

Comments on:
“The Informal Cross-Border Trade
of Agricultural Commodities
Between Cameroon and its CEMAC Neighbours,”
by Robert Nkendah

Doug Gollin

Williams College

NSF-AERC-IGC Technical Session on Agriculture and Development
December 2010
Mombasa, Kenya

Motivation

- Paper addresses an important topic: the magnitude of “informal” trade in agricultural goods between Cameroon and neighboring countries.
- Important because we believe that many agricultural goods move across borders without legal documentation. Borders are long and fairly porous in much of sub-Saharan Africa.
- This means that official trade data may be misleading and may give an inaccurate picture of the agricultural economy.
 - ▶ If informal trade flows are large, official statistics may overestimate the quantity of food and agricultural goods available for domestic consumption.
 - ▶ May lead to faulty policy decisions.

Why is trade informal?

- Theory often frames measurement; we often use a theoretical framework to help us think about what to measure and how to measure it. In this case, we might want to ask *why* trade flows outside official channels.
 - ▶ Is informal trade essentially the same as “formal” trade, except that the traders do not complete the necessary paperwork or pay the necessary taxes (i.e., smuggling)? If so, we can just monitor the main trade routes and track the movements of goods.
 - ▶ Does informal trade consist of local movements of goods across artificial borders, from farm to market or from one rural market to another? If so, we need to find ways to observe these movements along footpaths and country roads.
 - ▶ Is there a lot of trade that is not counted because the quantities are too small for anyone to be concerned; e.g., goods that cross borders accompanying individual bus and train passengers?
- This paper takes the view that the first category is the major category of informal trade.

Measurement approach

- In this paper, the author and his team measured the physical quantities of goods flowing across Cameroon's borders using a direct observation approach.
- Using a sampling framework across days, weeks, and months, they construct estimates of the total annual trade flows.
- Advantages: allows them to count physical units of goods.
- Disadvantages: this will miss anyone who is avoiding the official phytosanitary checkpoints altogether.

Qualitative findings

- Useful descriptive information about traders' characteristics.
- Rich description of border markets and the people involved in trading, as well as the institutional context.
- Are the border traders responsible for most of the movements of goods across the borders? Or are there long-haul truckers who are not based at these border markets?

Quantitative results

- Estimates of annual agricultural trade are: 155,000 tons of agricultural products valued at 38 billion francs CFA (\approx US\$ 75 million) going to Equatorial Guinea (41%), Chad (29.5%), Gabon (12.4%), Congo (11.5%) and CAR (5.6%).
- Is this “large”?
 - ▶ For context, Cameroon’s reported agricultural exports (SITC-1, one-digit category 0) in 2005 were \$393 million, including \$150 million to Netherlands and \$74 million to Belgium.
 - ▶ Thus, the data from this study suggest that its CEMAC neighbors collectively are tied with Belgium as the third largest market for Cameroon’s agricultural exports.
- An important market lies “next door” but probably receives less attention than its more distant export markets.

Some concerns

- Would like to know more about how the survey team was able to measure the flows. It appears that they interviewed the traders and drivers, and perhaps also inspected cargo.
 - ▶ Is reporting truthful and accurate? Survey teams are from the Ministry of Agriculture; do people have any incentives to give misleading answers about the goods, quantities, and prices?
 - ▶ Truckers talk to one another. Would high-value shipments be able to avoid the inspections, or just to wait until the inspectors go away?
 - ▶ The paper notes that contraband and late-night crossings are not measured; these are estimated at only 20% of the total traffic, and most will not be agricultural goods. But it would be useful to know more about these.

Is this trade all informal?

- The study views all the informal trade as additional to the recorded formal trade. But what if some of it is already counted?
- The author says that the official registration data and the national income and product accounts do not show any exports of food and agriculture to these countries.
- But trade flows are often monitored under multiple systems, and (as shown in Table 6.7 of the paper), some agricultural trade data are gathered in the national statistics...
- Perhaps this trade is not registered, but it is measured...

COMTRADE data

- UN's COMTRADE database actually shows substantial exports from Cameroon to its CEMAC neighbors:
 - ▶ Cameroon → Gabon \$2.8 million (author's estimate: \$8.6 million)
 - ▶ Cameroon → CAR \$2.1 million (\$3.2)
 - ▶ Cameroon → Congo \$3.8 million (\$5.6)
 - ▶ Cameroon → Chad \$1.2 million (\$20.2)
 - ▶ Cameroon → Equatorial Guinea \$0.2 million (\$34.1)
- COMTRADE's notes say, "[T]he data was received from the National Statistical Office on 22 June 2007."
- FAO's TRADESTAT data also show at least some exports of agricultural products to neighboring countries: (avocados, bananas, flour of roots and tubers, onions, tomatoes).

Is it informal, cont.

- If these data are already being included in some of the trade data, then perhaps they are in some ways incorporated into national accounts and the policy making process.
- National income accounting methods can be quite creative!
- This is worth exploring further.
- Since the “official exports” to the five countries nearly match the “informal exports,” it would be good to know what the “official exports” represent. Are the informal exports really entirely separate from the official exports?

How else can we measure informal trade flows?

- One way that people have sought to identify missing trade flows is to look in international data on “directions of trade” (e.g., COMTRADE database) to see whether exports of good from country i to j match the reported imports in j from i .
 - ▶ Typically, these do not match very well.
 - ▶ In our case, Gabon and CAR are the only two of the five countries that report receiving agricultural imports from Cameroon:
 - ★ Gabon reports \$10.8 million (compared to \$2.8 million reported in exports by Cameroon)
 - ★ CAR reports \$7.9 million (compared to \$2.1 million reported in exports by Cameroon)
 - ▶ Sometimes people compare this misreporting to tariff rates or export taxes, to see whether the misreporting is higher in goods for which tariff / tax rates are high.
 - ▶ Alternatively, one could ask whether the mismatches are greater for neighboring countries with big differences in price policies.

Conclusions

- A few issues of interpretation and measurement. But these should not detract from the considerable achievement of this paper.
- Very few (if any?) studies have previously collected primary data on this topic, especially in Africa.
- Policy implications: we might like to understand better what is causing the informality so that we could think about appropriate policy responses.
 - ▶ If we eliminated export taxes and other fees associated with importing and exporting, would the informal trade go away?
 - ▶ If enforcement efforts were expanded at checkpoints, would it increase or decrease informal trade?
 - ▶ Is there a Laffer curve for trade-related taxes and fees, and if so, which side of the curve is Cameroon currently on? Would increasing these taxes and fees raise revenue? Or would it lower revenue?
- An interesting paper that makes a valuable contribution to our understanding of informal trade.