

An Inquiry into the Nature, Causes and Effects of Contraband: Case of Ethio-Somaliland Border Corridor

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ABSTRACT

Even if contraband is rampant in Ethiopian Somali region, little is researched over the topic so far. Basing its investigation on border areas between of Ethiopian and Somaliland, this study investigates the nature, causes and effects of smuggling. The study integrates both primary and secondary data. 75 smugglers, subjected through snowball sampling were considered to explore the causes and effects of contraband at an individual level. Descriptive and analytical tools, case studies, personal observations, were employed to make inferences out of the data and information gathered. The study found out that the prevailing contraband system has two dimensions: large scale and small scale smuggling, each with its own peculiar features. Our finding further reveals that economic hardships, unemployment and institutional problems were ranked in order by smugglers as major drivers to participate in smuggling business. Our analysis shows evidences of involving in contraband activities may have behavioral and psychological effects, which in turn implicates into the socio-economic life of smugglers, calling for even better and through understanding the on the issue. Practicing smuggling affects the labor market in many ways: by dragging people away from formal employments, smuggling decreases the force participation rate; it also affects the quality of labor force mainly by eroding the work ethics & discipline, creating tastes that can't fit with formal employment, by imposing rent seeking mentality (making smugglers develop a culture of easy money).

Keywords: Contraband, Ethiopian Somali regional state, Ethiopian Revenue and Customs Authority

1. Introduction

The Ethiopian Revenue and Customs Authority Proclamation (Article 74) states that anybody found using, holding, hiding, selling or distributing goods which have not been subject to customs procedures would be treated as contraband.

Contraband activities has been and is remained a major threat to the developmental activities that Ethiopia embarked up on. In the last decades or so there emerged a number of domestic and foreign conditions favorable for the contraband activities to flourish in Ethiopia. According to Ethiopian Revenue and Customs Authority (ERCA), one of such situations is the political crisis in Somalia. The crisis created favorable conditions for rival political and clan groups to smuggle goods to Ethiopia to service their wars. As such ERCA dubbed the eastern part of the country, particularly the border areas with Somalia as major contraband corridors. As the route through the border towns with Somalia, the town of Tog Wuchale, and Awbere are considered centers where smuggling of goods is largely undertaken (see Derveux, 2011). These areas form the apex of the long chains that stretched across the different parts of the country, crossing cities (towns) like Jigjiga, Harar, Dire dawa, Nazareth (Adama) and Addis Ababa, where significant amount of contraband items damped out.

Although the government, particularly ERCA and the Federal Police forces have been struggling to combat smuggling of goods across these areas, still the problem persistent, affecting the national economy in general and the development of these particular communities in particular. Against smuggling goods, the nature, causes and consequences of the contraband activities needs to be explored before any short run and long run corrective measures and strategies are to be taken and implemented. Despite a huge efforts to track down contraband goods and contrabandists by a joint effort of ERCA and Federal Police Forces, unless these activities are complemented with studies such an efforts would remain ineffective. Policy measures against contraband would be effective once the broader and root causes as to why contraband activities are discovered (Sweeting et al, 2009).

In the battle against contraband trade an organized and coordinated efforts of different stakeholders is crucial. In this regard, the policy directions and other packages of anti-contraband moves must be complemented by researches. Unless the, war against contraband would be long, tedious, ineffective, and if not, unsuccessful. Given the fact that the dimensions, size and dynamics of contraband activities is getting wider and more complex, there needs intensive researches on the topic is helpful inspecting contraband. Despite that, studies on the topic are very limited. The existing few are similar in nature and technique of analysis as their focus was on exploring the effect of contraband on the tax, trading and other social problems like health of people. (see Tegegne and Alemayehu, 2002; Devreux, 2012) .

This study addresses issues that are important but left unexplored by other similar researches. As such, we investigate the nature, extent, depth and dynamics of contraband activities in areas dubbed as the major contraband corridors in Ethiopia, the Ethio-Somaliland boarder regions. The study further explores on the

possible reasons of involving in smuggling and its effects on the labor market, both in terms of the labor force participation and quality of labor force.

2. Literature Review

2.1 Cause of Smuggling

According to WCO (2012) the motivations to commit illicit trade may vary from case to case, but most of them are perpetrated with the intention of potentially securing illicit access to preferential duty rates, achieving the importation of goods normally subject to prohibitions or restrictions in the country of destination and the like.

Causes of Smuggling in Ethiopia-Somaliland Border

Existing literatures on the issue of smuggling reveals that contraband is a livelihood for the people living in the Ethio-Somaliland border, which in fact explains why contraband is rampant in the area (ERCA, 2012; Tegegne and Alemayehu, 2002). There are evidences suggested smuggling has external causes, which in fact could be related to the geo-politics of the area. Over all, causes of the rampant smuggling have both domestic and external origin.

▪ Domestic Causes

Domestic causes includes among others: structural problems, failure in the legal and official trade system.

➤ *Structural Problems*

Such problems as unemployment and others related to tax and policy issues drive the smuggling business. Absence of alternative employment means people have no option but to participate in the smuggling to earn a living. This further intensifies smuggling as it negatively affects investment, and hence kills alternative job creation efforts. As the economy is low, the people living there have little demand and lower purchasing power. This in turn opens a room for contraband as there is demand for cheaper and low quality product. An ill tax policy complements the problem by widening the price differential between contraband goods and legally supplied ones (Tegegne and Alemayehu, 2002).

➤ *Failure of the Trade System*

Weak efforts to integrate the border territories with the national economy results the failure in the supply of basic consumables, which in turn opens a room for contraband to flourish as it widens the price differential between legal and contraband markets in favor of the latter. (Tegegne and Alemayehu, 2002).

▪ External Causes

There are certain instances that exacerbated the smuggling practices in the Ethio-Somaliland border in particular.

✓ *Instability in Somalia*

One such case as to why smuggling is considerable in the Ethiopia-Somaliland border corridor is the instability in the mainland Somalia. The other is the strategic importance of the area for trade and commerce (ERCA, 2012; Tegegne and Alemayehu, 2002).

✓ *Strategic Importance to Trade and Commerce*

In the export trade, the external factors include proximity of the Middle East markets to Djibouti and Somalia ports. These countries are likely to encourage their respective exports and hence unofficial traders of these countries pay higher prices in their respective border markets. This would attract commodities mainly livestock and coffee from Ethiopia.(Tegegne and Alemayehu , 2002).

The most important external factor is that those manufacturing companies that could not find adequate market access elsewhere in developed countries encourage unofficial imports. Somalia and Djibouti used as a transit site to third country products of Asian and European origin to Ethiopia (Ibid).

One key notes that we can draw from the available few studies on the topic of smuggling, their similarities in terms of contents, where their interest lies in looking the direct impact of smuggling, mainly in terms of its effect on the exchequer, the health and peace of communities. Moreover they don't show pictures how the contraband system works, which has profound implications to any responses against smuggling business. This paper is meant to fill these gaps.

3. Research Methods

3.1 Methodology of the Study

As smuggling business is illegal, it is very difficult to get data and information on relevant variables as they lack record. Also, smugglers are vigilant to tell genuine information on their activities. So it is wise to pursue relevant techniques of sampling, data collection and analysis.

The study employs snowball sampling, a non-probability sampling techniques. According to Ruane (2005), snowball sampling is essentially a sampling strategy built around referrals. A researcher started the sampling process by contacting a few individuals for inclusion in the sample. Here in this study, first researchers made contact and win over the trust of a few respondents and then researcher asked these individuals for names of other smugglers. This Snowballing repeated up to 75 smugglers, these smugglers presented with semi structured questionnaires. Officials from the Ethiopian Revenue and Customs Authority (ERCA) and other

bodies having stakes in relation to contraband were considered as key informants, Focus Group Discussions (FGDs) and field observations, as secondary data source.

The study employs qualitative technique of analysis. Qualitative technique leads to a better understanding of the meaning of what is observed and results in data of greater depth and richness (Patton, 2002). Case studies and Different illustrative and statistical tools were integrated in analyzing the data.

4. DISCUSSION AND RESULTS

4.1 Exploring the Nature, Scale and Dimensions of the Contraband System

According to ERCA, the major contraband points in Ethiopia are the eastern, western, southern, and northwestern borderlands of Ethiopia. Ethiopia-Somaliland boarder, particularly the Tog-Wuchale-Awbera and Jigjiga corridor, which is part of the Eastern contraband corridor, accounts for the largest share of smuggling among the four borders in terms of the volume and value of export from Ethiopia. And it trade both official and unofficial.

Dynamicity: A Key Feature of Contraband System

One Key features of the contraband system it that it is dynamic. The dynamicity is powered by the changing strategies used by smugglers and inspectors. The inspection tactics is changes in response to the ever changing strategies by smugglers to escape inspections.

A recent dynamics in this regard is the changing in the nature and directions of smugglings. Following a stricter inspection against the large scale smugglers since the last seven to eight months, small scale smuggling is evolving while large scale smugglers are crushed. There is a recent shifts in the contraband routes too. Smuggling in the jungle roads is cooling whereas smuggling on the main road flourishing. All in all, the nature, directions and the structure of the contraband system is dynamic.

4.1.1 How the Contraband System Works?

We can best understand the contraband system if we group the system into two forms, each with its own peculiar features. The first one is smuggling on grand basis, while the other is petty contraband system. One thing in common of the two is that the difficulty to quantify the size of smuggling, both in terms of the quantity and value. Their difference lies in the scale, nature of goods and participants, smuggling routes and mode of transportations.

Small Scale Smuggling

The small scale contraband activity is often undertaken the day time, and uses the main gateway connecting Togwuchale and Jigjiga is largely dominated by petty contrabandists. Petty smuggling is often dominated by women.

The dominant goods smuggled in this system involves: second hand clothes and shoes, garments and apparels, food and beverages, and tobacco and tobacco products. In this system, contrabandists use the official public transport to smuggling where the smuggler and his/her smugglings are transported together. All the goods loaded on the transport are claimed by all the passengers on board for own consumption. This however doesn't mean that all on board are contrabandists. Indeed, there are individuals heading to Tog-Wuchale markets to purchase for personal consumption. There are occasions where all on board participate in smuggling directly or indirectly.

The driver and the aide participate in the smuggling directly and indirectly: directly as a smuggler and indirectly by servicing the transport for smugglers. In their attempts to escape the risks of possible confiscation at custom check points, contrabandists with large holdings often disperses their holding to other passengers on board (who are not smugglers) or to those smugglers with smaller possessions. As such, non-smuggling Passengers on board indirectly participates in smuggling if they cooperate (as they often do) to smugglers' requests.

The workings of Small Scale Smuggling

“Officially, I am registered as public transport service render. Despite that, there are times when we avoid transport service entirely and indulge in smuggling. On our way from Tog-Wuchale to Jigjiga, we do have a number of stops where we have to pay for members of police, custom officials, others who work as anti-contraband informant. In one trip we pay at least 5000 birr; in fact that cost is born by our customers (those who receive our smugglings). We (me, the driver, and my aide) earn an average of ten to twelve thousand birr for our services. “

Words from a Smuggler, who preferred to be anonymous

Transport service providers (the driver and the aide), some custom officials and police forces involve into the petty contraband system, each with their share. Their share is established through light bargaining, with no predetermined or fixed amount, custom officials and members of police forces inspecting takes from the driver of the bus. They are smugglers who bear that cost. All smugglers on board may not equally share the burden; those with smugglings of higher value pay fairly higher and all that is accounted on the transport fees. The fee also accounts the shares that go to the driver and his aide.

Large Scale Smuggling

There are big warehouses located within the Somaliland side of the border where contraband items are stored. There are dealers (brokers) that links the customers from different parts of Ethiopia as far as (even beyond) Addis Ababa with those operating or owning these warehouses. Those traders from Ethiopia (importers) who are interested visit those warehouses owned by Somaliland traders (exporters) in person, as most business people around Jigjiga or other cities in eastern Ethiopia do or through their representatives.

Key Features of Large Scale Smuggling

As distinct from small scale smuggling, there are unique characteristics that large scale smuggling is featured by:

- i. Wider in scale and dimension
- ii. Increased division of labor

Scale and Dimension

The system of large scale smuggling is complex, having a number of agents. This system covers a large area too, stretching from Tog-Wuchale to Addis Ababa and even beyond other parts of the Ethiopia. The smuggling business has also linkage with those businesses established under the legal framework too. All in all, the extent of division of labor is higher in grand contraband system as compared to the petty contraband system. Smuggling on grand basis is often undertaken in the night time to escape risks of easy inspection. The most interesting aspect in large scale smuggling is trust. Trust is the lifeline of the system, which tied each stakes and makes the system work.

Division of Labor

Large-scale contraband system involves the working together of various bodies, among others: those who orders and receives the smuggled goods, those who arrange the sources and destinations of the smuggled goods (brokers), transport facilitators and providers, those who provide warehouses for smuggled goods. The contraband system also involves informants (intelligence network) who are vital in gathering information key for the safe move of smuggled goods. In this regard, communities living around the smuggling routes involve in the contraband system as they are sources of information on the safe routes of smuggling so that smugglers can easily escape inspection.

Large scale smuggling operates its own transport system. Trucks and camels are used as a means of transport. In any case where using trucks might be difficult for different reasons, they opt for camels. Smugglers prefer the jungle roads, instead of the main asphalt road that links the border town of Tog-wuchale, the gateway to Somaliland, with Jigjiga and Awbera. The topography of the area, which is flat in all direction, is comfortable for trucks to drive in these jungle roads. They crosses alternative jungle routes within districts of Deeda waleed, Chenakesen , Ejerse Goro and finally destines to Harar and Diredawa, from where the smuggled items disseminated to central Ethiopia

4.1.2 Extent, Nature and Scope of Contraband

4.1.2.1 Extent of Smuggling

According to officials from ERCA Jigjiga branch, quantifying the size of smuggling is far difficult for petty smuggling due to the nature of the system. For grand smugglings however there is the intelligence task force, as one of the working units of the Jigjiga custom office, which identifies the suspected trucks loaded with smugglings and inform the anti-contraband contingent forces for action. Estimations from the ERCA Jigjiga branch office reveals that, on average 6-18 trucks smuggled daily, which in turn amounts to an average of 150 to 480 loads monthly. The values of smuggled goods loaded on a single truck, as estimated, worth more than 700,000 birr. That means, 1.5 to 4.5 billion birr worth of goods are smuggled annually in the Tog –

Information: The Most Valuable Resource in the Contraband System

Who wins the smuggling game depends on who wins the right information at the right time. So, hunt for information takes the core of the contraband system. Those who play smuggling (mainly smugglers and inspectors) are desperate about both players spend a lot to buy information. The custom authority is ready to pay half the value of the smugglings for those who informed for smugglings. The contrabandists spend a lot to buy information too.

Wuchale - Somaliland contraband corridor.

4.1.2.2 Types of Products Smuggled in

From the ERCA Jigjiga branch office and our field visits, we found out that the major contraband items smuggled in (imported) to be: Apparels and garments, electronic devices, tobacco and tobacco products, second hand clothes, shoes and different durable and non-durable items.

Confiscated Imported Contraband goods in terms of value (birr) Across Years

Data from ERCA Jigjiga branch of the office reveals that smuggling is showing a steep rise in the first three years of GTP I period. At the beginning of the GTP year, that is 2003 E.C (Ethiopian Calendar), the total value of confiscated items worth 41.56 million birr. In the following year the sum rises to 52.14 million birr, showing a 22.6% rise. In the 2005 fiscal year, the confiscated amount rose to its peak, where 71.81 million birr valued contraband items seized, which is higher by 31.7% from the preceding year.

In the fiscal year 2006 E.C the trend of smuggling shows a decline by nearly 16%. Since the fiscal year 2007 E.C, the inspection level is stepped up by making the regional state militias and administration from top to kebele levels part of the fight against smugglers, something unprecedented before. That might explains the rise in confiscated goods in the 2007 E.C. In the 9 months alone, contraband goods worth 68.6 birr were inspected.

Confiscated Contraband Goods in terms of Types of Products

Through the GTP period the share of apparel and garments recorded the highest confiscation and its 2005 was peak that is 30,600,635 birr. But at the end of 2007E.C the confiscated value of other items were highest (22,740,430 birr).while the value of electronics items increase smoothly and were 12,525,390 birr at the end of the GTP period.

4.1.2.3 Institutional Reforms and Capacity building of Custom Officials

The ERCA Jigjiga branch office has been looking for other arrangements to mitigate smuggling. One such endeavor is institutional reforms by renovating its organizational structure. In this regard, the office introduced a new department, called *Property Administration and Contraband Department*, particularly to strengthen actions against contraband.

The branch office also is working to improve the size of its staff, by employing more workforces and enhancing the capacity of the existing work forces through short term on the job trainings on issues related to custom.

The Fight Against Contraband: Lesson from Girmame Neway's Administration

Below is a record from historical notes how integrating market forces would be an important instrument to mitigate contraband.

Girmame Neway, who was one of the orchestrators of the failed coup d'état against the Emperor Haile Selassie I in 1960, was once a governor of Jigjiga district. In his tenure as a governor, one thing that challenged his administration was the rampant smuggling along the Tog-Wuchale-Jigjiga Corridor. Contraband was largely responsible that dwarfed the economy of the district he governs in particular. Girmame Neway redesigned the packages of instruments used to mitigate smuggling practices. One of his measures however was very applauded in successfully tackling contraband Girmame has understood the wider price differential between the contraband market and the legal one was the major driver for smuggling business to flourish. He understands the fight against smuggling has to focus on narrowing the price differential. To that end, he invented a scheme where custom officials are capacitated to effectively track, inspect and seize smugglers and smugglings. Accordingly, the confiscated goods would be stored and sold in sales shops opened by his government. The prices of goods sold in the shop were even lower than charged in the contraband market. In such a way, Girmame Neway has created a price differential in favor of the legal market, making the fight against smuggling successful.

4.2 CAUSES AND EFFECTS OF SMUGGLING

This part of the study addresses the possible reasons of involving in smuggling and its effects on the labor market, both in terms of the labor force participation and quality of labor force. To that end, 75 smugglers were subjected; also interviews with business people and custom officials both from the ERCA and ESRS revenue and custom bureau were undertaken.

In this study, a total of 75 smugglers were subjected. The smugglers are from diversified demographic background in terms of age, sex, marital status and education. The smugglers subjected in the study are dominated by male. The majority of the smugglers are within the age bracket of 18-35. The marital status of smugglers shows that smuggling is dominated by those who are married.

Among the sampled subjects considered 96% of smugglers are literate, and these are dominated by those with elementary school background. Smugglers with college and university background take zero shares of all literate smugglers.

4.2.1 CAUSES OF SMUGGLING

Why People Join Smuggling Business?

From socio-economic and political contexts specific to the study are, we singled out six factors as a potential determinants of involving in smuggling at an individual level. They are: **Unemployment, Economic Hardships (Rising Cost of Living), Institutional Problems, manifested by unfair trade regime and good**

Our finding reveals that economic hardship is the principal reason why people are driven to smuggling. This is partly supported by the fact that the majority of smugglers that were employed in other employments (formal and informal) declined from 43 to 32, where they abandoned and joined smuggling business. Unemployment takes second among the host of other reasons leading to smuggling business. This finding is complemented by the fact that 43% of the smugglers subjected were unemployed before starting smuggling, as reported in table (4.1)

Institutional problems, manifested in unfair trade regime and corruption is ranked as the third most determinant considered by smugglers why they turn their eyes to smuggling. A rise in the informal sector participation from 9%, before involved in smuggling to 21%, after getting into smuggling consolidates our finding.

The least first-ranked determinants are tax over-burden and educational/skill gaps, with 7% and 2% shares respectively. Given the fact that smuggling declines as education level gets higher, the finding that puts education/skill as least cause of smuggling might seem to have sense. As we learned from our interviews and field visits, this can be seen at least from two dimensions: first, most smugglers perceive that education has nothing to do with unemployment and hence would not be a shield from involvement in smuggling. Second, smugglers are more attracted to works that don't require much skill, like petty trade.

4.2.2 EFFECTS OF SMUGGLING

An often time, contraband is condemned for its effect on the exchequer. One key aspect of contraband rarely found in the literature is its effect on the labor market. As one of the objectives of the study, this part is meant to address this often ignored issue. In this regard, the study looks how smuggling affects the labor market.

4.2.2.1 Smuggling Causes a Decline in Labor Force Participation Rates

In order to see how smuggling affects participation at individual level, we tried to investigate the employment status of smugglers. Accordingly, subjected smugglers were asked if they were participated in labor market (formal and informal employment) before and after they joined contraband business to investigate how smuggling affects labor participation. The responses of the subjects is summarized on the table 4.2

From table above we infer that labor participation has declined in other employments, other than smuggling. Those smugglers who supplied their labor before involved in smuggling were nearly 57%; that figure dropped to 43% after they joined contraband business. Our analysis further reveals that labor force participation in the formal employment declined by 7%. That figure is assumes 6% the informal sector, where labor force participation reduced from 27% to 21%.

4.2.2.2 Smuggling Erodes the Essential Qualities of labor

In addition to its impact in reducing the labor supply, as forwarded above, smuggling also affects the labor market by degrading the quality of the labor force.

We singled out those smugglers who never had formal employment and asked them if they think they are able and willing to supply their labor in the formal employment in the future. The question appeals to 32 smugglers as they responded that they never had any employment history other than smuggling so far. There are two groups in this regard: the first group involves those who are willing and able; the second involves smugglers who are willing but unable to supply their labor. 42.85% of them responded as they believe willing and able to

How Business Registration Problems Encourages Smuggling Business

As we learned from our field visits, a custom related problem is forcing legally registered business entities to see the contraband market. Even if they looked for legal registrations, they failed to get the service; as a result, a repeated value added tax (VAT) levied on the same products at different stages, which in turn passes on the final price of the product. Such a case artificially inflate goods sold in the formal market, opening a door for smuggling to flourish as it widens the price differential among the legal and contraband markets, in favor of the latter.

participate in the formal employment, while 57.15% of them said they are willing but unable to supply their labor.

As the whole 56 of subjects under treatment were full time smugglers, they were also asked why they are not looking for formal employment. Those in the first group (i.e those who are active job seekers in the formal labor market), reasoned *issues related to good governance, low wage rate, unemployment* and are the major barriers from formal employment.

4.2.2.3 How Smuggling Affects the Quality of Labor Force?

Among those smugglers having no other employment background, the majority or 57.15% of them believe as able but are unwilling to supply their labor in the formal employment. Smugglers in this group are not even ready to look for the formal jobs. The reason for not involving in the formal employment is internal (comes from them). They reasoned that they believe as they don't have those qualities that the formal employment requires them to have. We considered four variables as indicators of essential qualities of labor for formal employment (at least to cope up with the formal jobs). They are:-

- Work ethics & discipline.
- Tastes that can't fit with formal employment.
- A culture of easy money.

4.2.2.4 Smuggling Erodes Work Ethics and Discipline

As depicted in table 4.3, 54% of smugglers who perceive as able but are unwilling to participate in the formal job market responded reasoned that their belief not to comply with the required ethics and discipline of work like: punctuality, codes of work ethics and discipline is the reason why they are not interested to formal employment.

4.2.2.5 Smuggling Creates Adverse Tastes that often go Against the Nature and Requirements of Formal Employment

All smugglers belonging to a group comprising those who thinks fit to formal employment but are unwilling to look for it believe they can't comply with the modalities of the formal employment, mainly in line with the regularities of payment and work hours. Accordingly, they said that don't comply with 8 hrs of work time with regularities in the fixed starting and end of work hours. They also responded as their flavor to income changed to frequent and irregular mode of payment, which is not the case in the formal employments.

4.2.2.6 People Involved in Smuggling Develop a Culture of Easy Money

Contraband makes people less interested to participate in formal job market for different reasons. One is that it twists smugglers' flavor and regard towards how to earn money. As a contraband system is pillared by corruption, smugglers develop rent seeking behaviors like a culture of easy money. 46% of the smugglers replied culture of money as one reason why they unable to participate in the formal job market.

Contraband and Gambling

"In contraband it is usual to risk all your holdings, sometimes even adding by borrowing aspiring to amass more. But often times you end up empty handed, even you indebted. In my contraband life so far, there are times I won, also lost. One time I amassed as high as 300,000 birr and lost everything other times. I know it is impossible to bring change in my life with contraband, impossible! It is highly unlikely to graduate to other legal businesses even if one acquired enough capital to start and operate businesses. I always consider ways to leave contraband business, yet I failed. It is like addiction."

A note from one smuggler, residing in Jigjiga city

5. CONCLUSION

- The contraband system has two dimensions, as small scale and large scale, where there are visible differences in the scale, nature of goods and participants, smuggling routes and mode of transportations.
- The causes to involve in smuggling could be categorized as economic and non-economic.
 - The economic factors include: economic hardship and unemployment
 - Non-economic factors largely associated with weak institutional set-ups like corruption, nepotism, weak custom or inspection capacity, custom registration, lack of good governance, and ill tax and trade policy regimes
- Economic hardship, unemployment and institutional problems are found to explain reasons of smuggling at an individual level
- The effects of smuggling could be defined as economic and non-economic.
- Its economic effect is linked to the labor market, by affecting the labor force participation rate (supply of labor) and by eroding the essential qualities of the labor force (quality of labor). Smuggling effect on

the labor force participation could be summarized in to two dimensions

- Participating in smuggling makes people involved develop tastes and values that go against the essential values formal jobs require like punctuality, work ethics and discipline, other formalities and regularities on payments, work hours or any other. Those smugglers who still participate in formal jobs shows a tendency not to stay longer in their jobs, meaning reduction in job participation rate (reduced labor supply).
- Those smugglers that has never experienced formal employment are more likely not to dare it as they develop a psychology that they won't put up with the rules, regulations and other codes of conducts of work

➤ Contraband affects the quality of labor at least in three ways: by eroding the work ethics & discipline of laborers, by creating tastes that can't fit with formal employment (like irregular payment, irregularities on work attendances and other work disciplines), by imposing rent seeking mentality (e.g making smugglers develop a culture of easy money)

➤ Contraband enriches the rent seeking economy as it promotes:-

- People develop a mentality to look only the short cuts to grow up or win success in their jobs

Corruption and corrupt minds by making people develop values that tolerate corruption and impunity towards corrupt practices.

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ANNEXESS

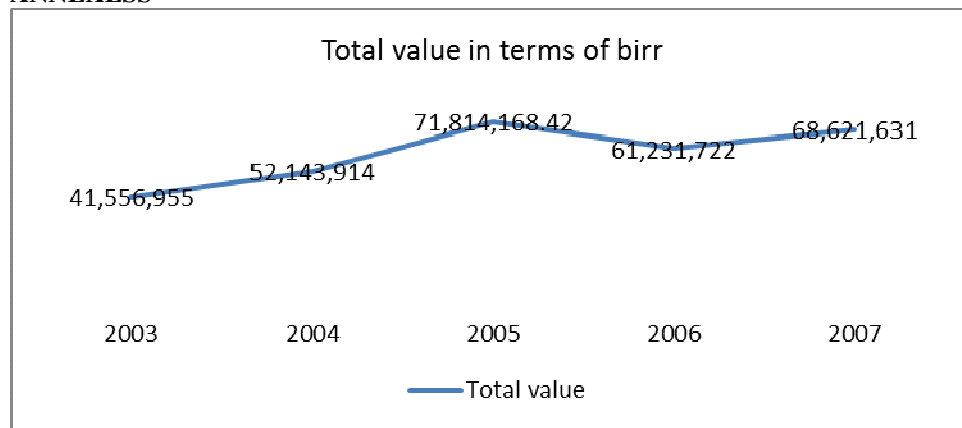


Figure 4.1 Trends of Confiscated Items In terms of birr from 2003 to 2007

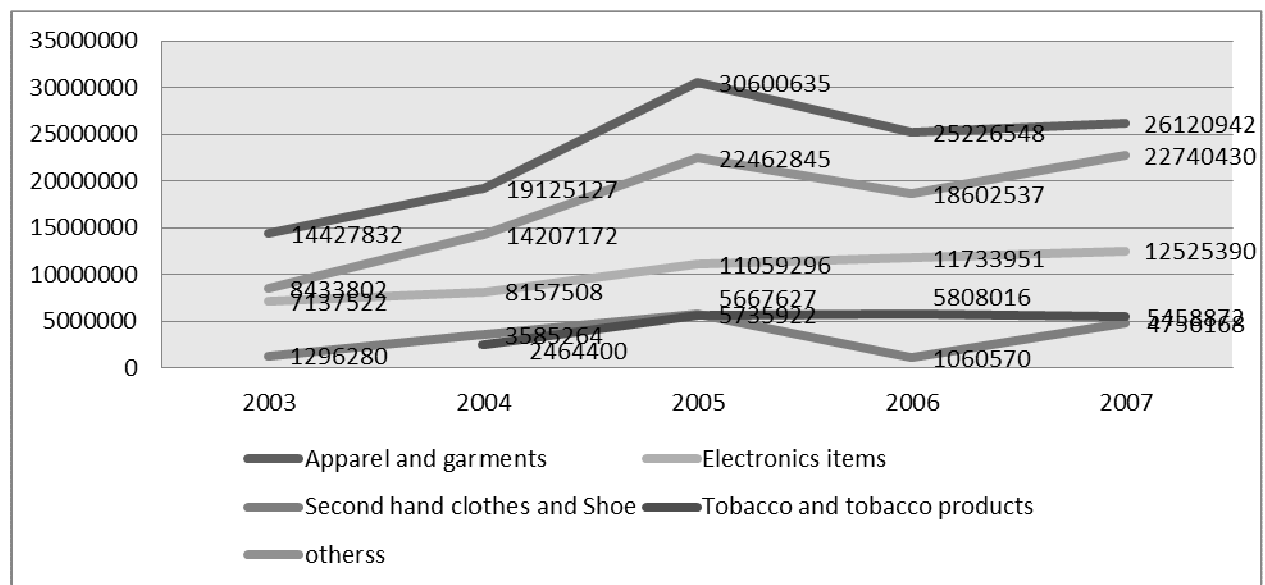


Figure 4.2 Major Contraband Goods Confiscated (2002 to 2007 E.F.Y)

Table 4.1 Smugglers Response Why the Involved in Smuggling

Reasons to involve in smuggling	Frequency (percentage) of Rankings				
	1	2	3	4	5
Unemployment	23 (30.66%)	45 (60%)	8 (10.67%)	0 (0.00%)	0 (0.00%)
Economic Hardships (rising cost of living)	38 (50.67%)	15 (20%)	8 (10.67%)	0 (0.00%)	4 (5.33%)
Institutional Problems	15 (20.00%)	4 (5.33%)	37 (49.33%)	23 (30.67%)	3 (4.00%)
Tax Over-burdens	9 (12.00%)	5 (6.67%)	10 (13.33%)	8 (10.67%)	60 (80%)
Skill/Education gaps	2 (2.67%)	6 (8%)	12 (16.00%)	46 (61.33%)	8 (10.67%)
Total	75 (100%)	75 (100%)	75 (100%)	75 (100%)	75 (100%)

Table 4.2 Employment Status of Smugglers before and after Involving in Smuggling

Employment Status of Smugglers	Frequency	Percentage
▪ Before involved in Smuggling		
Formal Sector		
As Employee	7	9.33%
Self –employed	14	18.67%
Informal Sector		
As Employee	15	20%
Self- employed	7	7.33%
TOTAL	43	57.33%
▪ After Joining smuggling business		
Formal Sector		
As Employee	0	0.00%
Self –employed	16	21.33%
Informal Sector		
As Employee	0	0.00%
Self- employed	16	21.33%
TOTAL	32	42.67%

Table 4.3 Smugglers Ability and Willingness to Trade their Labor

Ability and Willingness of Smugglers to Supply their Labor	Frequency	Percentage
Smugglers with no any employment(formal and/or informal)	32	42.7%
Smugglers Willing and Able to Supply their Labor	19	59.37%
Reasons Not to Supply Labor		
○ <i>Low Wage Rate</i>	16	84.21%
○ <i>No Jobs</i>	13	68.42%
○ <i>Issues Related to Good Governance</i>	18	94.73%
○ <i>Over burden in Income Tax/Payroll Tax</i>	0	0.00%
Smugglers who believe as able but unwilling to Supply Labor	13	40.62%
Why Unwilling?		
○ <i>Creating tastes that can't fit with formal employment, in the payment modality, modalities on fixed work hours and regularities on</i>	13	100%
○ <i>Perceive that they would not be fit to job discipline and rules</i>	7	53.84%
○ <i>The issue of easy money</i>	6	46.15%