



Informal Cross-Border Trade in Africa: Operations, Policy, and Opportunities

by

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Abstract: Informal cross-border trade (ICBT) refers to the illegal activities of cross-border commerce conducted by unregistered small-scale traders. We seek to develop insights to understand the ICBT value chain and offer policy recommendations to successfully integrate it into the formal economy. Using a game-theoretic model, we analyze the operations and key market dynamics of ICBT. We examine the policy implications of three representative UN directives: enhancing marginalized traders' access to formal channels, reducing export tax rates for traders, and providing an alternative simplified trade regime (STR) to informal traders. All three formalization policies increase government proceeds when the inherent profitability of the formal or STR channels is sufficiently high. On the other hand, an increase in social welfare is achieved when the policies successfully balance the degree of wholesale price competition within the formal and informal channels. We apply our model to a case study based on Uganda's agricultural exports over an 11-year horizon to obtain insights on the efficacy of these policies and the tradeoffs that must be considered. The access enhancement policy is most effective in increasing government proceeds but least effective in improving the welfare of other participants. The tax reduction policy enhances traders' profitability but sacrifices welfare of farmers and government proceeds substantially. Finally, the STR acknowledgement policy results in the largest increase in profitability of marginalized traders and farmers but comes at the cost of government proceeds.

Bio: Prof. Michael Lim is a professor of Operations Management at Seoul National University Business School. Before joining SNU in 2017, he served as a faculty member at University of Illinois Urbana-Champaign (2009-2017). Lim's research interests include supply chain management, sustainable operations management, and environmentally- and socially-responsible operations.