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Smuggling against Industrialisation: Towards a Quasi-Bilateral Industrial Policy in West Africa

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Executive Summary

Among the three main West African subsystems of parallel trade activity, Nigeria lies at the center of the largest, driven in large part by Benin's role as a key transshipment hub in the region. With limited industrial capacity, the Beninese economy heavily relies on informal cross-border trade, most of which is directed toward Nigeria. Despite Nigeria being the largest single market in West Africa, its industrial development has been significantly hindered by systematic trade policy undermining, including smuggling through the Benin border to exploit disparities in import tax rates and currency zones.

Efforts such as Memoranda of Understanding between the two countries, attempts to formalize informal trade, the West African Common Industrial Policy, and political integration initiatives have either failed or proven politically infeasible. This brief argues for experimentation with a "quasi-bilateral industrial policy" as a pragmatic solution. It recommends:

- Nigeria initiates an industrial policy program aimed at building the productive capacities of mid-sized and large Beninese cross-border traders engaged in manufacturing goods whose domestic production in Nigeria has been undermined by transit trade.
- Technical assistance accompanies the policy, enabling recipients to build organizational and productive capabilities and qualify for industrial support.
- Advocacy for laxer Most-Favored Nation (MFN) standards by Nigeria, Senegal, Ghana, and other affected countries, allowing for the development of quasi-bilateral industrial policies.

Introduction

The rapid growth of Nigeria's manufacturing sector has been constrained by two major factors. The first is the turbulent and growth-reducing national political settlements arising from enduring ethno-religious fragmentation and ethnic inequality.[1] The second, which has received less attention, is Nigeria's proximity to a neighbor—Benin—that systematically undermines its industrial policies by facilitating the smuggling of contraband goods. This issue is widespread across coastal West Africa.

West Africa, comprising the largest number of countries on the continent, has a significant concentration of states along the coast—11 of the sub-region's 16 countries. This state proliferation stems from 19th-century European colonial competition for commercially lucrative coastal territories, resulting in more fragmented coastal territories than in the Sahel. In addition to the high number of states, coastal West Africa's colonial legacy fostered a pattern of "interspersion," where large states (e.g., Senegal, Côte d'Ivoire, Ghana, and Nigeria) are surrounded by smaller states (e.g., Gambia, Guinea-Bissau, Togo, and Benin), which remain less wealthy.[2] This configuration, combined with policy and currency fragmentation, exacerbates high levels of parallel trade across borders.

Efforts to address this issue such as Memoranda of Understanding initiated by Nigeria, bilateral customs cooperation schemes, and border closures have had little sustained impact in stemming parallel trade between the two countries.[3] This is due to vested interests including the Beninese state benefiting from transit trade import taxes, as well as politicians, business elites, customs officials, and border communities reliant on cross-border trade. While economic and political unification might be the ideal solution, its geopolitical infeasibility calls for more pragmatic yet radical measures.

This brief will argue that one experimental solution is to gradually build a mass of Beninese manufacturing interests by including Beninese business elites and cross border traders as Nigerian industrial policy beneficiaries. While this goes against the typical nationalist ethos of industrial policy which favours domestic elites, West Africa's political geography warrants such innovation.

Subsystems of Parallel Activity

Smuggling is rife across Africa, including in the Maghreb, where more than half of Tunisia's trade with Libya is in the informal economy, and 25% of the fuel consumed in Tunisia is "informally imported" or smuggled from Algeria;[4] and in East Africa with parallel trade within the Uganda-Zaire-Sudan circuit.[5] However, parallel trade may be the most pervasive and pronounced in West Africa.[6] Several states—such as Benin, Togo, Gambia and Niger—along with border/frontier communities and trading interest groups in other countries benefit from the large "illegal" and parallel cross-border trade.[7] These actors depend "for their profit base on the maintenance of national borders and official barriers to the free flow of commerce".[8]

This occurs through systematic parallel re-export trade which takes advantage in differences in effective rates of trade protection across different currency zones.[9] Since these entrepôt states are "too small or poorly endowed to industrialize or prosper on their own", they exploit variation in trade policies, and this has "undermined the development of industry and agriculture throughout the region".[10]

Scholars have identified three main West African subsystems of parallel activity. These are centred on Nigeria (with Benin and Niger being transit zones), Ghana-Côte d'Ivoire (with Togo being the key transit zone), and Senegambia.[11] In each subsystem, the franc zone provides access to foreign exchange while countries with a traditionally liberal import policy—Benin, Togo, and The Gambia—serve as the main entry point for imports.

The largest subsystem, centred on Nigeria, is largely fostered by Benin, which has the largest informal sector among 27 African and Latin American countries for which comparable data exist.[12] Benin's cross border trade and micro enterprises are central to its informal economy, with one estimate suggesting that as much as 75% of its Gross Domestic Product (GDP) is accounted for by informal cross border trade,[13] more than 90% of which is with Nigeria.[14]

Ironically, these large countries are known for imposing protectionist barriers to stimulate import-substitution industrialisation. One study finds that, out of 16 West African countries, ten rank among the most inward-looking developing countries. Meanwhile, the four biggest trading partners in West Africa (Côte d'Ivoire, Ghana, Nigeria, and Senegal)—all coastal states—fall within the most or second-most inward-looking group.[15] Nigeria, the region's largest economy and the West African country with the highest share of intra-regional imports, is primarily responsible for the proliferation of Non-Tariff Barriers (NTBs).[16]

This creates a paradox: the large coastal states, with their larger domestic markets and potential for industrialisation, prefer to protect their markets. In contrast, smaller coastal states, too small to industrialise, deliberately undermine such protectionism through parallel cross-border trade. In other words, while the large Gulf of Guinea countries most ardently seek to industrialise, their aspirations are systematically undermined by small Gulf of Guinea entrepôt states like Togo—aspiring to be the "Switzerland of Africa"[17] —and The Gambia, which positions itself as the "Singapore of Africa."[18]

Not only are Nigeria's industrial development efforts undermined by Benin's re-export trade, but Benin's prospects for developing locally produced goods such as textiles and rice are also hindered by this same trade. The illicit and informal nature of cross-border re-export trade with Nigeria further weakens Benin's public institutions, as it involves tax evasion, corruption, and government capture.[19]

On both sides, vested interests among traders, smugglers, customs agents, border control officers, border communities, politicians, and armed groups sustain parallel trade. In Nigeria, many industries protected by import bans and tariffs are largely defunct, meaning the country could benefit from reducing certain import barriers. However, policy reform has been difficult, partly due to the influence of actors involved in the smuggling trade.[20] In Benin, cross border trade contributed to 60 and 80% of its recurrent budget during the 1970s and 1980s, respectively.[21] Revenues from state-regulated imports and informal re-exportation of industrial goods—mainly to Nigeria—were crucial in sustaining the power of Benin's longest-serving head of state, Mathieu Kérékou (1972–1991, 1996–2006).[22] Dantokpa Market—Benin's largest workplace and a key revenue source—and the port of Cotonou have historically been entry points for commodities designated for informal trade.[23] A similar situation exists in Senegal, where Mouride traders, embedded within the ruling coalition, have been deeply involved in re-export trade with The Gambia. This trade systematically includes contraband goods such as textiles, sugar, and rice—commodities central to Senegalese development plans.[24]

The Failure of Alternatives and the Prospect of Quasi-Bilateral Industrial Policy

The governments of The Gambia, Togo, and Benin have embraced parallel trade, promoting it through measures such as lowering import taxes and improving port infrastructure. Conversely, the governments of Senegal, Ghana, and Nigeria have spent decades attempting to curb parallel trade through both soft and hard measures, ranging from bilateral customs cooperation agreements to occasional border closures.

Attempts to strengthen trans-coastal official trade by investing in the Abidjan-Lagos trade and transport corridor—which accounts for the majority of West Africa's trade volume—have yielded limited success.[25]

Nigeria's protectionist trade policies and Benin's reluctance to reduce smuggling rents linked to cross-border trade, despite both countries' adherence to ECOWAS protocols, have prevented progress. Regional industrial strategies like the West Africa Common Industrial Policy (2015–2020) have amounted to little more than "statements of intention" lacking actionable frameworks.[26]

Joint industrial projects, such as the Onigbolo cement plant and the Savè sugar complex initiated by Nigeria and Benin in the 1970s, proved unprofitable and operated below capacity.[27] More viable approaches, such as bilateral agreements to create regional value chains, depend on strong manufacturing and commodity-processing players emerging in one or both countries to drive private initiatives.[28]

The most ambitious attempt to curb parallel trade in West Africa was the Senegambia Confederation (1982–1989), Africa's only post-independence political integration experiment.[29] Senegal viewed confederation as a way to curtail contraband[30] trade with The Gambia, whose re-export trade had grown significantly during the 1970s and 1980s.[31]

However, the Confederation dissolved because, while Senegal stood to benefit from reduced contraband imports, The Gambia faced losing at least 25% of its tax revenues.[32] Without fiscal compensation proposed by Senegal, Gambian authorities resisted the customs union, prompting Senegal to unilaterally dissolve the Confederation in October 1989.[33] While Senegal had the opportunity to attempt political unification, Nigeria has not been as fortunate, as there is little to no appetite for unification between Nigeria and Benin in either country.

Pragmatism is needed for industrial policy to take a quasi-bilateral form, with two potential routes. The first involves extending eligibility for industrial policy programmes to Beninese firms and large cross-border traders. The second entails creating specific programmes favouring Beninese firms and Nigerian firms investing directly in Benin. Both approaches could target raw materials and finished goods often smuggled across borders. Large cross-border traders, who play a key role in transit and re-export trade, should be engaged to redirect their interests over time.

Challenges include compliance with World Trade Organization (WTO) most-favoured nation (MFN) rules, which require countries to treat foreign investors equally.[34] However, given WTO leniency toward Least Developed Countries (LDCs), countries facing high levels of smuggling should advocate for relaxed MFN rules to enable quasi-bilateral industrial policies.

Another issue is that large cross-border traders, while adept at export-import trade, often lack the productive capacity required to engage in manufacturing. A quasi-bilateral industrial policy may therefore need to include technical assistance to enhance their production capabilities.

Conclusion

Three motives have historically driven nationally representative economic nationalism. First, a sense of national unity fosters efforts to develop all parts of a country. Second, political pressure from regions represented at the legislative and executive levels enforces laws against systematic exclusion. Third, the negative consequences of neglect—such as insecurity, crime, and fiscal dependency— which cannot be ignored and externalized by placing national borders.

The lack of political unification between Senegal and Gambia, Ghana and Togo, and Nigeria and Benin precludes the first two motives from having relevance for the Senegalese, Ghanaian and Nigerian governments. The third motive, however, comes into play, as the three countries suffer the economic impacts from their smaller neighbours' economic-geographical conditions. This, along with the realisation that more hardline and trade facilitation measures have failed, should force the large countries to weaken the nationalist focus of industrial policy and extend industrial policy benefits to their smaller neighbours.

Such efforts would advance ECOWAS integration, Agenda 2063, and the African Continental Free Trade Area (AfCFTA). This is because, smaller countries reliant on parallel trade often resist trade liberalisation and facilitation measures[35], while larger countries such as Nigeria, wary of unrestrained smuggling, have hesitated in fully implementing AfCFTA protocols.[36]

Policy Recommendations

- Large Gulf of Guinea countries suffering from high levels of parallel trade should develop industrial policies favouring firms in both their territory and neighbouring parallel-trade-facilitating countries.
    - Target raw materials and finished goods frequently smuggled across borders.

* Engage large cross-border traders to redirect their interests toward formalised trade and production.

- Large countries should design and implement capacity-building programmes for targeted cross-border traders, enabling them to leverage their market knowledge and networks for production purposes.

- Nigeria, Senegal, Ghana, and other countries affected by high levels of smuggling import penetration should advocate jointly for WTO reforms that relax MFN rules to accommodate quasi-bilateral industrial policies.

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