



**IMPACT OF INFORMAL CROSS BORDER TRADE TO THE  
ECONOMY: THE CASE STUDY OF TANZANIA**

**BY**

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Angelina Stephen Bwana  
Researcher

## DEDICATION

I dedicate this study to God Almighty, who is my source of inspiration, wisdom and knowledge. In addition, I dedicate this thesis to my two beautiful daughters, Marcelina Obote & Lizbeth Obote for their tolerance during my study period and my entire family for their maximum support and encouragement during my study period and writing of this thesis.



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The major aim of this study is to find out strategic policy recommendations for Governments, Regional Economic Communities, and Development Partners I.e. Trademark East Africa (TMEA) on how best to address the issue of Informal Cross Border Trade (ICBT) in Tanzania borderland with its neighboring countries in East Africa Community (EAC). To achieve this objective the study has been done through making analysis to identify the factors contributing to the existence & rise of ICBT between Tanzania and its neighboring countries as well by assessing the impact of ICBT towards Tanzania's economy. Apparently on a timeline since launch of EAC common market protocol in 2010 which allow free movement of people, free movement of goods to accelerate economic growth and development within the regional.

The study conducted using In-depth and Semi – structured interview methods, examining available secondary data as well. Four selected regions were selected where the issue of ICBT is crucial. From the findings, finally, this research suggests policy measures that have potential to encourage traders switch from ICBT to formal trade. Measures which will reduces trade barriers i.e. Non –Tariffs Barriers (NTBs), hence increase growth of formal trade sector and widen more trade opportunities in regional and global markets.

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## ABBREVIATIONS

AEC	African Economic Community
CBT	Cross – Border Trade
CCM	Common Market Protocol
CET	Common External Tariffs
EAC	East Africa Community
GDP	Gross Domestic Product
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
ICBT	Informal Cross Border Trade
IMF	International Monetary Fund
MEACA	Ministry of East African Community Affairs
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
NTB's	Non-Tariffs Barriers
OAU	Organization of African Unity
OECD	Organization for Economic Co-operation and Development
OSBP	One Stop Border Post
REI	Regional Economic Integration
RTA	Regional Trade Agreement
SAPs	Structural Adjustment Programmes
SPS	Sanitary and Phyto – Sanitary

**ABBREVIATIONS (cont.)**

TFTA	Tripartite Free Trade Area
TMEA	Trademark East Africa
TRA	Tanzania Revenue Authority
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
VAT	Value - Added Tax
WTO	World Trade Organization



# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study

Tanzania is one among the East African country, other members within East African Community (EAC) includes country like Kenya, Uganda, Rwanda, Burundi and South Sudan. Apart from Tanzania sharing border with these members within EAC regional also the country is bordered by neighbouring countries like Malawi, Mozambique and Zambia to the South and towards west the country is border with Democratic Republic of Congo. To the South located Indian Ocean and Mt. Kilimanjaro lies towards the northeast (Enocal, 2015). The country is also bordered by some of Africa's largest lakes, to the south with Lake Malawi (Nyasa), Northern part the country is bordered with Lake Victoria as well with Lake Tanganyika to the west (Britannica editors of Encyclopaedia, 2017). Through this Lakes, Tanzania has played major role by facilitating easy way of doing trade with its neighbours within EAC region even outside the region.

Tanzania country is one of the United Nations countries, in a view of that the country has in partnership with the United Nations High Commissioner for Refugees helping its neighbouring countries through dispute settlement in peaceful manner by establishing camps for refugees who came from different neighbouring countries, such as refugees from country like Burundi, Democratic Republic of Congo, Mozambique and from Rwanda. Tanzania country being one of members of EAC region with other founder members countries Kenya and Uganda together agreed to sign the East African Cooperation Treaty in September 1999 to encourage economic and regional cooperation among them. After coming to an agreement, the EAC founder members signed the establishment of EAC cooperation Treaty in 7 July 200. The treaty was followed by the launch of Common Market Protocol (CMP) which was established in 2010. The main aim of EAC member states in establishing CMP mainly was through strengthening their economic cooperation, trade integration and improve development growth within the

East African Community region. The established CMP within the region allow free and right to movement of people from and to any of the member's countries, as well free/right of movement of goods and other factors of production. The established EAC common market has helped the countries to build a strong bond in their trading partners, such as overall trade within the region has grown considerably, from US\$2.24bn in 2005 to US\$5.65bn in 2013 (United Nations Conference on Trade(UNCTAD), 2013).

One of the key element of establishing Common Market Protocol (CMP) to strengthen cooperation among being through by making sure there is institutions improvements among each other. And this has been attaining by introducing a One Stop Border Post (OSBP) a border control operation between two neighbouring countries so as people, goods and vehicles which cross the border will only stop once in the country of entry. The established OSBP helped to facilitate development through trade and travel by reducing the number of stops made at border crossing, reduce time taken to clear passengers at the border. OSBP and numerous common EAC infrastructure projects, including the dual carriageway that links Tanzania and Kenya considered being one of the key regional integration initiatives under the EAC Common-Market Protocol. However, despite these efforts to deepen more in their trade integration among each other, still formal cross border trade links between them is facing some several trade barriers, for example Tanzania's intra-EAC trade constituted less than 9% of its total external trade in 2016 (Medina, Jonelis, & Cangul, 2016).

Schneider (2006) explain “informal trade as entailing a business-based production of legal goods and services such as unofficial, underground, hidden, invisible, shadow, parallel, second, unrecorded, black, moonlighting, unmeasured, unobserved business that are deliberately concealed from public authorities and escape detection in official gross domestic product (GDP) statistics”.

However, on previous research conducted by Organization of Economic cooperation and Development on the paper titled impact of Informal Cross – Border Trade and Trade Facilitation Reform in Sub – Saharan Africa (Lesser & Moisé-Leeman, 2009), also defines the sector informal trade as “trade in legitimately produced goods and services, which escapes the regulatory framework set by the government, as such

avoiding certain tax and regulatory burden” The composition of traders participating in informal sector not only comes from small and medium enterprises but also large firms that operating in illegal ways and partially or full escaping paying trade taxes to respective government offices when doing cross bordering trade.

Table 1.1 Categorization of Informal Trade

<b>Category A</b>	<b>Category B</b>	<b>Category C</b>
Informal/unregistered firms that operating outside the formal business	Formal/registered firm fully escaping doing business requirements and duties i.e. avoiding taxes and other border charges	Formal/registered firm partially escaping doing business requirements and trade duties by hiding through illegal practices i.e. doing under invoicing

Source: Lesser & Moisé-Leeman, 2009

## 1.2 Statement of the Problem

According to study conducted by WTO shows that, International trade are key main source of revenue especially in developing countries, as for many developing countries loses tax revenue in proportionally greater amounts from informal trade that tend to thrive in underground economies, and its further estimated that particularly for developing countries like in East African Community where tax collection from trade activities still contributes to their economic growth for about an average of 25% in all total tax collected and of which their total VAT collected within border areas contribute to more than 50% to all total VAT collection with the country (World Trade Organization(WTO), 2008).

Tanzania and its neighbouring countries within East Africa Region since agreed to re- union again as members of the East African Community (EAC) in 7 July 2000 after previously being signed in 1999. Followed by the launched of the CMP in year 2010, where the launched CMP gives members states free/right to movement of people, goods, vehicles from and to any of the members countries within the region. Through this agreement they have built a strong bond in their integration, cooperation

even though formal cross border- trade links between them have been challenged by increased number of trade barriers i.e. Non – Tariffs Barriers (NTBs), which leads to the increase the growth of informal trade. Moreover, knowledge of these factors influencing informal trade remains inadequate, results not only to countries slow economic growth but also hindering proper formulation of trade policies that would be used to reduce aggressive factors contributing to the existence & rise of ICBT to individuals involved in formal trade, hence the need for this research paper.

### **1.3 Research Objectives**

The research objective aims to find out strategic policy recommendation for Governments, Regional Economic Communities, and Development Partners I.e. Trademark East Africa (TMEA) on how best to address the issue of ICBT in Tanzania borderland with its neighbouring countries in East Africa Community (EAC). Hence to achieve this objective the study has been done through doing analysis on the three specific objectives as following;

1.3.1 To identify the factors contributing to the existence & rise of ICBT between Tanzania and its neighbouring countries.

1.3.2 To assess the impact of ICBT on Tanzania's economy.

1.3.3 To propose measures to address this problem on its contribution to East African integration goals.

### **1.4 Research Questions**

Under this study conducted, three main questions have been answered as follows;

1.4.1 What are driving forces behind ICBT between Tanzania and its neighbours?

1.4.1.1 What are the factors contributing to this phenomenon?

1.4.2.1 How does existence of Free Trade Area (Tripartite) assist in helping solve the issue of ICBT in the region?



1.4.2 What are the impacts of ICBT on Tanzania's economy, especially in terms of its loss of tax revenue and its integration goals within EAC?

1.4.3 What policy measures have capability to encourage cross border traders switch from Informal to formal cross border-trade?

## **1.5 Scope & limitations**

The study focuses on ICBT characteristics and its impacts towards its contribution to the Tanzania economy, apparently on a timeline since launch of EAC common market protocol in 2010. However, the study conducted only in four (4) selected borders area basing on the factor that they are areas where the issue of ICBT is very crucial compared to other border areas in Tanzania along neighbouring countries within East Africa Community.

Furthermore, from the definition of the term since ICBT almost involve undocumented data hence find to have a limitation such as, interviews can be conducted but still you can't be sure of the data collected because there is no reliable official document to support the answers from respondents.

Also, from the nature of the topic cross bordering trade being very delicate topic when discussed by those traders who do it. Most of the time respondents become more curious to know why they are being asked questions and what aim of the researcher really are. As such sometimes it becomes even more fear to deal with and hard to collect truthfulness of respondent information when you pass through government authorities channels especially tax departments.

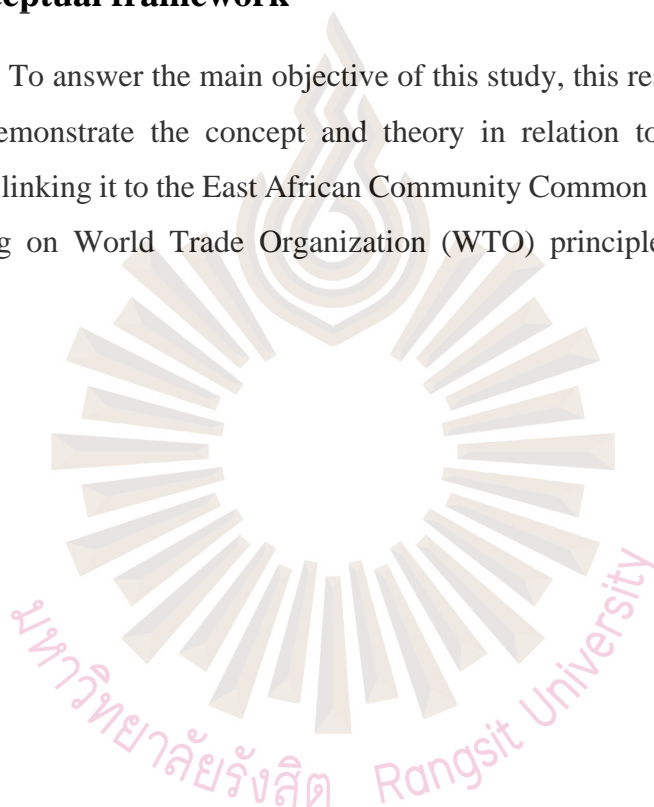
## **1.6 Outcomes of the study**

The expected output of this study is to suggest on the strategic policy recommendations to Governments, on how best to approach and address the issue of ICBT in Tanzania borderland which can also be used as a model to be used by other neighbouring countries when dealing with same problem. Basing on the study the finding concludes that Informal Cross Border Trade classified as kind of business that avoid taxation payments and other obligation rules required for an individual to do a cross - border trade with a neighbouring country. Hence to increase a clear and formal

Cross Border Trade (CBT) in Tanzania with its neighbouring countries proper mechanism has to be taken into account such eliminate barriers to trade, ease customs procedures, enough training/seminar on the ICBT issues, EAC common market protocol, tax collection rules and regulations and trade policies, harmonization of trade policies, and putting some regulations that will prohibit unfair business practices so as strengthening coordination of formal trade relations among partner states.

### **1.7 Conceptual framework**

To answer the main objective of this study, this research paper has tried to integrate/demonstrate the concept and theory in relation to Regional economic integration by linking it to the East African Community Common Market Protocol rules as well basing on World Trade Organization (WTO) principles on trading system guidelines.



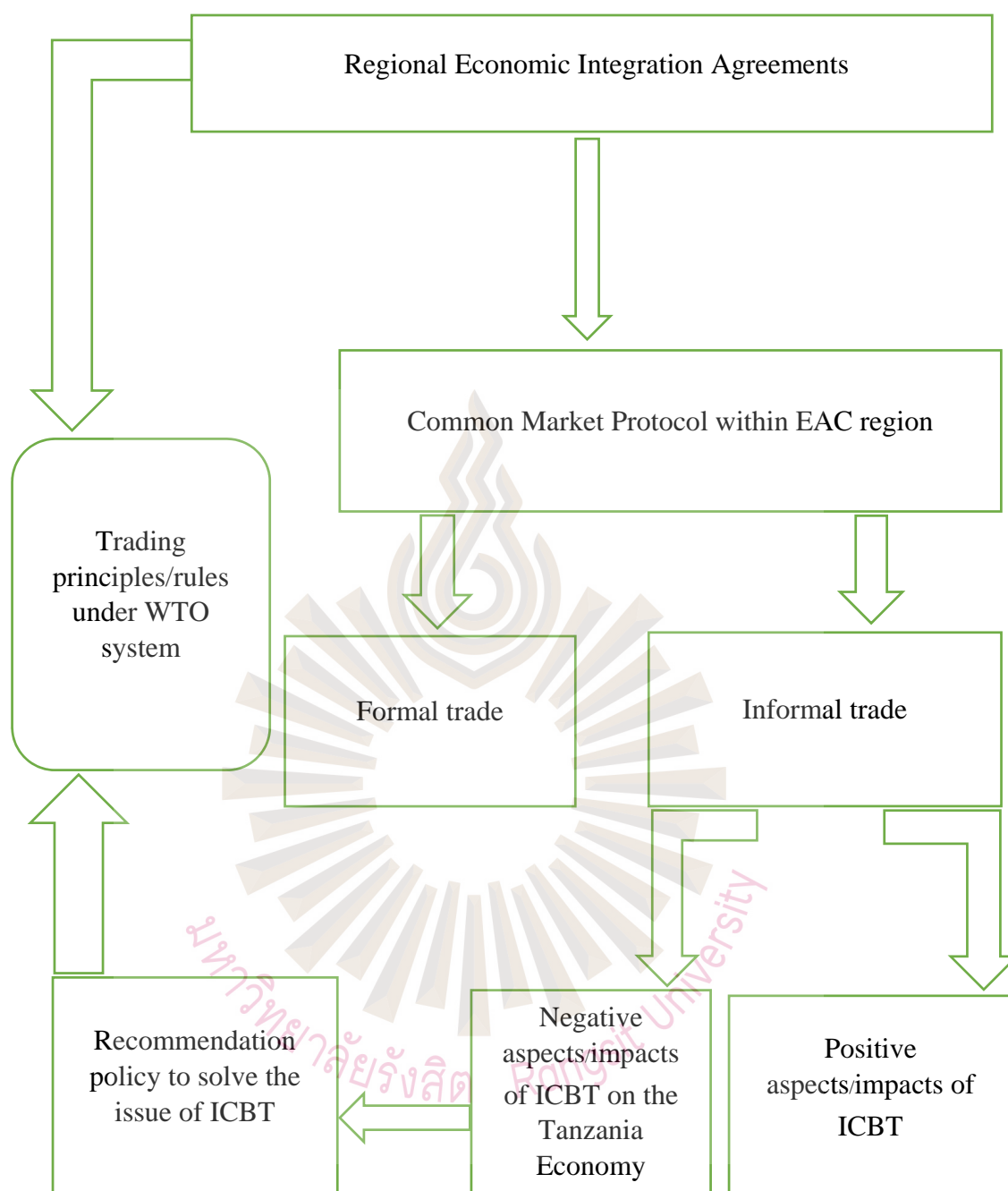


Figure 1.1 Conceptual Framework

### 1.7.1 Regional Economic Integration

Lagos Plan of Action in 1980 and Declaration of the Abuja Treaty in 1991 were the model/plan of action used by African Union (AU) countries as a strategy to enhance domestic cooperation, strengthen their economies as a way forward to move on a globalized world as other developed country. The two-used plan of action gives out the binding policy for their regional economic integration, forecasting the integration

process up to year 2020 and at the same time two policy recognize the previous initiatives taken for cooperation within the region. The established African Regional economic integration got full support from the United Nations Economic Commission for Africa (UNECA) by considering the policy as mentioned in the two – used plan of action the Lagos and Abuja Treaty.

Under the World Trade Organization (WTO) trading principles, the framework of regional integration agreements has been explained under Articles I and XXIV of the Most Favoured Nation principle of the agreement, which highlight about rules and principles to be followed regional integration. The article encourages integration at both levels (formal and informal). And it encompasses five levels of economic integration: The conceptual framework for this paper will only focus in one level of integration that is;

The Common Market, where under this level of economic integration it gives out/permit both the right and freedom of people, goods, services movement from and to any each member states within the region area considering the factors of the agreement reached upon.

### **1.7.2 East African Community Common Market (EACCM)**

East African Community is one among intergovernmental region block comprises of six (6) member countries, which includes; Burundi, Kenya, Rwanda, Uganda, Tanzania, and South Sudan (African Union(AU), 2000). Together members come up and agreed to establish a Common Market/ single market aiming at facilitating trade integration, economic cooperation, improve their technological enhancement and other regional cooperation's. The EACCM considered as the second achieved East African Regional Integration milestone, after start being implemented by members in July 2010.

Established East African Community Common Market has helped to strengthen and strongly contribute improving cooperation among member countries in area of economic and other development affairs and played a big role to members by helping them to maintain among each other common ground towards agreed on both right and freedom of the movement from and to within the region. Common agreed

freedom of the protocol involves four key factors, such as free movement of goods, free movement of people from and to, free movement of services and as well free movement of Capital. On the agreed rights of the signed protocol it includes two rights, the right of establishment and the right of residence.

#### 1.7.2.1 Guiding Principles/rules under East African Community Common Market Protocol (EACCMP).

East African Community Common Market protocol has been set up with clear legal, policy, regulatory framework and rules that has been used by members since it has been established in 2010. Those policy, principles and rules are the guidelines that members must consider when implementing the protocol agreed right and freedom. And the rules considered under the protocol has been set basing on the World Trade Organization trading principles that guide trade among nations or different region blocks for all World Trade Organization members. The principles of the Common Market Protocol that help to create a common ground among members includes; 1). Non-discrimination of nationals among members within the region, that there must be equal treatment of each country despite of the differences among them either rich or poor the treatment one country could give to another country should be the same to all the countries within regional integration. 2). There must be transparency on the matter agreed upon together and the information should be shared in transparency manner to ensure each member country implement the Protocol on the same common ground without diverting from other members.

#### 1.7.3 Positive impacts of ICBT

Despite, the term Informal Cross Border Trade (ICBT) defined as “trade in legitimately produced goods and services, which escapes the regulatory framework set by the government, as such avoiding certain tax and regulatory burden” in another way to the community who lives on it has bring some positive impact to their wellbeing and economy as whole. Among such positive implications of ICBT contribution includes;

1.7.3.1 Informal Cross Border Trade provide small business traders to escape from poverty and being able to meet their basic needs such as foods, housing,

bringing their children to school since it doesn't demand much on doing it as compared to formal business. Through Informal Cross Border Trade other traders have been able to employ people to work for them in such ways created employment to those in needs.

1.7.3.2 Informal sector also acts as a supplementary other part of income to people who have been losing their jobs following different circumstances includes financial crisis that has been often happening within the region.

#### **1.7.4 Negative impacts of ICBT to the Tanzania Economy**

Negatives implications of ICBT include;

1.7.4.1 Informal Cross Border Trade leads to great losses of Government tax revenues collection. And this has been looked by many researchers as one of the debatable factors in relation to main impact of Informal Cross Border Trade effects to the country economic growth within the region.

1.7.4.2 ICBT increase numbers of Illegal Trade and leads to promotion of Corruption. Another negative aspect of Informal trade is related to increase in numbers in illegal traded goods and the promotion of corruption. This has been done by mostly public official working at the border area as a means of getting bribes from traders who cross the border intentionally with the aim of avoiding paying tax duties and other related trade duties set by the governments for business people to do cross bordering business with neighbouring countries.

1.7.4.3 Informal Cross Border Trade in some ways results to create scarcity of food availability. This has happened due to since there is increase in number of people doing Informal business obviously it leads to decrease in the formal business which at the end will decrease importation from other countries. As importation decrease and production is not sufficiency to meet demand there will be food scarcity as far informal sector doing their business using informal routes and only in small quantities of goods their supply become difficult to meet the consumable demand.

1.7.4.4 Informal Cross Border Trade practices putting consumer at risks due traders involve on it lack the knowledge that required with health and sanitary regulations on the kind of products they trade across the other countries and lack to

know negative environmental effects. This impact has been to the large extent occurring as far as most of cross bordering trade within EAC region are mostly consumable goods such as fresh products, meat is concerned. Hence wrong packaging not handled in a clean environment is easily results contaminated and at the end putting consumer at risks.

### **1.7.5 Principles of the trading system under WTO.**

1.7.5.1 Trading system under WTO has been guided by simple and fundamental principles. Principles/rules used has been considered as key elements for World Trade Organization members as guidance in their trading arrangements. These principles states that, trading system arrangements should be;

1.7.5.2 Non – discrimination principle — under these principle in the WTO agreements, it doesn't allow trading countries to discriminate among each other. For example, when grant one country among trading partners special treatment it must give others WTO members same treatment as well without discriminating basing on certain criteria. The rule of Non – discriminatory is one of the key principle guiding trading system to al WTO members and which is clearly stated under Most favoured nation (MFN) the mother of all WTO principle that guide trade among members. And the rule also clearly state that the country shouldn't discriminate other countries (foreign products, services) in a different way it treats national products (National treatment principle).

1.7.5.3 Freer trade, operating through negotiation as one of main agenda in WTO arrangements is mainly in lowering trade barriers among member's states as a means of encouraging trade this has been done by the means of negotiations in different levels of trading bilateral, regional and at multilateral level. Most of these negotiable trade barriers among each other being, tariffs charges on importation of goods, and other Non -tariffs barriers (NTB's) practices against one another such as claiming double standards of goods, dumping practices, safeguard and other governments bureaucracy restrictions that inhibit proper trade agreements among members.

1.7.5.4 Predictability basing on binding and transparency rules. The multilateral trading system (WTO) work out/attempt to ensure members governments

makes the business environment stable and predictable. Through stability investment are increased, more jobs opportunities are created, however by doing so the society can have variety of choices at the lowest prices and enjoy the benefits of member countries working as a team with transparency. As in the WTO trade agreements this system requires government's member countries to practicing of sharing information on each other or when the issue is critical they must notify World Trade Organization secretariat to improve stability and transparency among them.

1.7.5.5 WTO also has a guiding principle that ensuring there is fair trade/competition among members. The WTO system it has been classified as one of the "free trade institution", which try to prevent "unfair" practices such as Non-Tariffs Measures (NTM's) practices by its members against one another due to political reasons or other reasons and other government bureaucracy. Though in some ways the system giving out the room to for members to protect themselves if the situation is threatening their growth or when there is a need of protection of infant industries that can't compete with products imported from more developed countries among trading partners. Moreover, WTO institute it's a works under agreed binding rules and principles committed to help its members by making sure there will be fair and transparency among them and that can be applied to all its members regardless of differences on them.



## CHAPTER 2

### LITERATURE REVIEW

Under this chapter, the paper review studies conducted on the topic chosen Informal Cross Border Trade and the reviewed literature has been presented here accordingly after the analysis made from various researchers, scholars, analysts, and authors. By starting will look on the map of Tanzania its boundaries with the neighbouring countries and then reviewing literature on the causes of countries to trade, definition of term Informal cross – border trade, and literature with respect to concept and theories relating to RTA (Regional Trade Agreements) guided by WTO rules and principles. RTA is an agreement made by WTO members in 2001 in the Doha Declaration to negotiate with the aim of “clarifying and improving disciplines and procedures for trading under the existing WTO provisions applying to Regional trade agreements”.

#### 2.1 Tanzania map showing borders with its neighbouring countries



Figure 2.1 Tanzania map

Source: Worldatlas, 2017

## 2.2 Factors contribute to the causes of trade

Since colonial time before 21<sup>st</sup> century there was existence of trade in form of barter trade (payment made by means of exchange of goods form both side). After the 21<sup>st</sup> century still there are trade existence among countries and it has been agreed worldwide from the research conducted by economists that where there is free trade the gains from trade is also there. However, from current statistics from the economist's perspective, free trade has increasingly globally and became common to hear trade philosopher say for those economists who argue in existence of free trade their arguments may have been true during colonial time in 19th century but not today in the 21<sup>st</sup> century of globalized world (Hassoun, 2008).

However, the facts that in 21<sup>st</sup> Century there still the gains in trade is an idea explained in normative trade theory (Ramady, 2010). Where the theory states that, those trade gains 1.) When there are two trading countries and if one country can trade at its partner products (foreign products) with the price lower compared to pricing of its domestic products, then that country will be well of when compared to its trading if the country will stop doing trade with its partner country or act upon self-sufficiency theory 2.) Moreover, the theorem state that those basic gains from free trade play big role in trade than autarky because the most gains from them will be when the gains obtain from free trade being better than autarky. (Ramady, 2010).

Reviewing literature on previous studies; this paper finds out that for less developed countries like Tanzania there are gains in trade when trading with other countries especially when the world price is in favour of the country. However, on the study conducted by Kemp (1962) it indicates that, "restricted trade is better than no trade". His study explained more by saying that mostly for large countries/developed countries when the situation is free trade became strong than autarky especially in the situation where goods and other factors of productions are sufficiency enough to the supplied demand. In his study he concludes by saying that most of the time countries trade among each other to gain economies of scale sometimes to give consumers more variety of choices in a broader market opportunity.

### **2.3 Definition of Informal Cross Border Trade (ICBT)**

Cross-bordering trade has been a heart of many established regional cooperation around the world and play an important role of strengthening the integration among countries since it allows the movement of people to people, goods from and to one country to another within the region. Through cross border trade the community has benefitted from it in different scenario and being able to meet their basic needs. For the society living at the border area cross border trade sustain the community welfare by increasing circulation of money and open borders market where people can buy and sell their products in a competitive price.

Soto (2000), state that the sector informal cross border trade, is a sector which its growth is represented by “normal market response to overly cumbersome, rigid, time consuming, and inefficient bureaucratic export/import procedures and regulations”.

Moreover, previous studies have also shown that Informal trade involve Informal practicing escaping paying government taxes and other related trade requirements operating entirely without following proper procedure required for formal firm, mostly of the kind of goods crossing border being on consumable goods passing in small quantity. Majority of people who are participating of this kind of trade activities being small and medium entrepreneurs, who on the other hand lack enough information on the rules and regulations that they must follow when doing cross bordering trade with other neighbouring countries. Such group of people includes women, young generation's unemployed ones and those who lost their jobs in different circumstances (Kline, Fondriest, & Cormier, 2013).

### **2.4 Concept of Common Market**

General concept of Common Market refers to an agreement reached under economic integration among members that aiming at facilitating trade among each other with the content of free and right of certain common agreements that bind them when trading. Those greed right/ freedom mostly being on people, goods, services,

copyrights, technology and various factors included in their economic integration (Streatfeild, 2003).

The aim/objectives of EAC partner states for establishing their Common market focus towards strengthening their integration goals by widen and deepen their integration process cooperation focusing on enhancement their development and economic growth. Through the implementation of the established Common market members states set out their objectives/goals by allowing among each other the right and freedom to the community's welfare on the equal chances without discrimination against one another. And these objectives set are bided by fair and clear policies, rules and regulations as a guidance during implementation of the Common market protocol. However, the rules and policies set members have consider the point of the main idea of establishing East African Community integration within them (Gichangi, 2012).

The former Ministry of East African Community under Department of East Africa Affairs design materials contain information about the Common market in each member local language but so far, the copies of materials were not effectively distributed to targeted communities. Hence due to that leads to many traders particularly cross border traders lack that need information that guide them to proper formal trade between countries. Regarding to that members must do enough publicity on the matter (common market) such as, providing to them awareness training and sensitization programs including education programs which will help them being able to read/understand booklets which contains integrations goals and objectives and any other benefits/opportunities of the integration process among partner states. The publicity/awareness of the matter should also consider the translation of the articles in the protocol to facilitate easy implementation of the common market benefits. However, EACCM Protocol highlights that, "the protocol shall contribute towards the improvement of the climate for domestic, cross border and foreign investment. For this to happen effectively and efficiently, policy and institutional reforms should be undertaken to create an enabling environment for trade".

## 2.5 Economic Integration Theory

Regional Economic Integration (REI) refer to as economic cooperation among regional blocks countries (same geographic location) with the aim of strengthening their economic cooperation, trade integration by reducing/removing all those barriers that hinder their cooperation i.e. Tariffs and Non- Tariffs barriers (NTB's) among each other.

One of the theories under Regional economic integration includes, Economic Integration Theory which argue that, states integrate gradually by way of successive economic stages, starting from loose cooperation to more consolidated and centralized stages involving the creation of custom unions and common markets within the regions concerned. The successive growth stages may then compel the integrating states to attain the highest level of inter - state cooperation in the economic sense, which is attaining monetary union, thus enabling the establishment of a unified economic policy-making arena.

Moreover, the theory gives out an idea by analysing what constitutes for an effective Regional Trading Agreement as the two major principles must be considered. 1. For trading partners within regional integration to obtain efficiency gains of their economic integration there must be either the products produced among each are direct competing or must be complement to each other. 2. However, they can obtain their efficiency gain from the regional agreements when the economies among partner states of an RTA being both competitive and as well complementary among one another. In explanation of that the theory point out an example from North America Free Trade Agreement (NAFTA), whereby under such trade agreement the two countries; United States and Mexico both country their economy depend more on industries (textile and clothing) but still do compete against each other and as well do complement to each other. The theory concludes for member states in Regional Trade Agreements to benefit from the agreements it must go hand in hand with avoiding tariffs barriers and other Non-tariffs barriers which may lead to create trade diversion among and not strengthening cooperation.

## **2.6 Impact of Regional Integration on Cross-Border Trade: EAC case study**

Typically, from the time EAC member states agreed on the re-united again as one block namely East African Community, few studies have been conducted by different researchers to analyse how the impact of regional cooperation contributes in increasing the volume of trade among them. Kirkpatrick and Wantabe (2005), undertook the study and divided it into three phases from the time EAC member established the community. On both studies conducted they use the same analysis by using gravity model in the period between years 1970 to year 2001 to analyse the trend of their trading system between countries. Their results come out with the findings such as during 1970's the pattern of trade among members was high due to the reason at that time the integration process was also strong among members but during in 1980's the trend was at constant level as at that time the integration level was not high as compared to decade of 1970's. Therefore, from the study conducted by these two researchers the answer was as when there is high intra-regional trade the process will automatically increase pattern of trade among members as well and vice versa will create trade diversion among members.

The second study undertaken on the analysis of EAC welfare affairs, first was conducted by Busse and Shams (2003) and McIntyre (2005) by using ex ante approach. And the second analysis on the welfare conducted by two researchers as well namely, Busse and Shams (2003) by using a partial equilibrium model (Khorana, Kimbugwe, & Perdakis, 2009). From the study conducted the findings show that total trade within the regional would increase up to US\$ 13 million. Though the most trade effects from all the members come from Tanzania side because of it having high intra-EAC tariff rates compared to other countries in the regional. Conclusion made from the three-conducted research come up with the result showing among the three founders of the EAC community countries, Kenya has a high export share when compared to others while for both remaining countries Tanzania and Uganda didn't gain much from the EAC integration privileges for example on the greened East Africa Community Common External Tariffs (EAC – CET).

Other studies conducted by (Ihiga, 2007; Tumuhimbise and Ihiga, 2007; Mmasi and Ihiga, 2007), indicated that, countries three founders of EAC for the period of more than 10 years they have been trading with countries from COMESA regional block. Those studies included details of analysis on trading system from the two-regional block EAC and from COMESA to their major trading partners, data on their trade pattern and as well on those major products which were traded between years 2001 up to 2005. Consultations on conducted studies the analysis on the findings involve the participation of respectively public and private sector concerned. Focus being more on validating previous existed NTBs and on the rise of newly NTB's. Conclusion on validation came up with the result as many of Non-Tariffs Barriers inhibit the implementation of the member's integration goals and affect their economic development. Analysis of study findings point out main hindering NTB's exist among members were found to rise from practicing of member states government bureaucracy on their trade policies, introducing restrictive practices to products entering from another countries, restriction on entry permit, misuse of sanitary and Phyto-sanitary measures (SPS) requirements, public officials took long time for processing documents and other trade services than the normal hours required for clearance and other trade barriers. Conclusion on these studies conducted it indicate, the existence of these NTBs, within the region on its impact towards regional trade and community welfare members don't take it seriously as the major issue that has been hindering their integration. Hence from such point, the study recommended for members to effectively implement the established EAC Common market treaty there is a need to build mutual trust/goodwill on their cooperation and have transparency on their trade policy among each other.

## **2.7 Trading rules and principles guiding members under the WTO**

The World Trade Organization has been a key/ruling organization controlling trading system among countries worldwide. Basing on the agreements signed by its members. The current binding used WTO trade agreements came from previous institution; General Agreement on Tariffs and Trade (GATT) which was concluded and signed during Uruguay Round of negotiations by all WTO members in 1994. Hence after Uruguay negotiations in 1994, Agreements concluded under GATT became the WTO's principal rule-book which deals with only trade in goods. WTO

members agreed to sign the Uruguay Round aiming of having the binding rules on their trade that will not only deal with trade in goods as in GATT, trade in services, trade dispute settlement mechanism and other trade policy reviews accordingly.

Under these agreed rules, it has binding WTO countries to trade among each other by considering three main principles i.e. a non-discriminatory principle (MFN), National treatment, and rules of origin principle. From this agreed principle each member country gains the right that when trading with others its products will be treated equally when entering the trading partner market. This must be the same for importation of products into each member country. As it has been agreed by all WTO members regarding on the rules and principle therefore the implications of those rules and principles on intra – trade and trading under WTO are as explained below;

2.7.1 The main crucial principle of the WTO, the "most favoured nation principle", is that countries do not discriminate against one another. After the formation of new trading arrangements WTO system then the MFN, became the main binding rule under the GATT, which demonstrate more on trade in goods. The MFN principle considered to be the main principle guiding trade agreements between WTO members as it has been explained as well in GATS, Article (2) and as well on Agreement on Trade-Related Aspects of Intellectual Property Rights TRIPS, in Article (4). However, for each trade arrangements this MFN principle is considered quietly different from the others. Although few exceptions allowed for certain circumstances that benefit both countries or for protection one country internal affairs. Under WTO rules, MFN principle emphasize more as when one country provides a trade favour or opens a market to another country among its trading members it must do so for the same to all its partners disregarding of other countries economic condition whether are developed or least developed.

2.7.2 National treatment principle, trading system under this principle requires countries to give the same treatment on foreign products as those given to their domestic goods at the time when both products enter on the same market. As in MFN principle, the National treatment rule also cover in all the three WTO main agreements as it was covered under MFN principle too. For GATT and TRIPS this principle has been explained in Article 3 of the text and lastly in General Agreements in Trade and



Service under Article 17 of the WTO text. However, the treatment of the principle is quietly handle differently in each of the three agreements. The treatment discussed under the national treatment principle the same treatment should be considered in goods, services, and trademarks, copyright and as well on patents. However, under national treatment principle there is no violation when one-member charge custom duty against another country even though its domestic goods are charged differently compared to imported products (foreign products).

2.7.3 Where goods originate is determined using 'rules of origin', which lay out the minimum requirements for a product to be considered "originating" from the export country. Requirements under this principle try to minimize/ reduce third-country material to be used in a production of the goods where above 50% of material used are not from the originating country where exported. So, simply because goods are considered to originate from one territory does not mean that another territory will consider them also to have originated there. It is however seen that, the effects countries. But to comply with these rules/principles of WTO custom requirements, other rules and regulations for crossing border trade must be fulfilled by each member states this includes, official border crossing duties, invoicing, documents submission to customs office at the border for checking, and following allowed % used for the material from third-country on the rules of origin requirements for the products exported. By doing so these will no doubt but bring an impact to the economy growth of trading countries and reduce the costs of doing business.

## CHAPTER 3

### RESEARCH METHODOLOGY

The aspect of informal sector/trade in this study applies largely to kind of business that escape passing the right channel of doing trade, contain unrecorded data, mostly trade products are consumable goods in small quantities that are crossing the border illegally to do business with neighbouring countries (Macamo, 1999). Hence for this paper to address this issue of Informal Cross Border Trade between Tanzania and its neighbouring countries a descriptive research method used in a relation to qualitative approach.

#### 3.1 Research Area

The research paper conducted in Tanzania expanded into its four-selected border land area within its neighbouring countries in East Africa Community (EAC). The four-selected area has been chosen due to nature of the topic as those are places where the issue of ICBT is very crucial in Tanzania and its border area countries.

Table 3.1 Selected research area

Selected Border Area	Bordered Countries
Mutukula	Tanzania – Uganda
Namanga	Tanzania – Kenya
Rusumo	Tanzania – Rwanda
Kabanga	Tanzania – Burundi

## 3.2 Data Collection Method

The study uses a combination of primary and secondary data collection and analysing using qualitative method. The primary data collected by using a communication-based research by interviewing respondents using a semi-structured interview and In-depth Interview.

### 3.2.1 Semi – Structure Interview

The paper uses open semi-structured interview guide, which allow new ideas brought up during the interview by providing an overview idea of instructions for interviewers by providing them with reliable, comparable qualitative data. Under this method the form of data collection, this study uses list of questions that were covered during the conversation by interviewing (2) public officials from each 4-selected border area and (8) public official from the Ministry of Industry, Trade and Investment (MITI) who work under section of Integration Trade (EAC region matters), as shown in tables below in an order.

Table 3.2 Semi – Structured Interview for public official at the border area

<b>Name of Border</b>	<b>Name of officer</b>	<b>Position</b>	<b>Hierarchy position held</b>
Rusumo	1. Mr. Policap Lashau 2. Mr. Christopher Sajo	OSBP Manager Custom officer	Management Operational
Mutukula	1. Mr. Samwel Mori 2. Mr. Amon Machumu	OSBP Manager Senior Customer officer	Management Supervisor
Namanga	1. Mr. Aminiel Malisa 2. Mr. Joseph Mwikia	OSBP Manager Immigration officer	Management Operational
Kabanga	1. Mr. Mohamed Shamte 2. Ms. Grace Bayo	Officer in charge Crop inspector	Management Operational

Source: Compile from Interview, 2017

Table 3.3 Semi – structured Interview at the Ministry of Industry, Trade and Investment

<b>Name of officer</b>	<b>Position held</b>	<b>Rank position held</b>
Ambroce Lugenge	Head of section -EAC region trade	Management
Boniface Michael	Head of section-Bilateral trade	Management
Abdul Marwa	Principal trade officer	Supervisor
Aneth Simwela	Principal trade officer	Supervisor
James Kyejo	Principal trade officer	Supervisor
Freddy Kavula	Senior trade officer	Operational
Atupyanile Kayombo	Senior trade officer	Operational
Makaya Songorwa	Trade officer	Operational

Source: Compile from Interview, 2017

### **3.2.2 In-depth Interview**

Under primary data collection method, In-depth interview has been used as among the methods. This kind of research method is used when the research wants to conduct interviews with only small number of respondents with aim of getting details information from them and be able to understand their perception in certain specific idea on the course of the study. It is always employed when one wants to get useful and detailed information about by allowing a person to express their thoughts hand. Hence the methodology used under this kind of interview procedure mainly focuses to the characteristics of people involved informal sector, activities conducted along the border area (type, quality and prices of traded items). A total number of (16) -Traders, Agents and Transporters in all four selected border areas.

### **3.2.3 Secondary Data Collection**

Since there is a lot of data already in existence about the topic, this study also rely on secondary data collection method from academics works, scholars,

professors, such as books, articles, and reports (EAC, WTO, IMF, etc.) as well as past previous recorded data from Government offices located at the border areas and other secondary source from Ministry of Industry, Trade and Investment (MITI) & at Tanzania Revenue Authority Offices.

### **3.3 Data Analysis**

The analysis of the data collected, and conclusion of the study has been done using descriptive data analysis and qualitative data analysis techniques. Qualitative methodology assists to decode, describe, analyses and interpret accurately the meaning of certain phenomena while the descriptive research assist in focusing on terms that are based on present conditions.



## CHAPTER 4

### DATA ANALYSIS, RESULTS, AND DISCUSSIONS

This chapter presents the results obtained from data analysis as well as the interpretations and discussion of findings. It is organized as follows:

#### 4.1 Response rate

Basing on number of people (32) interviewed, this section will summarize the respondents by their characteristics at the four-selected border area (In depth & Semi-structured interview) and from the Ministry of Industry, Trade, and Investment (MITI) as public officials in Semi – structured interview accordingly.

#### 4.1.2 Distribution of interviewers (group of people) by their characteristics

Table 4.1 Distribution of interviews by their characteristics (Interview Guide)

Bio data	Variable Name	No of people
Gender	Male	22
	Female	10
Age	Below 18 years	2
	18 – 25	4
	26 – 35	8
	36 – 45	9
	Above 46 years	9

Table 4.1 Distribution of interviews by their characteristics (Interview Guide) (cont.)

Bio data	Variable Name	No of people
Education Level	Primary education	5
	Secondary education	6
	University/College	20
	None	1
Marriage Status	Married	12
	Widowed	3
	Divorced	1
	Separated	2
	Single	14

Source: Compile from Interview, 2017

Results in Table above show that out of (32) interviewed on the issue involves ICBT most of them were males and few numbers for females. This finding agrees with the findings from a study by Akatsa-Bukachi (2012) on the Border Trade in paradox of women who are crossing the border to do business within the East African Community. The study referred to here, points out that among other challenges which women face in the trade include sexual harassment as well as exploitation that results from limited knowledge of trade. These are likely to affect their participation in the trade. Also, from the point women in Tanzania play a major role in taking care of children, the sick, the elderly and others (Stärken and Wandeln, 2009). This is because they (women) are required to work closely with family members to meet their needs, hence, this decrease number of women's participation in Crossing - border trade.

However, the average age of people deal with ICBT shows to above 26 years old, this shows are maturity individual and they have ability to make rational decision associated with cross-border trade within the Country even to other EAC partner states, regardless of any barriers that may arise.

Education level, the result shows that, most of respondents have obtained some level of education at least Primary education. This will enable them to read and

understanding proper business procedure and follow the rules in analysing and making better decision on business transactions.

Marital status, as the results shows, most of respondents are married which implies that they (owners) have family responsibilities. The results in this study concur with the results in a study by Mwamnyange (2008), on financing agricultural market in Tanzania country, in the sector (maize & rice) to Kyela and Dar es Salaam region. The study referred to concludes that, marriage plays an important role in shaping social organizations and relations.

#### **4.1.3 Position held by public officials in Semi – structured interview conducted at border area and at Ministry of Industry, Trade, and Investment**

The respondents were asked to indicate the position they held in their organization at the time of the study. The chart below shows the responses.

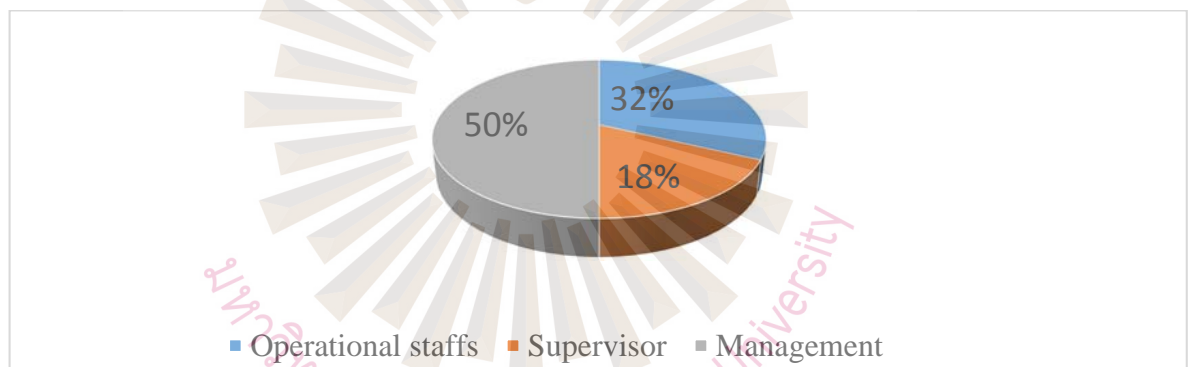


Figure 4.1 Position held by public officials

Source: Compile from Interview, 2017

Results from the chart shows that, out of 16 respondents for Semi – structured interview (50%) were on Management level and the rest on operational staffs (32%) and supervisor (18%) this distribution of respondent show the success of this study as the information to solve the issue of ICBT has been discussed by people who sit in strategic Management position & who are the key decision maker on the formulated policy that guide trade with other countries. Having more experiences on the sector due to the number of years they have been working in the field of trade and matters pertaining East Africa region.



## **4.2 Factors towards the driving force on the rise of ICBT between Tanzania and its neighbouring countries**

As a result, on studies conducted by previous researchers that, the increase number of Informal Cross Border Trade generally represented by market where there existence of illegal performance such as long process when submitting trade documents for check-up at border offices, rigid, bureaucratic practices due to some reasons or circumstances, lack of transparency of information's required, unclear export/imports procedures and regulations, in the presences of all these factors automatically leads to increase in participation of traders towards informal business. Therefore, this study makes an analysis on those factors contributing towards the rise of ICBT between Tanzania and its neighbouring countries;

### **4.2.1 No access to information/Awareness of Cross Border Trade Regulations**

From the finding main reason seems to be lack of enough information to traders during crossing the border. Here 60% of group of people interviewed agreed by stating many of business people who are crossing border for trading are not aware of general requirements needed at the time when they want to do cross bordering trade with neighbouring countries and this has been due to lack of enough education about crossing border regulations, brochures and other documents where they can go through and find useful information about kind of business, lack of transparency on trade policy among member states in the region i.e. EAC integration goals preferential are just there on papers without being shared to the community who are the main beneficiaries of the agreed goals. Others say that the documents might be there to read but most of them are not user friendly to give them enough information to be useful for them for better understanding the crossing border trade in a right channel and follow required procedures.

Lack of knowledge on preferential treatment of the EAC common market that is granted to traders who cross borders with goods that have above 80% rules of origin produced within the region get custom duty reduction of 18% and those goods produced outside the region get reduction 25%

on custom duty. Effectively practices of this by each member states in some ways will help reduce the number of traders who are crossing the border informally (Sajo, 2017).

From the study finding it also shows that other traders remain in Informal Cross Border Trade because of their financial difficulties having no any other means to survive rather than doing illegal trade to overcome their socioeconomic circumstances and since formal trade require some extent of commitment such registered firms, follow proper trade regulations and duties, invoicing, in full form following legal practices.

#### **4.2.2 Member states government bureaucracy**

One of the key trading principle under WTO system that is Non – discriminatory principle doesn't allow members to discriminate among each other when trading across. Under this principle it states that when one country provide favour to one country it should be given the same treatment to other countries as well disregard of any circumstances or differences from certain countries. And the rule also clearly state that the country shouldn't discriminate other countries (foreign products, services) in a different way it treats national products (National treatment principle).

The study finding also shows that, government bureaucracy such as sometimes it becomes difficult for traders when crossing the border get a harassment from Customs officers at the border area on the travel documents (entry permit) despite there are agreements on the entry permit that is easily available to all and it last for the period of seven (7) days from the day of entrance to the neighbouring countries within the EAC community. However there also a signed agreement to strengthen trade among members by introducing the Simplified Trade Regime (STR) which gives special provision to small traders who regularly transact in low value consignments.

Other political and economic reasons since we are almost producing competitive products one country can put restrictions of entering same products from another countries main aim can be protecting their infants industries as explained in “Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS”, under the principle of National treatment which it states that the same treatment given to domestic products it must be the same treatment foreign products from other trading countries will receive

when entering the same market, and this will go not only to products but also services from foreign companies, trademarks, copyrights, and to patents. This finding also agrees with Economic integration theory as member of RTA who are producing products that are direct competing or complement to each other for the to gain efficiency of their economic integration must avoid trade barriers among each other and keep their external tariffs low.

The issue of bureaucracy of governments has been much within the regional reason behind being most of EAC countries are producing same products which compete among each other so sometimes this happen with a reason behind of protecting their own infant's industries by putting political policy restrictions of not allowing products entering from neighbouring countries (Kavula, 2017).

#### **4.2.3 Long processing/time consumed by traders for them to cross the border**

From the finding, it also shows that among the reasons that rise the growth of ICBT in the region being due to long que/processes undertook before crossing the border i.e. documentation, pass check point etc. Though EAC member states has agreed upon establishment of OSBP which has helped to control operation of the two neighbouring trading countries in a way that people, goods, and vehicles need to stop only once in the country of entry than before having to stop both in country of exit and country of entry. However, from the finding still the problem of long que is there and has been hindering formal trade participation and leads to informality. These has been attributed mainly by un professional practices by public officials to obtain economic rent/bribes (ICBT facilitate illegal Trade and Promotion of Corruption) from those traders who wants their products to be quickly cleared at the border area. Therefore, traders by attuned corrupt culture make them engage in informal trade sometimes unintentionally.

Other reasons attribute to this also being due to poor infrastructure, weak institutions performance at the border area i.e. no proper delegation of power, sometimes few staffs compared to number of traders crossing the border.

### 4.3 Respondents' perceptions on positive/negative impact of ICBT

Cross-border classified as the main goal of establishing regional integration and it has shown success keeps on growing from time to time since those days due to gains of trade and its contribution to the economy growth of the countries and through trade many people has overcome financial difficulties as it gives them a supplement way of surviving and being able to get their basic needs. Other studies conducted by previous researchers has shown that Cross-border trade played an important role by lifting economic growth of the country and become one of the major sources of employment to the society. To study these reasons the study, make comparison of the findings on respondents' perceptions towards positive/negative impact of ICBT as shown on the table below;

Table 4.2 Comparison of the findings on respondents' perceptions on positive/negative impact of ICBT towards Tanzania economy

<b>Positive impacts of ICBT</b>	<b>Negative impacts of ICBT</b>
<p>The finding made on this paper regarding Informal sector is viewed as very active sector and playing a big role in the society by creating stable environment to people who are unemployed and, in that ways, has been looked as a sector that contribute to the economic growth of the country.</p>	<p>In long-term the perception towards the sector has been looked in a different way considered to be the sector which reduces government serving collected from tax collection which can be used for investment plans for society benefit and country growth and at the end reduce number of people who do proper formal trade which is beneficial for the whole community.</p>

Table 4.2 Comparison of the findings on respondents' perceptions on positive/negative impact of ICBT towards Tanzania economy

Positive impacts of ICBT	Negative impacts of ICBT
The study also sees, ICBT as a means that provide small business traders to escape from poverty and being able to meet their basic needs such as foods, housing, being able to provide education to their children.	Under this study conducted, Informal sector viewed as a kind of business that has been practices by small entrepreneurs whom do escape paying taxes due to the habit of finding ways to do business in illegal routes or also classified as those business people who only pay their taxes in small quantity as a result hinder government in providing social services to the community i.e. school, hospitals etc.
Informal sector also acts as a supplementary source of income to people who have been losing their jobs following different circumstances.	On the other hand, respondents react by saying that informal sector being for poor household who have nothing to depend on such as stable jobs, no education so only hope left with Informal business to meet their daily needs. Hence in conclusion looked out as a sector that is temporarily when there is no hope while the formal business credited as a sector sustainable one and can depend on for development and growth process.
Informal trade increase circulation of money at the border area and increase more production at border area.	Informal trade reduces foreign currency reserve at the Central bank since the money circulated are not within government proper channels.

Source: Compile from Interview, 2017

#### 4.4 Effects of East African Common Market on Informal Cross Border Trade

The study required the respondents to indicate whether the strengthening of trade relations among EAC community in relation to their goal of establishing their

Common Market Protocol and how does its existence help to reduce numbers of Informal Cross Border Trade operations within the region. Majority of the respondents (85%) stated that; The established Common market has helped to expanding more exportation (Greater competitiveness of products) this has been done through harmonize trade policies based on international standards i.e. following WTO rules and regulations for trading, waiver on sensitive goods by imposing common tariffs, establishing National Monitoring Committee (NMC) for handling existence and controlling the rise of new NTB's in the region by the help of Development partner i.e. Trademark East Africa ( TMEA).

Though some interviewer argue, still there is a need to look more c factors like inappropriate policies and other restraints/unfair business practices on trade i.e. new created form of Non-Tariffs Barriers' (NTB's) that in some ways has act as a barrier to formal trade among members and create unfair prices of the goods within the market and thereby enhancing the thriving of informal trade.





## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the study findings, and lastly pointed out policy recommendations to the Tanzania government and other key stakeholders as main aim for this study are the subtitle discussed under this chapter five of the research paper.

#### 5.1 Summary of the study

From the study, the term cross-border trade is characterized by the duality of the routes taken by the traders while crossing the border with goods, a feature frequently referred to as formal and informal trade. Cross-border trade (CBT) may also refer to the “flow of goods and services across international land borders within a reach of up to 30 kilometres”. Cross Border Trade when discussed to people living on it considered to be a sensitive topic to deal with basing on the factor the government doesn't approve of it due to its illegality attached to the sector. The statement below from one of the public official stated it clear as;

It is difficult to cross the border informally due to strong restrictions at the Rusumo border (Tanzania- Rwanda) area so most of informal traders here pass through unofficial route especially through river Kagera (Lashau, 2017).

And most of the time it depends on the lucky of the person for him/her to cross the border without being catches by respective authority patrolling on the sector. Illegality attached to it involve escaping of tax payments as required by the authority and other border charges that are required to be fulfilled before crossing the border.



The objective of this study was therefore to find out strategic policy recommendations for Governments, Regional Economic Communities, and Development Partners I.e. Trademark East Africa (TMEA) on how best to approach to address the issue of ICBT in Tanzania borderland with its neighbouring countries in East Africa Community (EAC). Hence, the findings for the objective on how best to address the issue of ICBT in Tanzania borderland with its neighbouring countries answer the following two main questions of this research paper as summarized below;

- 1) What are the driving forces behind ICBT between Tanzania and its neighbours?
- 2) What are the impacts of ICBT on Tanzania's economy, especially in terms of its loss of tax revenue and its integration goals within EAC?

To promote trade integration among each other EAC member states, came to a common ground of establishing a Common Market aiming to strengthening trade and other economic cooperation among their regional community. For the agreed established Common Market acts as a catalyst that facilitate their cooperation by giving members countries the right and freedom in equal treatment among each other, such of those right and freedom includes; the freedom to people, and their products to cross among each other, free movement of services among them. However, the practices of this must go hand in hand with agreed common ground among their integration it doesn't give the right to disobey on one another sovereignty. Despite of all this, trade among them still has been in both formal and in informal one channels. Factors behind being due to some political reasons behind member's government, lack of transparency on each other on matters pertaining their integration process and so on.

Therefore, from the above studies reviewed and interviews conducted from respondents, the study summarize by agrees that is true the rise of ICBT in the region is spurred by several factors, including lack of awareness on rules and regulations for crossing the border, time consuming/long processing for clearing goods at the border area and documentations process, bureaucratic procedures practices by member states governments.

From the previous studies conducted by other researchers commented that, in some ways is true Informal sector do bring gains when it comes to food availability and management of the resources since it involves transaction in a small quantity, but they are doing it often. The same finding has been studied by this research paper, although it's clear the negatives aspects outweigh the positive ones this has been derived by making a comparison on both positive and negative impact of ICBT towards Tanzania economy. As losses of tax revenues in a long -run slow economic growth of the country by increasing budget deficits which distort employment rate (create unemployment), government savings, reduce government investment to the social services for community welfare i.e. schools, hospitals, providing basics needs such water etc.

Losses contributed by ICBT not only affect country economic growth but also goes beyond towards EAC community integration goals as it hinder them in reaching their economic commitment regarding the factor that in developing countries like in East African Community countries where tax collection from trade activities still contributes to their economic growth for about an average of 25% in all total tax collected and of which their total VAT collected within border areas contribute to more than 50% to all total VAT collection within the country (World Trade Organization(WTO), 2008).

## **5.2 Conclusions**

Regarding factors towards driving force of ICBT, there is no away the issue of informal trade can be solved without trying to understand the informality attached to it. In some ways the increase number of ICBT has due to increase in greater number of unemployed people to the society and even to employed one become a second source of income due difficulties in their economic situation. Hence there is a need for government to invest more agribusiness, create more job opportunities, and establish borders market aiming to increase trade and other related trade opportunities within regional as well at the global markets chances.

The implications of impacts of ICBT on Tanzania's economy, especially in terms of its loss of tax revenue and its integration goals within EAC. From the above findings, though ICBT in a short-term provide a welfare creation, financial stability, and

reducing poverty, increase circulation of money at the border area yet in the long run it has more negativity on country economy and other advancement aspects by creating unfair business practice towards formal sector, which reduces government serving and investment plans for society benefit and country growth at large as well as lowering formal business opportunities in regional.

Also, although a lot of progress has been done towards implementation of the common market, still a lot of political commitment and goodwill is required.

### **5.3 Recommendations**

This research paper came up with recommendations for both policy and practice and for further research.

#### **5.3.1 Policy and practice recommendations**

1) To overcome ICBT problem member states must act upon as a team and practicing a manner of sharing information on matters pertaining their integration, provide enough education on the aim of establishing Common Market Protocol within the region and letting the community know about EAC preferential treatment as of sharing this information will lead them to the main goal of the integration.

2) Member states should push each other through their commitment to full integration and concentrate i.e. strictly monitoring on the implementation of preferential tariff discount by each member states to promote proper formal trade channel since fulfilling commitment will make it easy in doing trade among each other.

3) There is also a need of providing frequency training/seminar to government agencies/public officials working at the border area on tax collection i.e. from the findings, currently there is one (1) seminar provided per year, the study suggests being three (3) times per year and proper practicing of value/ethics of being public services in serving the society.

4) They must be enough Tax Payer Education training to traders so as they can be familiar with the rules and regulations concerning cross –border trade and as well know their importance of them paying tax to the country for economic growth.

5) Members state should work towards reducing/ elimination of the existence and newly arising Non - Tariffs Barriers among each other to enable fulfil and fair-trade practices in the regional, harmonization of tax regimes as this will reduce the trade imbalances, tax evasion schemes like smuggling as their will be no incentive to avoid official boarder points.

6) The member states should develop a common plan for infrastructure that will ease movement of goods and people. They should also consider giving up their ports, railways, and weighbridges to be managed by the community for the common benefits of all.

7) The EAC countries should agree together and have a common definition regarding the sector informal trade as a way forward to solve the issue of ICBT in the same perception and policy. Since informal trade sector is all about unrecorded statistics dealing with it in a different way may create a more problem or government member states may fail to prescribe appropriate policies when solving it.

Government when dealing/ formulating appropriate trade policies on the issue of ICBT will be a good idea to let in the process involvement of civil societies organization as one of the key stakeholders basing on the reasons are the one closer to the society, have knowledge and capacity on how best to network with the society, creating awareness on the need for them to shift to formal sector so that they benefit to the policies reform structure made by the government.

### **5.3.2 Recommendations for further study**

The present study make analysis and find out best strategic policy recommendations on how best to address the issue of ICBT in Tanzania borderland with its neighbouring countries in East Africa Community (EAC). For future studies should thus seek to give out policy recommendation on how best to solve the issue of ICBT within the whole region of East Africa Community. Also, the present study took a descriptive form further studies can use explanatory form to explore the problem.

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**APPENDICES**



## **APPENDIX A**

**INTERVIEW GUIDE: BIO DATA FOR TRADERS, AGENTS,  
TRANSPORTERS, AND PUBLIC OFFICIALS AT SELECTED  
BORDERS & OFFICES.**

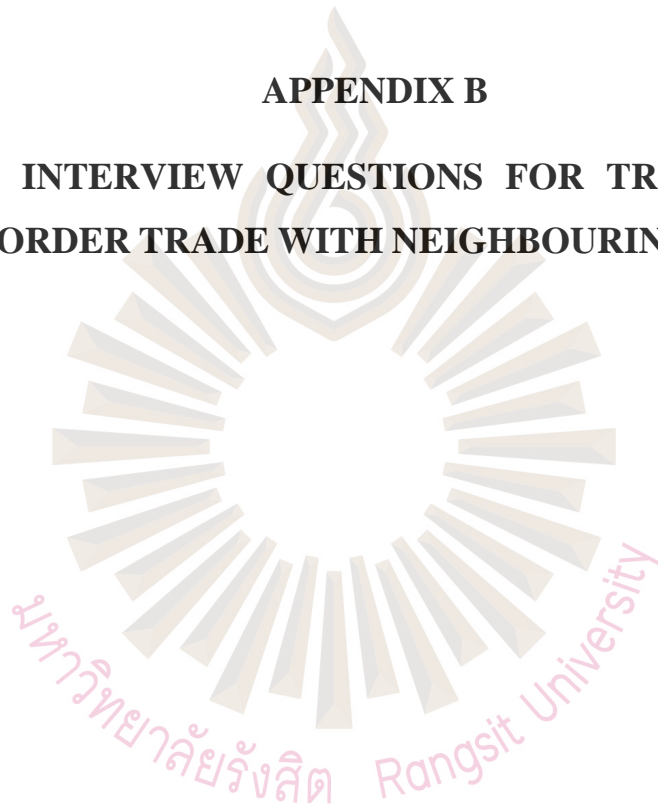


**APPENDIX A: INTERVIEW GUIDE: BIO DATA FOR TRADERS, AGENTS, TRANSPORTERS, AND PUBLIC OFFICIALS AT SELECTED BORDERS & OFFICES.**

1. Gender; Male ( ) Female ( )
2. Age
  - Under 18 years ( ), between 18-25 years ( ), btw 26-35years ( )
  - 36-45 years ( )      above 46 years ( )
3. Education level
  - No education ( )    Primary education ( )    Secondary education ( )
  - Certificate/Diploma ( )    Undergraduate ( )    Postgraduate ( )
4. Employment status Yes ( ) or No ( ) If yes what are your background work experience?  
(Employed in the private sector, public sector or self-employment?)
5. Marriage situation; Married ( ), widow ( ), divorced ( ), separated ( ), single ( )
6. You have family or any dependents? If yes, what is your main source of income for taking care them? .....

**APPENDIX B**

**IN-DEPTH INTERVIEW QUESTIONS FOR TRADERS DOING  
CROSS - BORDER TRADE WITH NEIGHBOURING COUNTRIES.**



**APPENDIX B: IN-DEPTH INTERVIEW QUESTIONS FOR TRADERS DOING CROSS-BORDER TRADE WITH NEIGHBOURING COUNTRIES.**

1. Why are you doing CBT business? How long have you been in this business?
2. Is the CBT you involved in Formal or informal? If is Informal trade, what drives you to participate in this business?
3. For, ICBT traders, can you provide me with a description of your ICBT business? Like what kind of goods your crossing with, number of hours took you to cross the other countries, how much profit you're getting? Who are your main customer?
4. Are there any rules and regulations you do have to follow for you to cross the border? If Yes what are they?
5. Doing this ICBT business happen to have positive and negative impact since it is classified as illegal business, do you agree with this? If Yes in what ways does it affect you as trader and on Tanzania economy at large??
6. Outline some of the changes to your ICBT that have been necessitated by the established of the EAC common market?

## **APPENDIX C**

**IN-DEPTH INTERVIEW QUESTIONS FOR AGENTS WORKING  
AT BORDERS AREA (HELPING CONNECTING TRADERS AND  
GOVERNMENT AUTHORITIES).**



**APPENDIX C: IN - DEPTH INTERVIEW QUESTIONS FOR AGENTS WORKING AT BORDERS AREA (HELPING CONNECTING TRADERS AND GOVERNMENT AUTHORITIES).**

1. What the name of the company you're working with?
2. What are key challenging issues for you as an intermediate person between governments and traders at border area?
3. Are there any ethical concerns that your type of business must deal with? How do you overcome these ethical?
4. How much is the payment for your job and do you have any other activities you do involve yourself apart from this job? And how much do you spend for a day?
5. Did your company involve in ICBT? If yes what are the reason behind in its participation on ICBT?
6. What are the positive and negative impact that you can see associated with ICBT and its contribution towards Tanzania economy?
7. In your opinion, to what extent do established EAC common market helped in reducing growth number of informal trade and facilitate the growth of formal trade?



**APPENDIX D**

**IN - DEPTH INTERVIEW QUESTIONS FOR TRANSPORTERS  
CARRYING GOODS FOR CROSSING THE BORDER.**



**APPENDIX D: IN - DEPTH INTERVIEW QUESTIONS FOR TRANSPORTERS CARRYING GOODS FOR CROSSING THE BORDER.**

1. What's the name of the company you're working with? How long have you worked with this company?
2. Do this job have any other benefit you get apart from normal salary and travelling incentives?
3. How many number of trips on ICBT per week compared to formal trade trip?
4. OSBP has been established with the aim of reducing long que at the border area and number of hours travel can spend at the border, do you agree with this? If yes in what ways does this help?
5. The one of the main aim of establishing EAC common market was to strengthen trade among each other in the region by allowing free movement of people. In your opinion does you see this work especially in entrance permit (Visa)?
6. How many number of check point you must pass from country of origin to country of destination by comparing before and after established EAC community?

**APPENDIX E**

**SEMI-STRUCTURED INTERVIEW QUESTIONS FOR PUBLIC  
OFFICIALS AT BORDER AREA & AT THE MINISTRY OF  
INDUSTRY TRADE AND INVESTMENT**



**APPENDIX E: SEMI-STRUCTURED INTERVIEW QUESTIONS  
FOR PUBLIC OFFICIALS AT BORDER AREA & AT THE  
MINISTRY OF INDUSTRY TRADE AND INVESTMENT**

1. Can you please briefly explain about your job in this office you're working with?
2. How long have you been employed in this position? Which are major problem you do face in this job? In what capacity level you can make decision at the problems you face?
3. Can you in briefly explain your working place atmosphere regarding your working colleagues especially in handling problems?
4. How long can one stay in this position before being shifted to another position or sector?
5. For an employee to be fit in this position, you think which ethics he/she must possess?
6. From experience you have in this position in your own words explain what are the positive and negative impact that you can see associated with ICBT and its contribution towards Tanzania economy?
7. Explain how the establishment of EAC Common market has influenced competition in the CBT business environment?
8. The main aim of establishing EAC common market was to strengthen trade among each other by allowing there is right and freedom of movement on people, goods, services etc from and to one country to another. Then why do you think still their rapid growth in the number of ICBT within the region?
9. The one of the main aim of establishing EAC common market was to strengthen trade among each other in the region by allowing free movement of people. In your opinion does you see this work especially in entrance permit (Visa)?
10. Any words of warning or suggestion regarding the issue of ICBT to traders or even government?

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