business Indicators, ranking The Gambia 24th and Senegal 94th of 175 countries in the ease of carrying out international trade transactions.

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