Gender and Trade

Gender Dimensions of Small-Scale Cross-Border Trade in Cambodia and the Lao People’s Democratic Republic

A Policy Note from the East Asia and Pacific Umbrella Facility for Gender Equality

The findings presented here, from a World Bank study led by the Trade and Competitiveness Practice of the World Bank, fill the gap in our knowledge about the patterns of small-scale cross-border trade in Cambodia and Lao PDR and those engaged in it. This knowledge will help inform future investments in trade integration and identify how interventions might be adjusted to ensure that vulnerable border users are able to realize the benefits of trade modernization.

Given the lack of data on small-scale cross-border trade and traders, an innovative mix of survey strategies was implemented in Poipet and Bavet, Cambodia (on the borders with Thailand and Vietnam, respectively), and in Vangtao, Lao PDR (bordering Thailand). The three border crossings were chosen based on field observations and qualitative interviews in the vicinity of more than ten different border checkpoints. Selection criteria included trade volume, diversity and representativeness of trade patterns, and the active involvement of Lao and Cambodian citizens. Cambodia and Lao PDR were selected because they are the poorest of the four countries.

Qualitative data from field observations, stakeholder interviews, and focus group discussions were combined with quantitative measures (sampling frames listing small-scale cross-border trade transactions and in-depth interviews) to provide a clear and accurate picture of small-scale cross-border trade and its practitioners.
Understanding Small-Scale Cross-Border Trade

Small-scale cross-border trade can be defined in the Cambodian and Lao contexts as trade in goods conducted by traders and brokers across an international border in man-powered vehicles or vehicles with fewer than four wheels. Such trade is overwhelmingly informal, in the sense that traders and brokers are not registered and pay no income taxes, although they usually pay export or import taxes. Small-scale traders benefit from partial or total exemption from duty because of the low value of their shipments, but actual fees vary widely because some border authorities collect taxes and fees beyond their mandate. Moreover, because traders are seldom aware of the applicable rates, they tend to perceive taxes and duties as being arbitrarily determined by border authorities and negotiated on a case-by-case basis.

Further confusion is introduced by the fact that different goods are subject to different tax rates—and most traders transport a variety of goods. For instance, it is common for traders to ship both vegetables and manufactured snacks, which are taxed differently. Female traders are more likely to trade in perishable foods, such as vegetables and fresh fish or meat.

Small-scale cross-border trade is highly asymmetric in the Mekong subregion, with most goods being imported into Lao PDR and Cambodia. A large share of small-scale trade—in excess of 70 percent around smaller checkpoints such as Bavet and Vangtao—is sold directly to final consumers, mostly in the traders’ own villages.

There are various roles and arrangements in small-scale cross-border trade in the Mekong subregion: traders working on their own account (“own-account traders”), brokers, absentee traders, and transporters. Only own-account traders and brokers deal with border authorities. Whereas traders purchase, transport, and sell goods themselves, thus bearing market risks related to unanticipated changes in prices, brokers are hired by absentee traders and do not own the goods they clear across the border. Nor are they responsible for purchasing or selling them.

Women are significantly underrepresented among brokers. Whereas approximately 79 percent of women in the population of interest are own-account traders, compared with 56 percent for their male counterparts (figure 1), they make up only 25 percent of crossings carried out by brokers, as against 50 percent of crossings by own-account traders.
Gender Dimensions of Small-Scale Cross-Border Trade in Cambodia and the Lao People’s Democratic Republic

Using nationally representative datasets (Kingdom of Cambodia 2014; Lao PDR 2010), it appears that women are underrepresented in small-scale cross-border trade compared with similar self-employed jobs, which is indicative of specific constraints affecting women when it comes to crossing a border for trade. But the share of women in small-scale cross-border trade is lower than among comparable occupations (own-account and self-employed workers) in the country as a whole (figure 2). We find that 60 percent of crossings are performed by female traders or brokers in Vangtao, as against 37 percent in Bavet and 29 percent in Poipet, whereas 68 percent of the population of traders is female in Vangtao, with 41 percent in Bavet and 32 percent in Poipet. The gap between women’s share of crossings and their share in the trading population is an indication of a lower crossing frequency among female traders and brokers, which reflects tighter time constraints for female traders, as highlighted in the literature (World Bank 2012b, 2012c).

The Challenges That Traders Face

More than 80 percent of men and 90 percent of women finance their trade primarily from personal savings. The second most common source of startup capital, particularly for men, is a loan from relatives. Less common sources are relatives’ savings, loans (from banks, money lenders, neighbors, or friends), grants or low-interest loans from nongovernmental organizations, and credits from suppliers. Women who need to knock on more doors than men to

Figure 2.
The share of women in small-scale cross-border trade is lower than in comparable occupations

SSCBT = small-scale cross-border trade; CSES = Cambodia Socio-Economic Survey (Kingdom of Cambodia 2014); LFS = Labor Force Survey (Lao PDR 2010).
mobilize the same amount of startup capital. A similar picture emerges when one considers operating capital.

Time is a crucial determinant of women’s relative underrepresentation in small-scale cross-border trade. Women are disproportionately affected by delays caused by poor transportation infrastructure in and around checkpoints, because such delays conflict with their roles as homemakers. Time endowment is proxied in figure 3 by the total distance traveled by a trader or broker in her activity. Regression results show that being a trader is positively correlated with the total distance traveled. (The intuition behind this is that most brokers take possession of goods for the purpose of dealing with border authorities; they generally do not transport the goods or deal with the end consumer.) But distance enters the equation negatively when paired with the female variable. This is consistent with the idea from the literature that time endowment—and thus distance and transportation—are more of a concern for female entrepreneurs than for their male counterparts.

Small-scale cross-border traders and brokers voice concerns about narrow roads that cause traffic jams and delays, about the lack of public transportation and parking lots, and about restrictions on the types of vehicles allowed across the border with goods. Time-constrained women cope with these issues either by hiring transporters, which eats into their business margins, or by marketing smaller quantities, which limits their profit potential. On average and per crossing, female traders pay more than double what male traders pay in transportation costs (figure 4).
Small-Scale Cross-Border Trade as an Income Opportunity for Women

Despite gender-specific constraints, small-scale cross-border trade is worthwhile for women as an avenue for income generation and empowerment. That this is so is demonstrated by comparisons with women’s socioeconomic status in similar jobs and by income distributions. Both factors—the constraints and the benefits—argue for enhanced inclusiveness and gender-awareness in trade-facilitation projects. Indeed, to the extent that some degree of income inequality in small-scale cross-border trade signals a potential for upward mobility, it reinforces the value of such trade as an option for women. The income inequality can be inferred from the gap between mean and median incomes, in particular for women (figure 5). The coefficient of variation of income from small-scale cross-border trade is twice as large for women as for men in Bavet.

Figure 4.
Female traders spend more per crossing on transportation costs

Note: Traders only. Whiskers represent 95 percent confidence intervals.

Small-Scale Cross-Border Trade Income Varies Widely by Checkpoint and Gender

Figure 5.

Note: The figure presents per capita income from small-scale cross-border trade in U.S. dollars corrected for purchasing power parity (using 2011 data from the World Bank’s World Development Indicators; the reference category is Cambodia). SSCBT = small-scale cross-border trade.
Gender Differentials in Taxes and Fees

Unfortunately, the tax realities discussed in the remainder of this section discourage women from entering small-scale cross-border trade and prevent them from prospering in that industry. Alleviating such constraints matters: Profit from small-scale cross-border trade, and thus the welfare of all traders and brokers, depends directly on interactions with border agencies. Trading households rely on those profits to make ends meet. This is especially true of households headed by female traders (figure 6).

Women are charged higher tax rates than men. This holds true whether we look at tax payments as a share of the total value of the goods traded or of the total profit and whether we focus on averages and medians or on the whole distribution. The difference is particularly striking when one considers taxes as a share of total gross profits (figure 7). A corollary of this finding is that women are less successful than men in negotiating taxes and fees (figure 8). Women’s weaker bargaining position means that they are less able to resist discretionary taxation, including by border agencies that have no official authority to collect taxes.

Women involved in small-scale cross-border trade are 73 percent more likely to be exempt from taxes than their male counterparts. But this preferential treatment turns out to apply only to female brokers. And it is statistically indistinguishable from zero for female traders because female traders are 79 percent more likely to pay tax than male traders. Such a nonlinear tax schedule—positive discrimination in favor of female brokers and negative discrimination against women when they trade on their own account—creates a “tax wedge” that dissuades female brokers from extending into trading and deters women from entering small-scale cross-border trade. The tax wedge is a combination of the preferential treatment afforded by border agencies to female brokers and discrimination against female traders.

Figure 6.
Trading households headed by women derive more of their income from small-scale cross-border trade than do trading households headed by men

SSCBT = small-scale cross-border trade.
Gender Dimensions of Small-Scale Cross-Border Trade in Cambodia and the Lao People's Democratic Republic

Figure 7.
Female traders face higher tax rates than their male counterparts

Figure 8.
Female traders are less likely to report negotiable taxes and fees

Note: Whiskers represent 95 percent confidence intervals.
Figure 9.
Female brokers are likely to benefit from tax exemption, but not female traders

Note: The figure displays coefficients from an OLS regression. Country and checkpoints are controlled for. Whiskers represent 95 percent confidence intervals. “Total purchase value” is standardized by checkpoint.

Policy Recommendations

Governments could disseminate regular procedures for small-scale cross-border traders and apply them consistently. Small-scale trade tends to be informal and therefore vulnerable to the ad hoc actions of border officials. In cases where irregular treatment becomes predatory (as when bribes are demanded, for example), the cost of business for small-scale traders goes up. High business costs have a direct impact on traders’ family incomes. Female traders who provide the main source of income for their household feel a particularly heavy welfare effect. In cases where irregular treatment takes the form of harassment, small-scale traders may be physically intimidated, subjected to various forms of assault, or have their goods confiscated. A clearly disseminated set of procedures for border officials to apply in their dealings with small-scale traders would produce positive results for household incomes by reducing the costs incurred through irregular treatment and harassment.

A charter for cross-border trade that defined mutual rights and responsibilities and promotes essential rules and principles would improve clarity and transparency in the administration of border procedures for small-scale traders. Similar to the idea of the lists of passengers’ rights and responsibilities displayed at many airports worldwide, such a charter would enshrine a basic set of rights and obligations for traders and officials. It would do so using a mirror approach: each right of the former would correspond to an obligation of the latter, and vice versa.

As such, a charter for cross-border trade would help to improve the balance of power dynamics at the border, improve the consistency of applied regulation, and provide an
independent framework for appeals and the handling of complaints. The exact contents of such a charter would have to be discussed with all stakeholders: authorities on both sides of the border, small-scale cross-border traders and brokers, and transporters.

With support from the World Bank, a similar initiative is being piloted by the governments of Malawi and Zambia, where the use of electronic “happy or not” feedback systems provide real-time monitoring of trader satisfaction with regulatory processes at the border. Early results suggest that the charter is having a positive impact on the experiences of small-scale traders, most of whom are women.

The success of such a charter would depend on a well-functioning legal framework for cross-border trade. Small-scale traders in developing countries often operate in a legally ambiguous context that makes them vulnerable to sudden shifts in de jure and de facto rules and practices applied at the border. This is an additional source of vulnerability for small-scale traders, a large proportion of whom are women with limited alternative sources of income and livelihood.

A key step forward would be to formalize the legal basis for small-scale trade. This could include the introduction of a simplified trade regime where all transactions under a given threshold value were allowed to cross with minimal regulatory process and cost (at a flat, fixed notional fee, for example). The aim would be to reduce the transaction costs of administering small-scale cross-border trade for both traders and administrative officials, as well as officials’ discretionary power, while maintaining broad government oversight of what is being imported and exported.

A shift to a simplified but still formal process could result in unintentional changes in power at the border and so would have to be undertaken with caution. The misapplication of a formalized regime could simply lead to trade being diverted into alternative channels, at a heavy cost to both traders and government.

Acknowledgments

The research on which this note is based was prepared by the Trade and Competitiveness Global Practice of the World Bank. It was funded by the East Asia and Pacific Umbrella Facility for Gender Equality (EAP UFGE), a multi-donor trust fund managed by the Social Development Team in East Asia and Pacific. The research was led by Julian Latimer Clarke, Senior Economist, and Richard Record, Senior Economist, with support from Marlon Seror, consultant, and under the overall guidance of Mona Haddad, Practice Manager, Trade and Competitiveness Global Practice.

The task team prepared this note in collaboration with Helle Buchhave, Senior Social Development Specialist, and Kamakshi Perera Mubarak, Social Development Specialist (Young Professional), both in the Social, Urban, Rural, and Resilience Global Practice.
Gender Dimensions of Small-Scale Cross-Border Trade in Cambodia and the Lao People’s Democratic Republic

References


