

Issue 7

Informal Cross-Border Trade: Salient Features and Impact on Welfare

Case Studies of Beitbridge & Chirundu Border Posts and Selected Households in Chitungwiza

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Forward

In Zimbabwe and southern Africa in general, the level of informal cross border trade remains high and a major problem irrespective of trade liberalisation and integration. In fact, national borders have become porous, hundreds of informal traders are constantly crossing border posts with unrecorded merchandise and flea markets are booming with these goods. On the other hand, most specialists in foreign trade and regional integration ignore informal cross border trade flows and concentrate on recorded or official trade flows. Further, informal cross border trade [ICBT] is stigmatised by the detestable label of smuggling and lack of interest arising from lack of data and difficulties data collection due to secrecy of the activity.

As such policy dialogue in many developing countries continues to be driven by the perception that ICBT is not only welfare reducing and economically non-viable but socially undesirable. It has been argued that ICBT undermines local industries, distorts price incentives to producers misguides domestic policies, negatively impacts on foreign exchange earnings, reduces tax revenue and distorts the correct picture of intra regional trade. However, the reality is that many people are making a living from ICBT. Along all Zimbabwe's borders and between SADC states there is a large magnitude of ICBT despite very stringent restrictive trade regulations.

Further, a study of informal cross border trade is also very important in view of the start of the implementation [September 2000] of the SADC trade protocol. It is widely expected that implementation of the protocol will stimulate intra-SADC trade, greater economic interdependence and augment production, employment and economic growth. The true picture of trade volumes among SADC countries is however obscured by lack of data on informal cross border trade.

There is therefore need to investigate the developmental role of ICBT. The main objectives of this study are to explore the causes of informal cross border trade between Zimbabwe and its neighbouring countries, quantify the magnitude of ICBT at the major border points [Beitbridge -

SA and Chirundu- Zambia], analyse the impact of ICBT on employment, incomes, production and prices, investigate the impact of ICBT on government revenue, explore the relationship between ICBT and poverty alleviation among women and vulnerable groups, and finally to draw appropriate policy recommendations about the effects of ICBT on intra SADC trade.

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Chapter 1

Conceptual Framework

In Zimbabwe, informal cross-border trade draws its origin from the pre-colonial period where communities and peoples of the region interacted and traded without the need for formal registration of such trade. With the erection of borders this trade was made illegal. Tariffs and various non-tariff barriers were imposed thus disrupting economic activities of the communities particularly those living along border areas. Informal cross border trade re-emerged after independence in the mid-1980s with people going to Botswana and, after South Africa's democratic change informal cross border trade has become more popular. In the 1980s this form of trade was despised as it was associated with low-income earners and unemployed people who had no alternative means of living. Due to economic conditions it is no longer the unemployed alone who are engaged in this form of trade and Zimbabwean informal traders have widened their coverage to include South Africa, Botswana, Mozambique, Zambia, Malawi and Namibia.

The level of Zimbabwe's trade with the region is grossly understated due to the failure to capture the size of informal cross border trade that is now widespread and has been growing for over a decade. Conceptually, goods passing through the unofficial routes without customs officials constitute only one form of unrecorded trade. Other forms of non-recorded trade are under-invoicing and mis-declarations of cargo. However it should be noted that it is difficult to quantify informal cross border trade accurately because some of the traders use unofficial routes such that their numbers are not captured in official statistics. Where they use official customs ports, they often declare that they are going abroad on holiday when in fact their objective is shopping.

Like all developing countries Zimbabwe faces a huge employment problem. In view of the deteriorating macro-economic environment in Zimbabwe, informal cross-border trade is viewed as a viable activity [particularly in comparison with rural farming) that generates employment, supplement income, improve food security by households and a means for improving living standards. Other factors enhancing informal cross border trade are stringent and bureaucratic formal cross-border controls, liberalisation of exchange controls, democratic changes in South Africa, economic prosperity, social and political stability in neighbouring countries in contrast to the worsening economic hardships in Zimbabwe.

1.2 Characteristics of Informal Cross-Border Trade

The word informal business is taken to describe activities that do not follow recognised official channels of business. According to several scholars, informal trade activities are generally defined by the following characteristics.

- Ease of entry or exit

- Reliance on indigenous resources
- Family ownership and management of resources
- Small scale nature of operations
- Basic skills which are acquired outside the formal education system
- A business entity which is not legally recognised.

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Conclusion

The decentralisation of visa issuing to other cities and towns would certainly assist small traders.

Given that cross-border trade involves all SADC countries, a regional approach to the problem may include measures to address the following measures

Creation of cross-border information centres which will indicate the opportunities and products that are available in each of the trading partners so that traders only go to:

- countries where they will get the products that they require.
 - Identification of different niches in order to determine which agreement will affect which group of Informal Cross Border Traders.
 - Review of the business and regulatory laws so that the business environment is conducive for informal cross-border traders.
 - Creation of a lobby mechanism to protect the interests of informal cross-border traders.
 - Creation of a directory of the goods available in various trading partners.
 - Relaxation of the formal cross-border restrictions.
 - Creation of conditions that will enable the creation of business linkages for the traders in various trading countries.

7.1 Suggestions for Further Research

- There is need to widen the target group to include other classes of informal traders or stratify the traders i.e. not only focus on the traders who use combies only but also those who use other modes of transport like private cars, airplanes etc.
- There is need to consider the “collusion” aspect with the law enforcing agents, customs officials etc.
- To gain more information it would be better to cross the border and move further into South Africa beyond Messina. This will enable researchers to see the places where the traders sleep, sell wares, the wholesale shops where they buy South African goods, the problems they face and the way they conduct business in general.
- It would be better for the researchers to be given money for shopping and to team up with some of the traders so as to get more information about them. The researchers would need to have a complete trip with the traders to and from South Africa.
- Surveys need to be conducted, at the same time for all the border posts for consistency and meaningful comparisons. For each border post it will be beneficial to observe movement in three phases, the pre-peak period, the peak period and the post peak period.

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