

Border Economies of the Middle East
Why do they matter for political economy?

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I. Introduction

“Smuggling...has always been political—and, because of its extent and interconnectedness, geo-political. In other words, it has been a key factor in international relations, conflict and globalization.”¹

It is customary to situate many of the Middle East’s contemporary ills in the history and politics of its border making, especially the epochal Sykes-Picot agreement that drew sharp lines in the sand defining arbitrary physical boundaries between Arab nations. In fact, contemporary borders in the Middle East represent one of the region’s most important historical continuities.² The fixity of these borders coexists with the fluidity with which informal economic exchange criss-crosses national boundaries. As Middle Eastern borders become increasingly problematized one crucial aspect with respect to these borders has gone largely unnoticed in the study of its political economy: the manner in which these borders have remained porous with respect to the informal flow of goods, money, and people.

Although traditionally caricatured as a region with thick economic borders where the official flow of goods is severely restricted through a raft of arbitrary trade barriers, the Middle East’s border regions remain active zones of informal economic exchange. They feed into transnational trade networks, sustains border communities, defines limits to state autonomy, and shapes economic and political power. Yet, the importance of such border exchange is typically recognized only in times of crises or political upheavals. The chaos in Tunisia’s border regions following the overthrow of Ben Ali in 2011 and the civil wars in Libya, Syria, and Iraq have resuscitated interest in understanding how rents from informal trade feed into violence.³ It is therefore unsurprising that informal border exchange is

typically treated as a law and order issue, and as an aberration or departure from the norm. But can smuggling simply be controlled by regaining control over borders and ensuring better enforcement? And, if so, what explains the puzzling persistence of cross-border informality in the face of stronger policing? Why has it endured through periods of crises, civil wars, and policy shocks (e.g., trade liberalization)?

In this article, we take an exception to a security-centered view that regards cross-border informality as a residual category or a field of crime and punishment. Rather, it could provide crucial signposts to studying some of the fundamental questions of political economy. Focusing on the Middle East's borderlands and supporting our analysis with concrete illustrations and arguments, we highlight the borderlands' routine significance for the study of Middle Eastern political economy. We argue that border economies are central to understanding many of the region's pathologies of development—whether this is with regard to its state-centered, interventionist development paradigm, weak private sectors, the failures of economic liberalization, broken social contracts, or the rise of youth unemployment.

Cross-border informality can be a reflection of failed development models. Restrictions on economic activity and territoriality often go hand in hand. Middle Eastern regimes have long extended trading privileges, exclusive monopolies, and high tariff barriers to protect favored sectors and businesses. Rents generated by these economic policies benefit both the local handlers of such trade and ruling elites and their entourage. However, cross-border informality also serves a wider political purpose. In the backdrop of persistent and prolonged underdevelopment of peripheral regions, the tolerance of illegality by the state also represents an implicit admission that there is no superior bargain to offer when informal trade is the primary means of subsistence for border communities. Borders also assume a special

significance when welfare entitlements form an important part of authoritarian social bargains, as they demarcate the outer domain of social contracts or the boundary of entitlements that defines both zones of inclusion and exclusion. In short, borderlands offer a fertile ground for studying how state authority is constituted and contested in peripheral regions, how social contracts accommodate or exclude tribes and trading communities on the margins, and how political settlements are shaped by diverse constituencies commonly ignored in mainstream analysis.

Beyond its relevance for the Middle East, cross-border informality provides crucial markers for many bread and butter issues of political economy itself. As an exemplar of personalized exchange, border economies support a dense web of relationships, undergirded by social norms, religious beliefs, and local conventions, and help to elicit cooperation and trust. It is precisely due to these historically embedded and socially anchored relationships that borderlands are useful laboratories for studying the role of informal institutions in development and their interplay with formal institutions—the police, judiciary, and the institutional incentive structure that govern economy and polity, in line with the research agenda on informal institutions proposed by Helmke and Levitsky.⁴

Borderlands represent domains of both cooperation and conflict. Frontier regions were often the weakest points of empires that defined limits of their sovereignty, exclusivity, and control. Ottoman borders, which were “broad, porous, and impermanent,”⁵ have long represented sites of “rebellion and resistance.”⁶ As ongoing civil wars in the Middle East show, rents from smuggling feed into violence perpetrated both by non-state actors as well as organized crime that receives tacit support of formal actors (e.g. army and intelligence agencies). Despite its central importance for understanding the big political economy

questions of our times, holistic analyses of the Middle East's border economies remain a virgin research territory. The literature on borderlands is primarily dominated by anthropologists and geographers, whose principal geographic focus is Africa and Central Asia.⁷ Barring a few security-centered studies compiled by noted Western think tanks that are usually restricted to internal consumption, critical academic reflections on the Middle East are rare.^{8,9,10,11}

The standard text on Middle Eastern political economy by Alan Richards and John Waterbury¹² does not contain significant discussion on cross-border informality.¹³ This is, in fact, a larger pattern in prominent monographs on business-state relationships in the Middle East that primarily focus on interactions between the state and "formal" businesses, singularly neglecting the significance of informal border exchange.¹⁴ Raising the curtain from an important but understudied subject, this paper offers signposts for developing a political economy understanding of border economies.

We define cross-border informality in the broadest sense possible as consisting of all cross-border trade that does not conform to existing trade regulations. Such trade can pass through official border posts unnoticed, or be noticed but unregistered and not taxed (commonly in exchange for a bribe). It can also bypass official border posts altogether, and can be conducted by firms with official business and trade permits or by unregistered and untaxed informal agents. Many studies differentiate between goods traded illegally—the most common distinction being between licit and illicit goods, typically meaning goods for which either a legal trade corridor exists or not. Examples of illicit goods include narcotics, counterfeit medicine, and arms. We exclude illicit goods from our analysis.

The rest of this paper is organized as follows. Section II synthesizes our prior understanding of the subject. Section III maps cross-border informality across key informal trade corridors. Section IV highlights its political economy significance, and section V offers concluding remarks.

II. Measuring and researching cross-border informality in the Middle East and North Africa (MENA)

In this section, we provide a selective overview of the larger empirical and qualitative literatures on cross-border informality. Our objective is to highlight aspects of the literature that are especially pertinent to developing a political economy account of such informality in the Middle East. To do so, we present some perspectives from both the economics literature that is largely focused on providing quantitative estimates of the size of cross-border informality and the larger realm of inter-disciplinary studies in anthropology and geography.

Economists have shown that informal cross-border trade is both widely prevalent and significant in terms of quantitative size. Past attempts at estimating the size of such trade in the Middle East, however, are both selective and recent. Although there is no region-wide estimate for the size of informal border trade, some country studies that do exist on the subject indicate that such trade is both sizeable and significant across the region.¹⁵ A few examples serve to illustrate this. In Tunisia informal cross-border trade is equivalent to more than half of its official trade with Libya, and more than its entire official trade with Algeria.¹⁶ Another well-studied case is that of Iran, where the size of smuggling is estimated to lie in the broad range of 6 to 25 percent of total trade.¹⁷ A recent study for the Algeria-Mali corridor suggests that formal trade pales in comparison to the thriving informal trade across

the border. For Algeria the formal cross-border trade between the two countries was equivalent to only 1.2 percent of the informal trade.^{18,19}

Overall, existing evidence provides a noticeably incomplete picture of the size of informal border trade in MENA. Importantly, such estimates can suffer from severe methodological and conceptual limitations. Many studies use the discrepancy in trade or consumption statistics to derive estimates for informal trade.²⁰ For example, if export and import figures are not consistent among two trading partners or if the official imports of a particular item do not match corresponding estimates for the domestic consumption of that item, it is assumed that the resulting gap is driven by unofficial trade. Alongside issues around the calculation of transport costs and time lags, a key limitation of estimating the size through such mirror statistics is that informal trade is often practiced not just through non-reporting, but also mis-reporting of goods in trade statistics, which challenge the reliability of these estimates.

Another common approach is to estimate the size of illegal trade using elaborate statistical models, such as Multiple Indicator and Multiple Choice (MIMIC) models. These models estimate the size of smuggling through a range of explanatory variables, such as black market premiums, consumption, price indices, and government revenue.²¹ Other complementary approaches compile direct observational and survey data from border regions, usually through observing border crossings. However, this approach typically yields imprecise estimates when goods are hidden, misdeclared, or bypass border crossings altogether. The most convincing studies tend to use a mix of different methodologies, combining remote quantitative estimates with locally compiled data to build a complete picture of the phenomenon; nevertheless, the empirical challenges, especially in conflict-

prone regions, are often significant. Even if these empirical challenges were surmountable, the best estimate tells us little about the structure, organization, and workings of border trade. If we wish to understand its deeper effects and dynamics, we need to map such trading activity in a more holistic manner, recognizing it as exchange relationships that are historically embedded, anchored in social relations, and deeply connected with processes of economic development and state building.

Any such intellectual endeavour is inherently multi-disciplinary and would require qualitative analysis that can paint a more nuanced and differentiated picture. In general, qualitative approaches treat borders as a complex set of institutions and governing mechanisms that shape the flows of people and goods. The methodology is usually ethnographic, combining participant observation with unstructured interviews to analyze social dynamics, networks, and informal institutions. These studies have highlighted the importance of ethnic and tribal networks, kinship ties, and religious orders in shaping cross-border trade. A more formalized approach to mapping these connections in the context of cross-border trade is the use of social network analysis that studies the relationship between individual traders, differences among them and significance of some traders among the wider network.²²

This literature has traced the history of these networks from the period before the emergence of modern nation states and its idea of territorial sovereignty to the modern era of economic liberalization. They demonstrate the ability of networks to endure, reconfigure, and transform themselves in the face of different economic shocks, including the recent waves of globalization. And yet, compared to the wealth of global scholarship on cross-border trade, there is a noticeable dearth of such studies on the MENA region. In her study of trading

networks in the Sahara operating around Southern Algeria and Northern Mali, Judith Scheele challenges the conventional wisdom of a poorly connected Sahara by describing the complex trading networks that have shaped regional connectivity for centuries.²³ Thomas Hüsken provides one of the few discussions of East-West trade in the MENA region in his examination of the informal trade between Egypt and Libya, which highlights the importance of local tribal structures in the Aulad Ali community.²⁴ The role of local social structures is also highlighted by two studies on informal trade between Tunisia and Libya, although while Kamel Laroussi²⁵ strongly emphasizes the historical dimensions of such trade, Hamza Meddeb²⁶ relates them to expressions of state power, echoing the work of Béatrice Hibou.^{27,28} A small but highly active field of research around the Spanish enclaves in Morocco has explored the interplay of migration and smuggling, and the construction and reconstruction of the border as an institution by a variety of industries, groups and actors.^{29,30,31,32}

These accounts have considerably enriched the study of cross-border trade by developing nuanced perspectives about market structures, networks, and social organizations that could help to explain variation within and across these networks. However, a key limitation of this literature is its systematic neglect of core political economy concerns. Existing literature on the region treats political economy structures largely as given, focusing instead on how informal traders negotiate their way within this system. Apart from being under-theorized, prior work on this subject typically focuses on single case studies, precluding possibilities for more exciting comparative approaches.

III. Mapping MENA's border economies

Any political economy understanding of cross-border informality must be built on an appreciation of the immense variation in such trade. Several parameters can be useful for

mapping this heterogeneity, including nature of goods traded, attributes of physical geography that define informal trade corridors, and types of actors involved. To conserve space we will describe these structured patterns of variation only in broad strokes using examples from the available literature, conversations with relevant scholars, and drawing on extensive fieldwork conducted by one of the authors in Northern Morocco and Southern Tunisia.

Goods. Although precise estimates are lacking, oil is the most important informally traded item in the MENA region, in terms of its dollar value, the number of people involved, and its regional spread. Active corridors for this trade include the borders of: Algeria (with Morocco, Mali, and Tunisia), Libya (with Tunisia, Egypt, Niger, Malta, and Italy), Iraq (with Syria and Turkey), and Iran (with Afghanistan, Iraq, and Turkey). In terms of the nature of actors and networks involved, there is huge heterogeneity within this trade. Gasoline is being traded by a wide variety of formal and informal actors, from the small-time restaurant waiter in a border town, who bring a couple of canisters across every week, to the military general who oversees the passing of huge trucks through the desert at night. Contraband gasoline is usually sold in small informal road-side gas stations that can be found across the region, but can also function as a direct input to agriculture or industry. The supply chains for these networks differ depending on the number and types of intermediaries involved, and the role of state actors that need to be bypassed or involved.

In several corridors, the magnitude of this informal trade of gasoline is large enough to make a substantive difference to the local price of oil and transport. Closure of the Moroccan-Algerian border, for example, substantially increased the local price of transport, raising the overall costs of living, and presenting a significant challenge for the local

population. Figure 1 outlines the main corridors for the illegal trade of gasoline in the region, as well as the respective pump price for gasoline in 2016. The map covers both gasoline and crude oil. It shows the prevalence of petrol smuggling in the region and its correlation with cross-border differences in price differences, which we will discuss below. The gasoline trade is clearly subjected to temporal shifts influenced by changing events on the ground, especially in war-torn Iraq, Syria, Libya, and Yemen. In recent years, the fortification of the Morocco-Algeria border has substantially decreased the gasoline trade, while the unrest in Libya has limited fuel availability in Libya, which has affected informal trade with Egypt and Tunisia. The map represents a stylised picture: the corridors differ in quantity of the gasoline traded, and its consequent impact on local populations.

Besides oil, a wide variety of consumer goods are traded informally in the region, including construction materials, electronic goods, household items, cigarettes, and clothes. Many of these goods originate in China and South-East Asia, and are embedded in transnational networks of informal trade. Key corridors are the borders of Spain (with Morocco), Algeria (with Mali and Tunisia, until recently with Morocco), Libya (with Tunisia, Egypt, and Sudan). Here, ports—especially those with low tariff regimes or connected to free trade zones—play an important role in connecting these networks to global supply chains. While such trade also involves local small-scale actors, it typically relies on traders deeply embedded in international trading networks, which may include intermediaries in neighbouring countries, financiers elsewhere in the region, and closely connected suppliers half-way across the globe. An illustrative example is presented in Figure 2, which maps the network for carpet trade originating from China and imported informally to Tunisia.

Add to this the informal trade of food items, which ranges from representing a small additional income for farmers in border regions to sustaining the livelihoods of people in connected territories. The main goods traded are staple items, such as wheat, pasta, and milk powder, as well as meat, livestock, dates, and other fruits. Processed food items are often traded due to price differences and subsidies, while the illegal trade of local produce allows farmers to evade the control of marketing boards or capitalize on a larger market. Such trade clearly serves a crucial purpose in a region heavily dependent on food imports. It is difficult to imagine, for example, how the food requirements of Northern Mali or of the Gaza strip could be met without such informal trading possibilities.

The main corridors for the smuggling of non-gasoline consumer goods are mapped in Figure 3. This is clearly a sparse representation, as we only highlight the most important corridors—if we had mapped borders where some form of consumer goods exchange takes place, the map would include an arrow on every single border. One crucial caveat is that the map focuses on smuggling across land borders, in line with the focus of this article. Nevertheless, even this limited mapping of land corridors highlights the MENA region's insertion into global trade corridors, particularly those involving China. It also underscores the role that sanctions and trade restrictions play in incentivising smuggling, a point we elaborate later.

While not a primary focus of this study, mentioning informal trade of illicit goods is important to complete the picture. The most frequently traded illicit goods are drugs, both for consumption within the region, and export to Europe. Moroccan- or Lebanese-produced cannabis is smuggled into Europe, and into neighbouring MENA states for domestic consumption. Cocaine, usually shipped to West Africa from Latin America, follows a similar

route, while synthetic drugs such as Tramadol and other psychedelic prescription medicines (*karkoubi*) have developed a significant population of users within the region. Syria in particular has become a central producer of captagon, an amphetamine widely consumed in the region.

Domestic restrictions on alcohol have given rise to a significant liquor smuggling market, with large streams going into the Arabian Peninsula and Iran, as well as out of wine-producing countries such as Morocco and Tunisia.³³ Smuggling of firearms has furthermore received intense public attention and is intensified by recent civil wars, with the borders of Libya, Syria, and Iraq serving as fertile grounds for this trade.

Figure 4 maps two key illicit goods traded in the region: cannabis and cocaine. Albeit a limited and stylised representation, the map clearly illustrates the role of the region as a transitional market, with large corridors stretching into Europe. However, this should not obscure two other functions of the region in this trade. First, several MENA states are large producers of narcotics: Morocco and Lebanon for cannabis and Iran and Afghanistan are mainly known for the trade in opiates. Second, the region has itself become an important consumer of drugs. Apart from providing a general overview, our stylized maps of different trade corridors show that the smuggling of gasoline, consumer goods, and illicit goods follow different patterns (Figures 1, 3 and 4). A key lesson from the mapping of illegal trade in MENA region is that different goods have distinct and diversified networks and corridors. While the political discourse tends to conflate and generalize these different flows, any analysis of smuggling in the region needs to begin by highlighting the differentiated dynamics at play in different corridors, and to identify the key drivers of these trades. *Drivers.* Economic policies, such as subsidies, tariffs, and the establishment of monopolies, make

smuggling profitable. State-imposed limitations on trade, whether through border closures or sanctions, also drive cross-border informality. While there is considerable research on subsidy regimes in the MENA region, it has paid little attention to the connections between subsidies and the growth of informal trade. While energy remains heavily subsidized across MENA states, there are noticeable price differences between bordering states, which incentivizes smuggling of gasoline. As Figure 5 shows, the margins for such arbitrage are substantial. Such subsidy-induced informal trade of oil is rife in Libya, Algeria, Iraq, Saudi Arabia, and Iran. Fuel smuggling influences the costs of gasoline in neighbouring states. In Tunisia, a small and oil-poor country between two hydrocarbon giants, the World Bank estimates that in 2014 more than 25 percent of domestic gasoline consumption was made up of illegally imported petrol.³⁴

Regional variations in food prices, driven by food subsidies, also stimulate informal trade in food items. Sometimes this occurs through perverse trading routes: olive oil that is produced in Tunisia is exported to Libya, where it is subsidised, and then subsequently imported back into Tunisia through informal channels. Similarly, subsidized agricultural goods from Algeria have frequently leaked into neighbouring Morocco and Tunisia. Apart from subsidies, domestic monopolies and exclusive export and import licences, which are commonly granted on goods, generate an additional source of price variation among neighbouring economies.

Informal trade in consumer goods seems to be primarily induced by variation in tariffs, particularly between neighboring countries (tariff dispersion), and by attempts to evade tariffs altogether (tariff avoidance). Differences in tariffs are the principal driver of informal trade in non-food consumer goods, such as car parts, microwaves, clothes, and household items. Here, Libya has established itself as North Africa's bazaar. Goods produced

in Asia or Dubai are shipped into Libya's ports and charged a very low import tariff rate (commonly 5 percent), and then exported illegally into neighboring states to circumvent their higher tariff rates. The streets between the ports of Tripoli and Misrata and the Tunisian border are lined with shops and storage halls with goods from China and Korea that will soon make their way across the border.

Absence of formal trade channels, due to wars, sanctions, and border closures, also fuels smuggling. When Libya faced international sanctions in the 1990s, illegal trade networks operating in southern Tunisia served its markets. Further east, sanctions have created a busy illegal trade route across the Gulf of Oman, and to Iranian bazaars. The disruption of formal trade channels and the closure of borders caused by regional conflicts and geopolitical instability also supports the growth of informal trade. The development of informal channels to supply Gaza from Egypt is a much-discussed example. When wars shut down formal trade channels, warring groups with control over natural resources tend to use informal networks to sell captured resources. The smuggling of gasoline organised by ISIS is another prominent contemporary example.

Man-made factors, such as price differences, subsidies, and sanctions, are not the only metric accounting for a diverse smuggling experience. Geography is another simple yet important driver. Adverse geography severely limits the state's capacity for border enforcement. With its expansive border (6,343 km) and geographic diversity, covering vast terrains including both coast and desert, Algeria presents the classic challenge of enforcement. Both the physical and human geography of borderlands can reinforce informational imperfections that typically favor the resident over the ruler. Informal traders in borderlands have a huge informational advantage over security officials, since they have

better local knowledge of trade routes, actors on both sides of the border, and security arrangements. Variation in physical geography also reveals the differentiated tapestry of informal trade. The mountainous regions of northern Tunisia facilitate the creation of different networks, strategies, and opportunities for smuggling of different types of goods compared to the urban territories along the Moroccan border with the Spanish enclaves of Ceuta and Melilla.

North Africa's location—as a connecting node between Europe and Africa—also makes it part of larger trade corridors. Migrants and illegal drugs both make their way from Sub-Saharan Africa to Europe, passing through Egypt, Libya, or Morocco, or bypassing the Maghreb in the South on their way to Egypt. Besides situating these borders in a wider regional geography, it is also important to position them within the domestic political geography, and observe how the center-periphery relationship influences such trade. It is also important to note that these processes are commonly in a state of flux and re-structuring, following trends in global prices, or domestic political changes.

Actors. Informal cross-border trade involves a diverse and complex array of actors, a full overview of which goes beyond the scope of this paper. However, we will outline three brief observations on actors in this field, and discuss the relevance for the MENA context of a recently developed taxonomy of actors.³⁵ First, not all actors involved in informal trade live in the borderlands. While actors involved in goods transport are typically residents of borderland communities, some members of these networks come from the political center. These are commonly financiers or political elites involved in the predation or protection of these networks. These connections usually span continents, with actors from China and East Asia playing an important role, in particular.

Second, there is significant heterogeneity of actors between and within networks, which is largely related with barriers to entry and access. Apart from tribal, ethnic, and geographic qualifications, barriers to access and entry are also commonly financial, class- and skill-based. Both between and within networks, barriers to entry typically vary inversely to the profitability of the respected position, as large profit shares are typically reserved for network members with access to capital, and as the most profitable networks, especially in illicit goods, commonly establish quasi-monopolies. Often acting as foot soldiers, the young typically face low barriers to entry. In short, there is an entire hierarchy of actors involved in such informal exchange, ranging from roadside vendors, transporters, and wholesale dealers to powerful barons who organize the networks remotely through their privileged connections with security services, central political figures, and transnational networks of agents.

Third, while there are connections among networks, and mobility of actors within and between them, it is important from an analytical perspective to also consider networks trading in particular goods as distinct analytical objects, with their own specific cost-risk trade-offs, economic and political connections, and access to capital and means of violence. Populist caricatures often assume that networks trading in licit goods might also transport illicit goods (e.g., guns or drugs) along with them. In reality, these goods are usually transported by different actors. And, while common descriptions often claim that these networks use the same routes and profit from the same porous borders, it is important to recognise that informal regulatory structures at borders are often able to distinguish between different goods and networks, and regulate access selectively.

IV. Political economy significance

Smuggling and statecraft are inherently inter-connected. Whether conceived as an alternative trading field of petty traders, atomized informal economic agents, or a network of powerful brokers seamlessly operating on different sides of the border, the informal border economy lends a fascinating window into the prevailing hierarchies of governance. It both reflects and constitutes the organization of political and economic power on the periphery, and its relationship with the centralized Arab state. In this section, we highlight the centrality of cross-border informality for Middle Eastern political economy. To keep the discussion manageable, we divide our discussion into four thematic strands: state formation, rents and political order, violence, and informal institutions.

State formation. To the extent that cross-border informality defies the regulations of neighboring political jurisdictions it can be seen as a threat to national sovereignty. Economists frequently refer to the loss of tariffs resulting from such trade as a direct challenge to the national budget, while political scientists treat it as a deviation from the neo-Weberian conceptions of state. Both concerns tend to imply the notion of a state that, at some point in history, entirely controlled its borders and diligently collected trade revenues. However, there is good reason to believe that this was rarely the case. Instead, we can broadly trace three historical moments in which the relationship between contemporary states of the Middle East and their border economies was negotiated and re-negotiated. This includes the establishment of the territorial Arab state under colonialism, its political re-structuring in early independence years, and subsequent economic re-structuring in the 1970s and 1980s.

Arbitrary political boundaries were super-imposed on well-entrenched clan, tribal, and familial networks who have long been engaged with economic exchange.³⁶ Thus, borders

drawn, among others, by the Sykes-Picot agreement cut through pre-existing economic linkages both amongst and within communities, making the continuation of pre-existing trade relations illegal, or subjecting them to new regulations and tariffs. Such trade relations are anchored in the local social and cultural milieu. Informal trade represents the resilience and transformation of these pre-existing historical trade relations among well-knit communities. For example, the *Aulad Ali* tribes that inhabit territories in the border regions of Egypt and Libya, or families that remain divided along the Algerian-Moroccan border have seen long-standing relationships of exchange disrupted and transformed. From the local communities' perspective, border economies represent both a loss from boundary making and an adaptation to new realities. Once new political boundaries were defined after the Second World War they created new "opportunity structures" that assumed a life of their own and displayed path-dependent features.

Informal trade is also situated in the history of uneven state building that was based on a difficult dialectic between the projection of state power and the selective distribution of resources.³⁷ If you are the Bourgiba of Tunisia, the King of Morocco, or the Nasser of Egypt you need to project state power to peripheral regions and, at the same time, build clientelistic support networks through discretionary economic policy. Two central elements of post-independence state building—clientelistic distribution of rents and provision of subsidies to citizens—have facilitated informal trade activity in border regions. Clientelistic ties with key groups ensured that economic spoils were monopolized by a small elite, usually located in the political center at the expense of substantive economic development in borderland areas, leaving them to fend for themselves through informal strategies of economic adaptation. Such marginalization is most visible in resource-scarce economies of North Africa and the Levant,

which, unlike their rich Gulf neighbours, have limited resources to appease elites in the hinterland.

Early state building efforts also involved putting in place a generous welfare regime that cemented ties with the general citizenry through subsidies on gasoline and food items. While largely aimed at including citizens in the new social pact, such welfare provision also helped to perpetuate the economic divide between the coastal and peripheral border regions. While subsidies did reach the borderlands, the disparities in subsidy provision between neighboring states and the trade barriers resulting from import-substitution policies generated new arbitrage opportunities, which incentivized informal trade. The 1970s oil boom increased the scale of these subsidies, and the resulting price distortions that create arbitrage opportunities with neighboring jurisdictions with high or low oil prices. Border economies are therefore reflective of well-entrenched economic distortions and strength of political constituencies supporting them. Any large-scale reform of fuel and food subsidies in the region will have to face stiff resistance from citizens and brokers benefiting from this generous subsidy regime.

Another major historical juncture that affected the ecosystem of informal border trade was the post-1980s period that witnessed the initiation of neo-liberal economic reform programs in many countries. Even as trade tariffs were liberalized and key economic sectors were deregulated, there is little evidence to suggest that informal trade actually decreased as a result. Informal trading activity proved resilient to such trade policy shifts. This was partly due to the selective process of trade liberalization, which meant that although tariffs fell on average there was wide dispersion across sectors. Sectors with politically connected actors continued to benefit from high levels of trade protection. Alongside falling tariff barriers

were increasing non-tariff barriers.³⁸ Effectively, selective liberalization preserved trade protection for connected sectors, which might have helped to maintain opportunities for arbitrage along the border.³⁹ Importantly, the space vacated by the centralized state in the wake of economic liberalization was often filled by the informal economy rather than the formal private sector. The private and parallel economies became fundamentally interconnected as key access points to the economy strictly remained under state control.⁴⁰

Another explanation for the resilience of informal trade after trade liberalization was the penetration of cheap manufactured goods from East Asia, benefiting from falling transport costs and China's growing competitive edge in global markets. Structural adjustment programs also led to an erosion of the generous social contract⁴¹, and a restructuring of agricultural production, both of which resulted in high unemployment that pushed more people into the informal sector.⁴² The endurance—and in some cases, growth—of these informal trade networks in the face of major historical shifts points to long-run continuities in the configuration of economic and political power in the periphery. It reflects the ability of these trade networks to adapt and forge new connections within and outside the region.

Rents and political order. Studying cross-border trade through a political economy lens can afford deeper insights on the subject that transcend a simplistic divide between legal and illegal economic activities traditionally invoked by the mainstream literature. Common accounts are overly focused on the illegality of informal trade based on existing economic regulations. However, legal structures emerge from the political domain. Political economy considerations are essential for understanding both the genesis of these regulations and their enforcement. Thus viewed, legal and illegal are part of the same institutional domain: a law

and its evasion must be considered together because those who benefit from illegal trade are likely to have a direct stake in the particular legal structure that makes such trade profitable in the first place.

The interest of formal political actors in reducing illegality is commonly assumed but rarely problematized. Police and custom officials collecting bribes from informal traders as well as politicians and connected businessmen profiting from smuggling may have vested interest in the continuation of specific economic policies and their subversion. Such a focus provides a natural bridge to the influential economics literature on rent-seeking and directly unproductive activities associated with the evasion of economic policies (e.g., tariffs, policy controls, etc.).⁴³ While explicit connections are made between smuggling, trade policy, and the creation of rents (unearned income streams), the literature makes little effort to connect these rents with prevailing political equilibriums.

To explore its significance, it is useful to map these underlying rent streams. A trade tariff, for example, creates at least three different rents: one for the formal politically connected businessman who derives monopoly rents, another for the informal agent who extracts rents from the tolerated subversion of this trade regime, and a third rent stream appropriated by the official responsible for enforcing the tariff. There could be other rent-seeking intermediaries too. For example, those who negotiate the uncertainty of this economic domain by protecting property rights through violence or by mediating access to state officials. We have discussed the central role of trade restrictions and domestic monopolies in driving informal trade. It is important to emphasize that these rents can serve an important political function by providing binding elite commitments for the regime.⁴⁴ It is

partly this relationship between rents and political order that explains the endurance of trade protection to economic and political shocks.

Smuggling provided an important source of rents for Ben Ali's family in Tunisia (1987-2011).⁴⁵ The President's family was well-inserted in informal trade, supporting the creation of monopoly rents for his wife's family and the associated network of connected businesses who were given exclusive control over the trade of certain items (e.g., bananas, dried fruits, nuts)^{46,47} through the manipulation of policy regulations, their enforcement, and the co-operation with smuggling networks. The Syrian case similarly illustrates how rents from smuggling can sustain political bargains. The country's half-hearted attempts at economic reform, triggered by the foreign exchange and liquidity crises in the 1990s were a major boon for the informal economy, since the resulting loss of rents necessitated a stronger parallel economy where state officials and regime insiders could do business through their frontmen. It afforded the backdoor entry of many state officials and connected families into vast smuggling networks operating along the country's borders with Turkey and Lebanon.⁴⁸ The regime also used privatization to create new business elites in its own image.⁴⁹ Control of this shadow economy has been a persistent feature of Syria's economy of *tahassus* that created an internal division of spoils for members of military, bureaucracy, and Baath party officials who, in turn, served as protectors of smuggling networks.

For example, Rifaat al-Assad, the former head of defence and uncle of current President, was known to be a key patron of this thriving black market afforded by the Lebanese intervention in 1976 and smuggling rackets across the Turkish border in the 1980s.⁵⁰ Smuggling rackets, especially those involved in the trade of cigarettes and cars, were believed to have enjoyed protection of the Syrian military and intelligence services.⁵¹

Cultivating informal networks that govern the cross-border movement of goods was important for the Syrian regime that had a mutually distrustful relationship with merchants but needed to generate rents by controlling the shadow economy. That such rents serve an important political function is well-recognized in the literature on hybrid governance and informal trade across the African borderlands but remains under-appreciated in the Arab context.⁵²

Border economies as part of political settlements. Conflict over the distribution of resources is a primary concern for political economy. Political settlements are based on the congruence of the institutional structure, which shapes the distribution of resources, with the underlying distribution of power.⁵³ Border economies can figure prominently in any such mapping of resources and power. The political settlements lens can help examine two pervasive and contradictory hypotheses on border economies. Whilst some scholars have argued that informal border economies, almost by definition, subvert or destabilize the state and constitute the “dark underbelly of globalization,”⁵⁴ others have contested this view by arguing that state authority is actually re-made in border regions. In this milieu, the political settlements framework can point towards conditions under which informal border trade might challenge state authority and when it could refurbish it on the margins.

If informal exchange on the border is conceived as a slice of the overall economic pie that is open to elite contestation—and recognized by the *de facto* trade policy regime—we can ask a series of important follow-up questions. Is informal trade part of a “reciprocal compromise” between elites in the periphery and the centralized state or is there an active on-going elite competition over the capture of these spoils? If so, is this elite competition mainly

localized? Or, does it involve competition among peripheral elites and politically connected actors in the center?

Supply chains supporting informal trade are often dense and multi-layered, involving numerous actors with differential bargaining powers. Relationships with other traders, brokers, or security forces can confer distinct advantages to the trader, including protection against predation, insurance against uncertainty, information, and access. For example, a privileged relationship with a trader across the border might ensure exclusive access to certain goods. In a similar vein, having closer ties with police and border officials can be leveraged against other traders. Relationships with social brokers, such as tribal chiefs, can afford greater protection against uncertainty, while connections with other local traders might help to exploit and expand market power.

It is the relative strength of these relationships that shapes the differential power of these actors, barriers of entry to trade, concentration of local political and economic power, and the wider political economy of borderlands. Beyond these power dynamics, these relationships have a profound impact on the everyday life of border regions, since they shape the ease of access and employability in these trades, accumulation of capital, and the very livelihoods of border communities. Clearly, it is difficult to sustain prevailing power arrangements without some accommodation of the interests of these non-elites. While informal trade can generate rents for controllers of these networks, it can also secure peace in the countryside by tolerating illegality as a concession to the poor who, in the absence of state provision, look towards informal sector employment and affordable consumption. This is particularly important in North Africa, where a distinct economic divide exists between the coastal and interior regions. Historically, development models in the region have displayed a

clear coastal bias, leaving populations on the periphery economically marginalized. In this milieu, smuggling substitutes for the state's prolonged social and economic neglect.

Border economies reduce the state's welfare burden and “act as a safety valve that defuses social violence, slows down the rural exodus, reduces unemployment and offers sources of income to people living in rebellious regions that are deprived of almost any public investment”.⁵⁵ Informal trade is often the only way to sustain a living in peripheral regions that have faced prolonged and systematic neglect by centralized development planners. Smuggling economies are often overwhelmingly dominated by young workers with primary or secondary education and residents with incomes below poverty lines.^{56,57,58} In this backdrop, official attempts to formalise or eliminate this trade through administrative, regulatory and trade reforms are unlikely to succeed without any change in the underlying political settlement.

At the macro political level, tolerance for illegal trade is part of an implicit elite bargain that trades autonomy over informal economic spaces against support for central political authority—a classic concern of core-periphery dynamics in power relations. Historically, centralised authority has typically ruled by delegating powers to local intermediaries, who, in turn, helped to maintain the state's boundaries and mediated between the ruler and the subject through a series of vertical and horizontal ties. Tacit arrangements often exist between the controllers of informal trade and local security forces when it comes to respecting the red lines on the flow of arms and drugs.⁵⁹ There is an unspoken contract whereby security officials seek traders' support for the control of dangerous goods (drugs and weapons) in return for safer passage of their smuggled goods.

Border economies can also serve as dynamic political spaces. The Tunisian revolution in 2011 constituted a major shock to informal trading arrangements. It transformed the trading space, leading a three to four-fold expansion of traffic across the border after the fall of Ben Ali, and triggering a new contest over key market segments.⁶⁰ However, the fall of Ben Ali was also a shock to local political settlement that gave rise to collective action by traders in Ben Gardane who pushed for new institutional arrangements governing informal trade.⁶¹ Local civil society organizations formed around the issue, as well as a cross-border process of “popular diplomacy” formed a structure that allowed for the alignment of power and the economic rent distribution created by institutional structures, while maintaining an element of local stability. The academic discussion on post-revolutionary Tunisia paid little attention to such emergent political dynamics in the periphery that could potentially serve as ingredients for creative institutional evolution. After all, markets and states arose in Europe when circumstances forced rulers and merchants to evolve new bargaining structures in a mutually dependent space.⁶²

Political economy of disorder. Apart from strengthening incumbent stakeholders, shocks to political settlement, such as the Tunisian revolution, also create new claimants for rents generated from informal trade. Such rents can also feed into domestic rivalries between clans and patrons. Coercive politics in the periphery is often greased through rents generated in the informal economy. The case of ISIS in Syria, Iraq, and Libya is a case in point. ISIS is reported to have derived its revenues from control over informal economy, especially the smuggling of oil and consumption goods.^{63,64} The illicit trade in tobacco (valued at over US\$1 billion) is frequently linked with terrorism in journalistic accounts.⁶⁵ The iconic example is Mokhtar Belmokhtar, the former military commander of Al-Qaeda in the

Maghreb who is popularly described as Mr Marlboro for his control over smuggling routes for cigarettes. While smuggling incomes can undoubtedly sustain militant networks, the link between smuggling and militancy can be easily overstated.⁶⁶ The vast majority of smuggling in the region that we are concerned with in this paper does not tie into any violent networks. Interactions between armed groups and informal economic enterprises may often be fuelled by the latter's need for affordable protection, rather than a common interest in the destabilisation of the state.⁶⁷ Thus, the nexus between radicalisation, violence and smuggling in borderlands is highly complex, and defies simplistic causal characterisations.

Rather than taking a “snapshot view” of the relationship between smuggling and violence, serious political economy analysis must contend with the issue of dynamics. And, to develop such a moving picture, it is important to carefully recognize the role of geo-political shocks. International sanctions on Libya, Iraq, Iran, and Syria have provided plentiful opportunities for covert economic exchange organized with the complicity of local patrons and involvement of regional and transnational networks of self-interested agents. The borderlands can offer a window into the negative externalities of foreign intervention. Rather than treating these violence-related rents as a fixed category, it is well to remember that the transition between war and peace economies can be a complex process in which rent streams from illicit economies can play a variety of roles, as has been argued by Goodhand for Afghanistan.⁶⁸ While there is an expanding global literature on war economies, there has been little application of this to the MENA region. And yet resources from the informal economy have played a crucial role in the region's civil wars, from Lebanon (1975-1990) and Algeria (1991-2002) to Yemen, Syria, and Libya today. Beneath the multi-faceted sectarian strife of the Lebanese civil war laid a struggle for the control of ports, which was essential for

smuggling of contraband (arms and narcotics) and raising cash for militant wings. Along the same lines, analysis on Algeria's civil war (1991-2002) illustrates the "symbiotic relationship" between violence and informal economy where "violence itself was in part an outcome of politicized structure of the economy," and was used to resolve distributive claims in the face of an eroding state authority.⁶⁹ As the Algerian state temporarily reduced its economic footprint, it was not replaced by the formal private sector but by a thriving shadow economy, which fostered alternative "political and social networks" around which "collective life" came to be organized.⁷⁰ Joffe further observes: "as unemployment grew, parallel trade based on smuggled goods and on access to state supplies increased, creating the *trabando* phenomenon, whereby unemployed youth were drawn into the parallel economy's distribution circuit."⁷¹ In short, cross-border informality is key to developing a holistic understanding of violence, whether latent or manifest. Today, control of smuggling routes, the trafficking of migrants, crude oil, or consumer products, has become a crucial aspect of the war economies in the region's civil wars, financing militias and incentivising crucial actors to continue the status quo.

A laboratory for institutional analysis. Apart from the institutional dimensions emphasized above, the empirical realities of informal trade can also extend the intellectual frontier of mainstream political economy, including New Institutional Economics (NIE). Borderlands provide a fertile ground for studying the role of informal institutions, and their interplay with formal institutional structures. Aspects of informal institutions, such as norms and beliefs, play a crucial role in sustaining and organizing informal trade. As recognized in the literature on African borderlands, the traditional markers of symbolic power—whether religion, tribe, kinship, or other sources of authority—have shaped cross-border networks of trade for

centuries. Despite the paucity of similar literature on the Middle East, some powerful illustrations do exist on the intersection between informal trade, religious beliefs, and local power structures. In an original and empirically grounded study of the borderlands of Algeria and Mali, Judith Scheele places cross-border informality in a rich historical and socio-political milieu. Painting the Sahara as a dynamic zone of inter-dependence and mobility, Scheele shows how it shapes both “local economies” and “notions of social hierarchy, morality and political legitimacy”.⁷²

The Sahara is described as a sight where social, cultural, and economic exchanges are enmeshed.⁷³ It is a field of force where scholars and sheikhs, tribal networks, and marital ties undergird informal trade networks, and merchants control both material and symbolic resources. The significance of the moral economy is also reinforced by the experience of a hugely influential Islamic mystical order, the Senussi of Cyrenaica. Regional trading relations played a central role in the religious eco-system of the Senussis. Sufi sheikhs of the Senussi order strategically placed themselves along major trade routes in Libya and Sudan, establishing important agricultural settlements and trade centres. Their legitimacy was largely drawn through their ability to broker religious, social and trading relations, and their resistance to imperial powers⁷⁴.

Tribal identities can also play a salient role, as is the case with the Aulad Ali tribe that inhabits both sides of the Egypt-Libya border and acts as the main controller of cross-border trade in the region.⁷⁵ The wheels of informal trade are greased by well-entrenched social networks, often supported by shared tribal loyalties on both sides of the border. While tribal associations can reduce trade frictions in a highly uncertain milieu, the rents from smuggling facilitate, in return, the “economic reproduction” of “neo-tribal associations.”^{76,77} Profits from

smuggling can be ploughed back into local politics through purchase of votes and other forms of clientelistic exchange. In this context, the border economy is crucial for understanding the local competition for political dominance and appropriation of state resources.⁷⁸

Border economies can provide a critical window into the world of informal exchange, typically organized through repeat dealings, community punishments, and informal mechanisms. Symbolic and material exchange are co-produced in this domain. Importantly, borderlands provide an ideal setting for analyzing the complex interplay between personalized exchange and different levels of formal institutional structures; they can also help to question the boundaries between formal and informal institutions. A cursory look at the nature of economic exchange in borderlands would illustrate how both informal and formal actors observe multiple levels of regulations. For example, a formally registered enterprise might still pay allegiance to local religious or tribal groups while informal traders might be required to submit to some form of taxation. Informal trade operates in a hybrid institutional milieu that is characterised by Legal Pluralism. Its informal institutions defy a simple binary distinction between personal and impersonal exchange.

Analysis of border economies not only underscores the fluidity between formal and informal institutional domains; it can also challenge the common assumptions about informal institutions as self-enforcing, personalized, or second-best institutions. For example, while informal institutions are commonly perceived as being particularly relevant for personalized exchange, cross-border trade can actually involve several features of impersonal exchange: anonymity, one-shot interactions, third-party enforcement, and the like. Such situations call into question the very self-enforcing character of informal institutions. Contrary to popular understanding, informal economic exchange can involve both unwritten and written

contracts, and can even be subjected to third-party enforcement. Such border exchanges are not always small-scale operations; they can form part of vast supply chains that are deeply integrated in global networks and sustain large domestic rentier networks. Such routine interactions between formal and informal institutions can both challenge and enrich mainstream institutional analysis, which has so far paid little, if any, attention to the study of cross-border trade.⁷⁹

V. Conclusion: Research directions and implications for policy

Highlighting the significance of border economies for our understanding of the Middle East's political economy, we have mapped the salient features of informal cross-border trade and the various methodologies employed to estimate, trace, and understand informal trade. Synthesizing existing scholarship on the subject, we note with concern the acute scholarly gap in an area that is of growing policy interest but where past scholarly efforts were disjointed, and have systematically neglected the political economy dimension. We have argued that a holistic reading of cross-border informality can shed light on some of the Middle East's most pressing political economy challenges, and connect them with wider processes of class politics, uneven development, rentierism, violence, and divided labor markets that have come to characterize this region. Despite this, the borderlands exist not just on the margins of physical geography but also remain peripheral to dominant narratives on Middle Eastern political economy.

It is therefore worth asking why so little research has gone into in this field. Amongst the key difficulties for serious analysis are: the security and ethical challenges for conducting field research, methodological challenges associated with studying informal economic

processes, scarcity of interdisciplinary engagement, and the systematic neglect of cross-border informality in the dominant academic discourse on Middle Eastern political economy. It is precisely because of these challenges that the field remains a largely virgin research territory. The study of border economies warrants a more diverse and multi-disciplinary use of methodology that goes beyond mirror statistics and small-scale surveys. Developing more creative methods of data collection, such as the Open Pack Survey directed by Philip Morris International or analyzing satellite data⁸⁰ can be productive avenues.

As shown in this article, the types of goods traded, the nature of actors and communities involved, differences in regulatory structures in neighbouring countries, and physical geography shape significant variety in smuggling structures and networks. Social scientists can harness these different sources of variation to offer new explanations that are both empirically rich and theoretically informed. Future research should be committed to providing a more holistic understanding of cross-border informality, which requires both a better grounding in political economy and a stronger inter-disciplinary orientation. Such intellectual endeavors could benefit from rich discourses on informal trade that already exist in human geography, urban studies, economic anthropology and sociology.⁸¹ Furthermore, research on the Middle East can benefit from a closer engagement with a relatively stronger literature on the subject in sub-Saharan Africa.

Importantly, analyses of Middle East's border economies can develop fresh perspectives on some of the region's most salient political economy issues. For example, the literature on rents and authoritarianism could be expanded to consider the cross-border dimension of these rents, and the various knock-on effects that this might have on existing political orders. Similarly, analyses of business-state relationship in the Middle East can

study the routine interactions between the state and informal traders in border regions, both in the context of the “privatisation of the state”⁸² and as a social safety buffer in marginalized regions. In short, the question as to how these border economies underpin prevailing economic and political structures of the Middle East remains wide open for future enquiry.

Beyond the Middle East, the study of border economies can help probe the bread and butter issues of political economy. It can provide important clues about the very nature of the state—and the limits of its sovereignty, the social contract with citizens, and its economic and political jurisdiction. Borderlands are regions where markets and states are co-constituted. They remain, however, relatively unexplored spaces for mainstream institutional analysis. Cross-border informality offers a particularly fertile ground for studying the role of informal institutions that remain both poorly understood and a residual category. A key question regarding informal institutions, as Helmke and Levitsky posit, is how they are “modified, adapted, or even reinvented over time.”⁸³ Borderlands provide useful laboratories to explore the origin of informal institutions, their interaction with formal institutional structures, the mechanisms through which they impact, and the actors and interests behind them. Going beyond simplistic binary distinctions between formal and informal, and between personalized and impersonal exchange, border economies can both challenge and enrich modern political economy analysis.

Beyond the academic realm, a new understanding of cross-border informality is essential for policymakers trying to grapple with some of the Middle East’s most intractable development challenges, including youth unemployment, persistent regional inequalities, failing social contracts, and subsidy reforms. Consider the case of fuel subsidies, for example, which have long dominated policy discussions given their distortionary effects and wide

prevalence in the region (about half of the global energy subsidies are distributed in the Middle East). However, the manner in which these subsidies leak to neighboring states through fuel smuggling rarely receives the policy attention it deserves. And, this regional dimension in the distribution of fuel subsidies is critical for any meaningful subsidy reform, since such reform can seriously impact the livelihood of border communities.

In fact, reforming subsidy programmes, tariff regimes, or securitizing borders in the Middle East without a detailed understanding of the region's informal trade structures would be a grave mistake. Existing policy discourse typically treats smuggling from a security lens and suggests administrative measures—such as better policing and border enforcement—to deal with it. However, a neglect of the social and political aspects of informal cross-border trade will not only produce unexpected side-effects of policies but also undermine their very purpose. Stricter enforcement regimes have not been able to halt the illegal flow of goods. There is no more striking evidence of this fact than the large presence of informal trade in the region now, and its growth in recent years. It can be argued that the Middle East cannot be secured without securing its frontiers. But this requires an entirely different imagination of the border regions that goes beyond the simplistic binary between legal and illegal, and considers borderlands as complex and dynamic political and economic spaces.

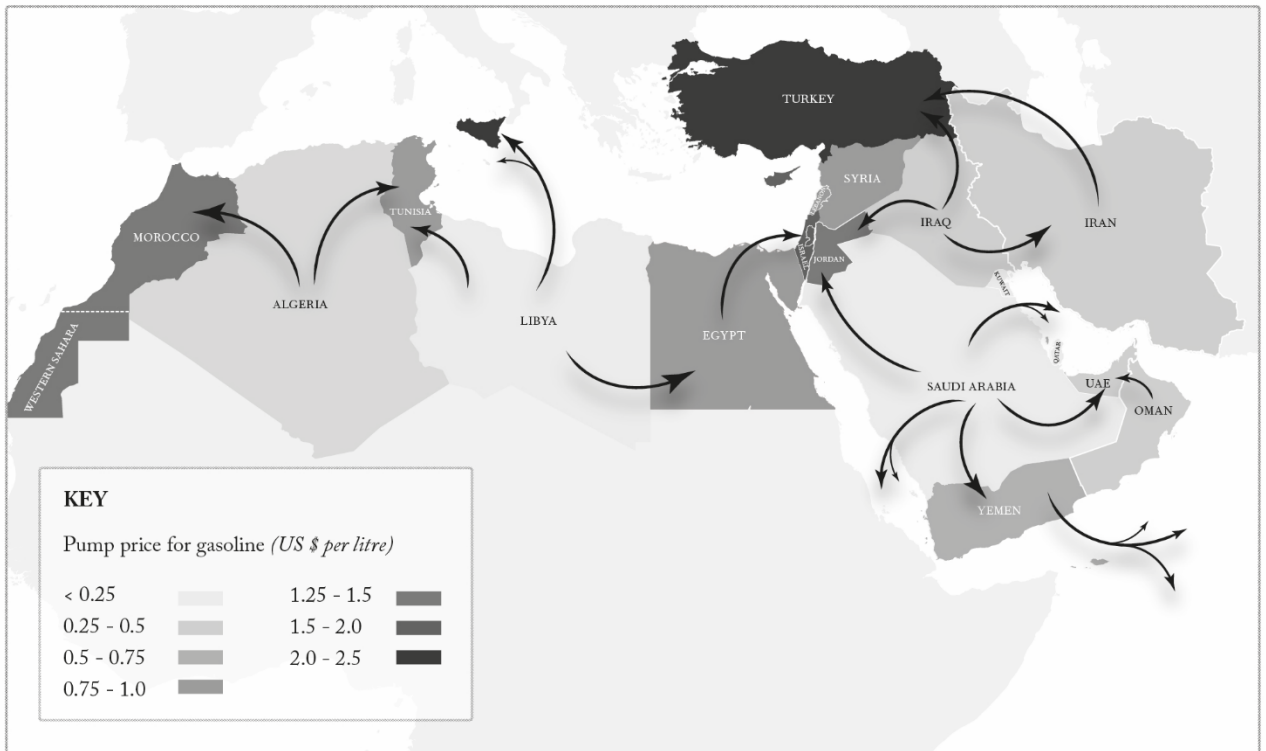


Figure 1. Smuggling Corridors for Gasoline⁸⁴

The graph illustrates the trade of carpets produced in a factory in China, which are shipped to Tripoli, and either loaded onto smaller vehicles in Tripoli or transported to a smaller town in Western Libya and reloaded there. They are then brought into Tunisia through the Ras Jedir border crossing, where they are being mis-registered by the Border Guards in order to register a lower import tax, and then sold either in large quantities at one of the markets in Ben Guerdane, either for final consumption or for further resale in markets across the country. In this network, all key relationships are organised by the Sarraf, informal financial entrepreneurs, who not only exchange the relevant currencies but also arrange transport and occasionally credit. Larger and more experienced wholesalers will in many cases take on some of the functions of the Sarraf. Transport is often organised through family relations.

(Source: Gallien 2015)

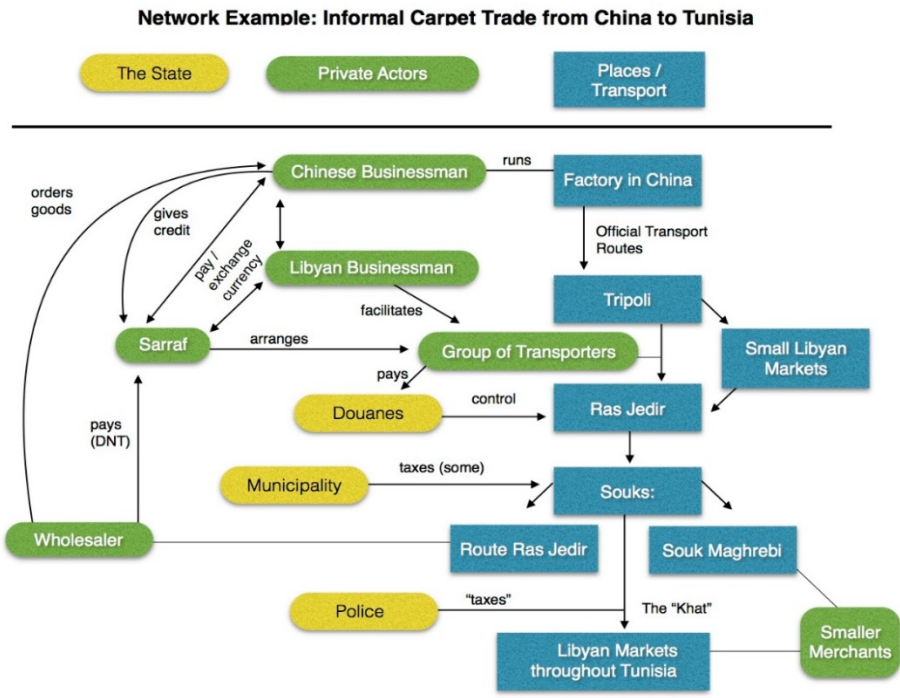


Figure 2: Informal Network of Carpet Trade⁸⁵

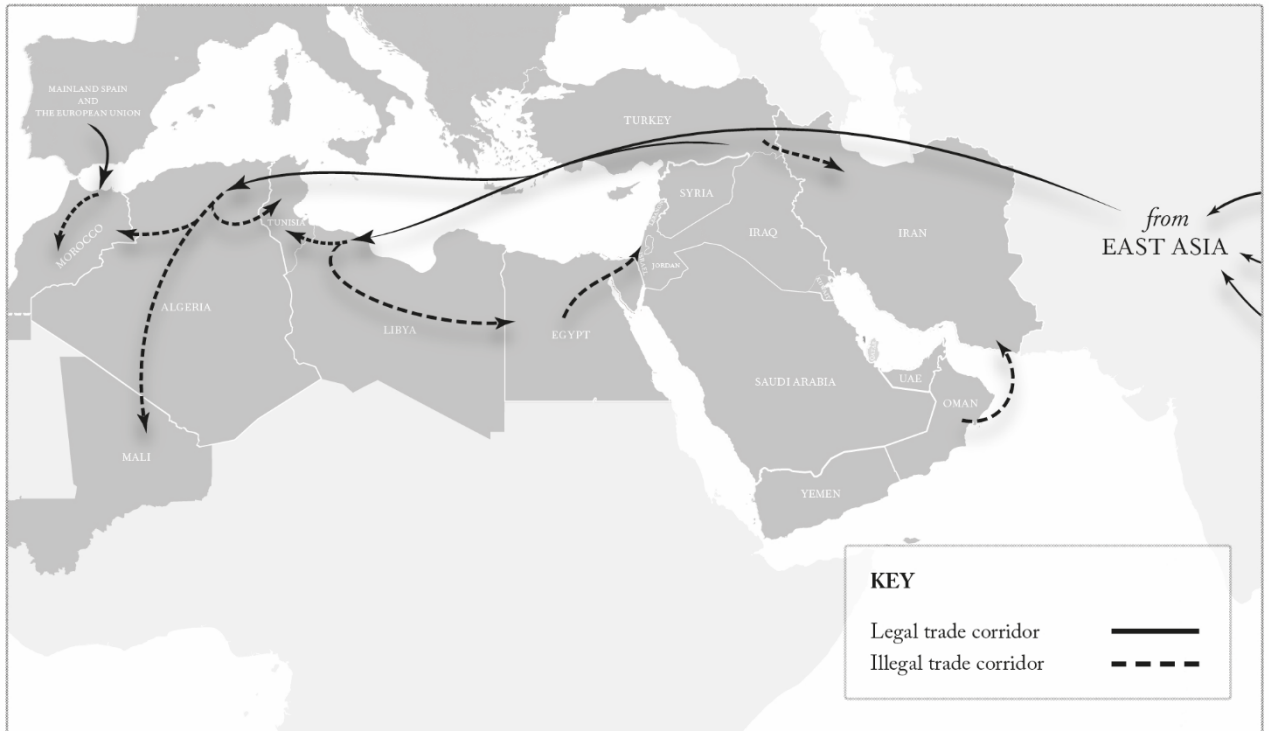


Figure 3: Informal Trade Corridors of Consumer Goods⁸⁶

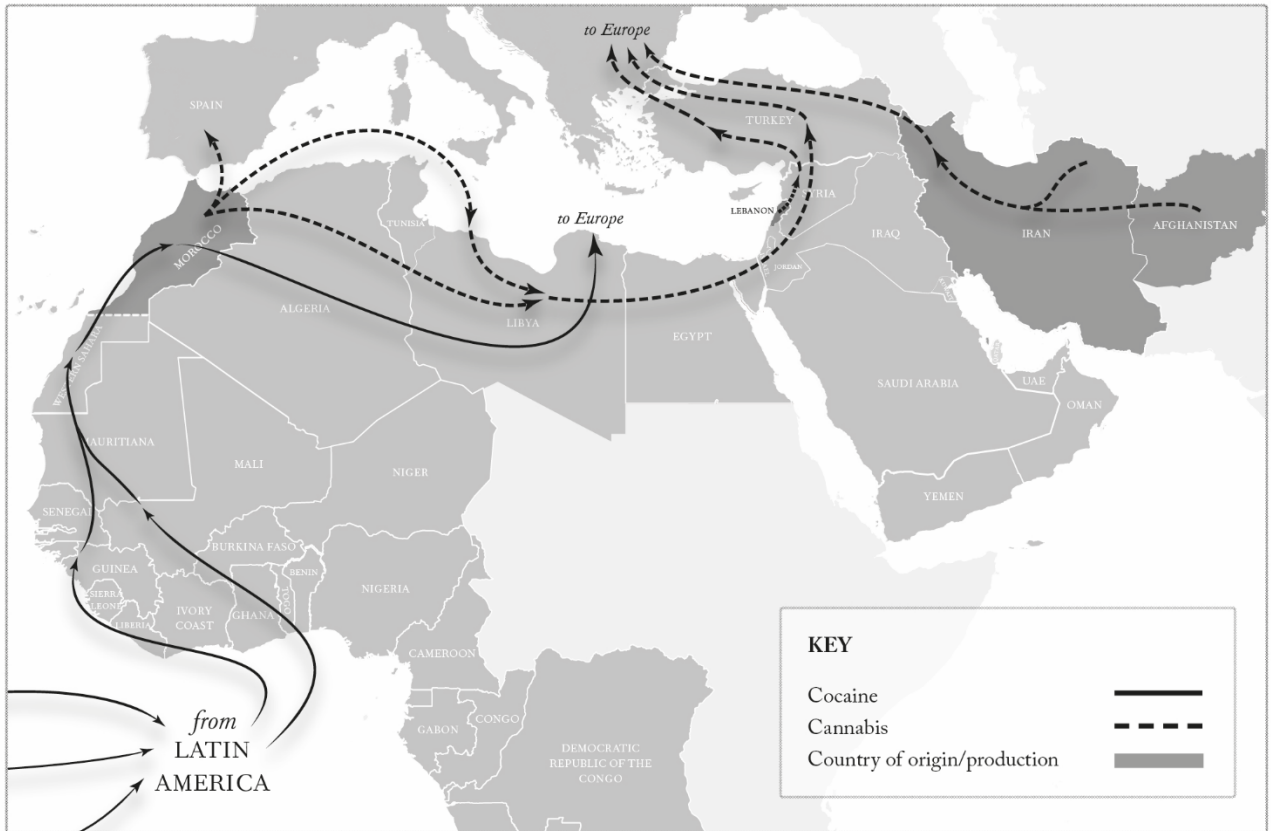


Figure 4: Main Corridors for the Informal Trade of Illicit Goods⁸⁷

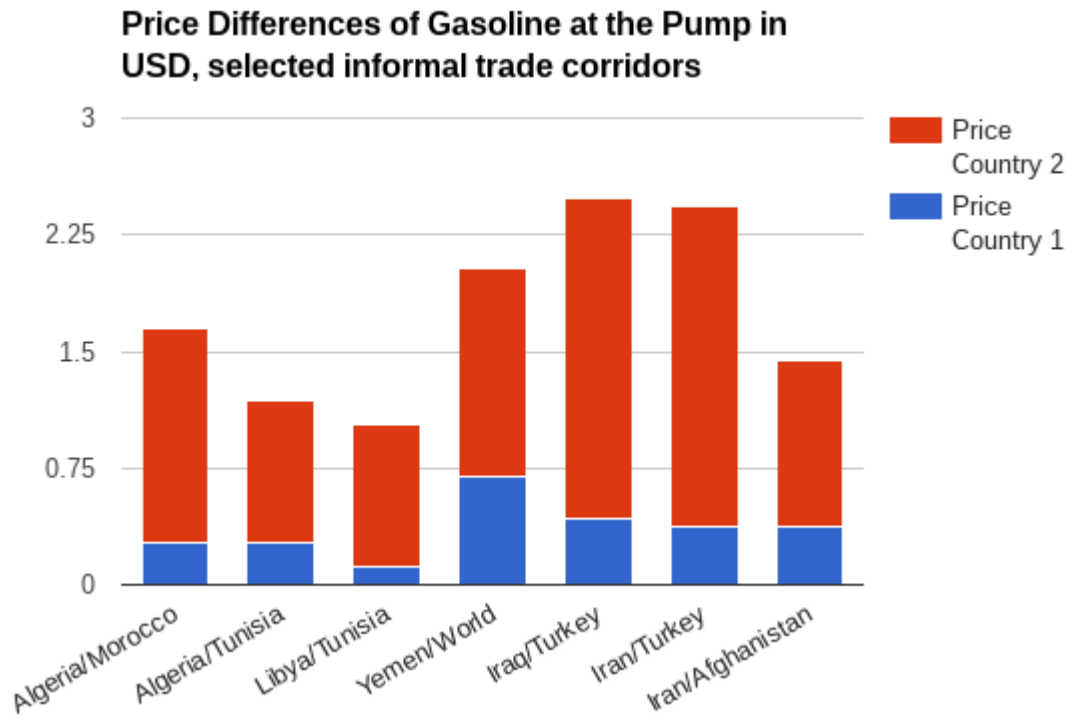


Figure 5: Price Differences of Gasoline in the Region in 2016⁸⁸

Notes

¹ Simon Harvey, *Smuggling: Seven Centuries of Contraband* (London: Reaktion Books, 2016): 10.

² Eugene Rogan, "The Emergence of the Middle East into the Modern State System," in *International Relations of the Middle East*, ed. Louise Fawcett (Oxford: Oxford University Press, 2016).

³ By some estimates the IS has been making between \$1 million to \$1.4 million per day from oil smuggling through the two fields, Ajeel and Hamrin-2, making cross-border informality a central security issue. Valérie Marcel, "ISIS and the Dangers of Black Market Oil," Chatham House, <https://www.chathamhouse.org/expert/comment/15203> (accessed 2 October 2018).

⁴ Gretchen Helmke and Steven Levitsky, "Informal Institutions and Comparative Politics: A Research Agenda," *Perspectives on Politics* 2, no. 4 (2004): 725–740. Informal trade does not figure in their analysis.

⁵ Charles Maier, *Once Within Borders: Territories of Power, Wealth and Belonging Since 1500* (Cambridge, MA.: Harvard University Press, 2016): 19.

⁶ *Ibid.*: 20.

⁷ The African Borderlands Research Network (ABORNE) presents a strong introduction to contemporary cutting-edge work in this field.

⁸ David A. McMurray, *In and Out of Morocco: Smuggling and Migration in a Frontier Boomtown* (Minneapolis: University of Minnesota Press, 2001).

⁹ Hamza Meddeb, *Courir ou mourir: course à el khobza et domination au quotidien dans la Tunisie de Ben Ali*, doctoral thesis (Paris, France: Institut d'études politiques, 2012).

¹⁰ Judith Scheele, *Smugglers and Saints of the Sahara: Regional Connectivity in the Twentieth Century* (Cambridge: Cambridge University Press, 2012).

¹¹ Thomas Hüsken, "The Neotribal Competitive Order in the Borderland of Egypt and Libya" *Sociologus* 59, no. 2 (2009): 117–43.

¹² Alan Richards and John Waterbury, *A Political Economy of the Middle East: State, Class, and Economic Development* (Boulder, Colo.: Westview Press, 1990).

¹³ Melani Cammett, Ishac Diwan, Alan Richards and John Waterbury, *A Political Economy of the Middle East*, 4th ed. (Boulder, CO: Westview Press, 2015).

¹⁴ Bassam Haddad's *Business Networks in Syria* is a partial exception to this general portrayal given the central role played by smuggling rackets in sustaining informal business networks in Assad's Syria. But even here some of the most interesting details on cross-border informality are relegated to footnotes.

¹⁵ By contrast, estimates for the size of the larger informal sector, of which cross-border trade is part of, are more readily available. The 2013-2014 Women in Informal Employment: Globalizing and Organizing (WIEGO) Annual Report estimates that the informal sector accounts for 45 percent of non-agricultural employment.

¹⁶ Lotfi Ayadi, Nancy Benjamin, Sami Bensassi, Gael Raballand, "Estimating Informal Trade across Tunisia's Land Borders," *Policy Research Working Paper*, no. WPS 6731 (Washington, DC: World Bank Group, 2013).

¹⁷ Mohammed Reza Farzanegan, "Illegal Trade in the Iranian Economy: Evidence from a Structural Model," *European Journal of Political Economy* 25, no. 4 (2009): 489–507.

¹⁸ Sami Bensassi, Anne Brockmeyer, Matthieu Pellerin, Gael J. R. F. Raballand, "Algeria - Mali Trade: The Normality of Informality," *Working Paper*, no. 101137 (Washington, D.C.: World Bank Group, 2015).

¹⁹ Some estimates are largely journalistic. For example, based on interviews with operators of smuggling tunnels, Al-Jazeera estimates that the total value of goods moved between Gaza and Sinai approximates \$3 billion per year. Megan O'Toole and Konstantinos Antonopoulos, "Anatomy of a Gaza Smuggling Tunnel," (Al Jazeera: 15 January 2015) <http://www.aljazeera.com/indepth/interactive/2015/01/anatomy-gaza-smuggling-tunnel-201511594731706850.html> (accessed 2 October 2018).

²⁰ An interesting approach deployed by the cigarette manufacturer Philip Morris International is to collect used cigarette packs in selected cities in a wide range of countries, and to estimate the origin of these packs based on their appearance and production value.

²¹ Specifically, such models estimate structural equations with smuggling as a latent variable.

²² Olivier J. Walther, "Trade Networks in West Africa: A Social Network Approach" *The Journal of Modern African Studies* 52, no. 02 (2014): 179–203.

²³ Judith Scheele, *Smugglers and Saints of the Sahara*.

²⁴ Thomas Hüsken, "The Neotribal Competitive Order."

²⁵ Kamel Laroussi, "Diagnostic Study of the Phenomenon of Parallel Commerce and Contraband in the Tunisia-Libya Border Region from 1988 to 2012 (in Arabic)," ITES Carthage (2013).

²⁶ Hamza Meddeb, *Courir ou mourir*.

²⁷ Béatrice Hibou, *The Force of Obedience: The Political Economy of Repression in Tunisia*, (Cambridge: Polity, 2011).

²⁸ Béatrice Hibou "The Practice and Culture of Smuggling in the Borderland of Egypt and Libya," *International Affairs* 93, no. 4 (2017): 897–915.

²⁹ David A. McMurray, *In and Out of Morocco*.

³⁰ Laia Soto Bermant, "The Myth of Resistance: Rethinking the 'Informal' Economy in a Mediterranean Border Enclave," *Journal of Borderlands Studies* 30, no. 2 (2015): 263–78.

³¹ Laia Soto Bermant, "A Tale of Two Cities: The Production of Difference in a Mediterranean Border Enclave," *Social Anthropology* 23, no. 4 (2015): 450–64.

³² Ruben Andersson, *Illegality, Inc: Clandestine Migration and the Business of Bordering Europe* (Oakland, California: University of California Press, 2014).

³³ A particularly colorful example of this trade was uncovered early in 2016, when customs officials stopped a shipment of 48,000 cans of Heineken beer disguised as Pepsi cans. Taylor, Adam "How do you smuggle 48,000 cans of Heineken into Saudi Arabia? Disguise it as Pepsi", *The Washington Post*, 12 November 2015

³⁴ Ayadi et al., "Estimating Informal Trade."

³⁵ Gregor Dobler, "The Green, the Grey and the Blue: A Typology of Cross-Border Trade in Africa*," *The Journal of Modern African Studies* 54, no. 1 (2016): 145–69.

³⁶ Sometimes borders were defined to gain access to or control over trade routes and trading networks.

³⁷ Béatrice Hibou, *The Force of Obedience*.

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- ³⁸ Ferdinand Eibl and Adeel Malik, “The Politics of Partial Liberalization: Cronyism and Non-Tariff Protection in Mubarak’s Egypt,” *CSAE Working Paper Series 27* (Oxford: Centre for the Study of African Economies, University of Oxford, 2016).
- ³⁹ This mirrors the trend in Africa where falling trade barriers were actually associated with robust informal trading activity. See Meagher (2008) for further details.
- ⁴⁰ George Joffé, “The Role Of Violence Within The Algerian Economy,” *Journal of North African Studies* 7, no. 1.
- ⁴¹ Melani Cammett et al., *A Political Economy of the Middle East*.
- ⁴² Ragui Assaad, “Making Sense of Arab Labor Markets: The Enduring Legacy of Dualism,” *IZA Journal of Labor & Development* 3 (2014): 6.
- ⁴³ Jagdish N. Bhagwati and Bent Hansen, “A Theoretical Analysis of Smuggling,” *The Quarterly Journal of Economics* 87, no. 2 (1973): 172–87.
- ⁴⁴ Douglass C. North, John J. Wallis and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge: Cambridge University Press, 2009)
- ⁴⁵ Some of these actors are back in business after the revolution.
- ⁴⁶ Querine Hanlon and Matthew Herbert, *Border Security Challenges in the Grand Maghreb* (Washington D.C.: United States Institute of Peace Press, 2015).
- ⁴⁷ *Ibid.*, 40 note: “Corruption was pervasive in the Ben Ali security apparatus, involving entire networks of customs agents, police officers, and senior officials. During that time, the lion’s share of the proceeds from bribes and other illicit activities—as much as 80 percent—went to Ben Ali and his immediate family.”
- ⁴⁸ Bassam Haddad, *Business Networks in Syria: The Political Economy of Authoritarian Resilience*, 1st ed. (Stanford, Calif: Stanford University Press, 2012): 83.
- ⁴⁹ *Ibid.*
- ⁵⁰ *Ibid.*
- ⁵¹ *Ibid.*, footnotes to chapter 4: no. 38, 39, and 40.
- ⁵² Catherine Boone, “Trade, Taxes, and Tribute: Market Liberalizations and the New Importers in West Africa,” *World Development* 22, no. 3 (1994): 453–67; Timothy Raeymaekers, *Violent Capitalism and Hybrid Identity in the Eastern Congo: Power to the Margins* (New York, NY: Cambridge University Press, 2014); Kristof Titeca, “Tycoons and Contraband: Informal Cross-Border Trade in West Nile, North-Western Uganda,” *Journal of Eastern African Studies* 6, no. 1 (2012): 47–63.
- ⁵³ Mushtaq H. Khan, “Political Settlements and the Governance of Growth-Enhancing Institutions,” Draft Paper in Research Paper Series on ‘Growth-Enhancing Governance’ (2010) <http://eprints.soas.ac.uk/id/eprint/9968> (accessed 2 October 2018).
- ⁵⁴ The European Institute, “The Dark Side of Globalization: Transnational Crime in Europe,” (EI Blog: 6 August 2008) <https://www.europeaninstitute.org/index.php/ei-blog/67-august-2008/710-the-dark-side-of-globalization-transnational-crime-in-europe> (accessed 2 October 2018).
- ⁵⁵ International Crisis Group (IGC), “Tunisia’s Borders: Jihadism and Contraband,” Middle East and North Africa Report 148 (International Crisis Group, 2013): 8.
- ⁵⁶ Ayadi et al., “Estimating Informal Trade”: “In the Libya-Tunisia corridor, informal trade is one of the largest employers in the region analyzed, if not the largest. Majority of those

involved in the trade are local residents. Most are young men, with primary or secondary education and four dependents on average. Their income puts most of them under the Tunisian national poverty threshold.”

⁵⁷ Mohamed Chaouki Ben Hassan, “Smuggling Flourishes in Tunisia,” (Institute for War and Peace Reporting IWPR, 29 November 2013) <http://iwpr.net/report-news/smuggling-flourishes-tunisia> (accessed 2 October 2018).

⁵⁸ For example, *ibid.* quotes a resident in Morocco as saying: “There are very few job opportunities, and only a few people from my region finish university. This is our only way of providing a sustainable life.”

⁵⁹ The 2013 ICG Report cites a respondent as saying: “we will not intervene in your activities even if they are illegal but in exchange you agree to not allow the circulation of drugs, arms and Jihadis”. ICG, “Tunisia’s Borders,” 24.

⁶⁰ ICG, “Tunisia’s Borders,” 14.

⁶¹ Max Gallien, “Beyond Informality: The Political Economy of Illegal Trade in Southern Tunisia,” MPhil Thesis (Oxford: University of Oxford, 2015).

⁶² Stephan R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300-1750* (London: Routledge/LSE, 2000).

⁶³ Michele Dunne Cammack, Amr Hamzawy, Marc Lynch, Marwan Muasher, Yezid Sayigh, and Maha Yahya, *Arab Fractures: Citizens, States and Social Contracts* (Washington, D.C.: Carnegie Endowment for International Peace, 2017).

⁶⁴ *Ibid.*, 12 notes: “A large conflict-related economy in Syria has emerged, involving the sale of weapons, the smuggling of food and essential products, and other criminal activities. An estimated 17 percent of Syria’s active population is involved in the conflict-related economy, creating a new stratum that has grown wealthy from the war.”

⁶⁵ Jamie Dowad, “How cigarette smuggling fuels Africa’s Islamist violence,” *The Guardian* (27 Jan 2013) <https://www.theguardian.com/world/2013/jan/27/cigarette-smuggling-mokhtar-belmokhtar-terrorism> (accessed 2 October 2018).

⁶⁶ From a rational standpoint, smugglers and terrorists are not natural allies.

⁶⁷ Aisha Ahmad, *Jihad & Co* (Oxford, UK: Oxford University Press, 2017).

⁶⁸ Jonathan Goodhand, “Frontiers and Wars: the Opium Economy in Afghanistan,” *Journal of Agrarian Change* 5, no. 2 (2005): 191–216..

⁶⁹ George Joffé, *The Role of Violence*, 48.

⁷⁰ *Ibid.*, 43

⁷¹ *Ibid.*, 42

⁷² Judith Scheele, *Smugglers and Saints of the Sahara*.

⁷³ Border economies produce the politics of culture and resistance. Communities take considerable pride in statelessness and derive popular legitimacy from trading in illegal goods as an act of defiance against the state that is ready to “extracts its ceremonial dues” but fails to serve peripheral regions. Illegal trade is thus romanticized and used as a tool of “cultural affirmation” with the use of Bedouin music, folklore, and stories of heroism. In Scheele’s study, traders proudly claimed to have introduced tea to the *bilad al-sudan*. Of course, these cultures vary, and some border regions identify very strongly with their nations.

⁷⁴ Ali Abdullatif Ahmida, *The Making of Modern Libya: State Formation, Colonization, and Resistance*, 2nd ed. (Albany, NY: State University of New York Press, 2009)

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- ⁷⁵ Thomas Hüsken, “The Neotribal Competitive Order.”
- ⁷⁶ Thomas Hüsken, “The Neotribal Competitive Order,” 136.
- ⁷⁷ Patrick Chabal and Jean-Pascal Daloz, *Africa Works: Disorder as Political Instrument*, (Oxford: James Currey Publishers, 1999).
- ⁷⁸ Thomas Hüsken, “The Neotribal Competitive Order.”
- ⁷⁹ Such an analysis could also profit from constructive engagement with the literatures on hybrid governance and legal pluralism.
- ⁸⁰ Bensassi et al., “Algeria - Mali Trade.”
- ⁸¹ It can also provide important “reality-checks” to more economic approaches, and new strategies for data collection and comparison.
- ⁸² Béatrice Hibou, *Privatising the State* (London: Hurst in association with the Centre d'études et de recherches internationales, 2004).
- ⁸³ Helmke and Levitsky, “Informal Institutions and Comparative Politics,” 730.
- ⁸⁴ Authors’ representation based on pump price data from the World Bank and qualitative information on trade corridors from various sources.
- ⁸⁵ Max Gallien, “Beyond Informality.”
- ⁸⁶ Authors’ representation based on synthesis of the literature, background interviews, and selective fieldwork.
- ⁸⁷ Authors’ representation based on synthesis of the literature, background interviews, and selective fieldwork.
- ⁸⁸ “Pump price for gasoline (US\$ per liter),” The World Bank Databank and German Agency for International Cooperation (GIZ), <https://data.worldbank.org/indicator/EP.PMP.SGAS.CD> (accessed 2 October 2018).