

Chapter 21

Cross-Border Trade

Cross-Border Trade

- Extent of Bilateral Trade
- Formal Bilateral Trade
- Facilitating Bilateral Trade
- Cross-Border Retail
- Cross-Border Workers
- Electronic Cross-Border Trade

Cross-Border Trade

There is extensive bilateral trade between businesses located in countries that share a border. Cross-border trade refers to the small-scale international trade between consumers located in one country and businesses in a neighboring country:

- Households in one country purchasing from retail businesses in another
- People working in one country but living in another
- Electronic commerce that takes place on the internet, between a seller in one country and a consumer in another

Cross-border trade is not recorded formally in government databases, because the transactions are small and do not require a formal export data entry or a formal customs filing.

Extent of Bilateral Trade

For many countries, their largest trading partners are the countries with which they share a border.

Even for the largest exporters in the world, their neighbors account for a substantial portion of their trade.

Principal Trading Partners

Country	Percentage of Total Exports		Percentage of Total Imports	
United States	Canada	18.3 %	Mexico	13.4 %
	Mexico	15.7 %	Canada	12.8 %
	Both neighbors	34.0 %	Both neighbors	26.2 %
Canada	United States	76.4 %	United States	51.5 %
Mexico	United States	79.9 %	United States	46.4 %
	All 3 neighbors	80.4 %	All 3 neighbors	46.6 %

Percentage of all exports and imports with neighboring countries (North America).

Sources: CIA's *World Factbook* and UN's *Comtrade Database*

Principal Trading Partners

Country	Percentage of Total Exports		Percentage of Total Imports	
Germany	France	8.2 %	The Netherlands	13.4 %
	The Netherlands	6.7 %	France	6.6 %
	All 9 neighbors	36.8 %	All 9 neighbors	37.2 %
France	Germany	14.8 %	Germany	18.5 %
	Spain	7.7 %	Belgium	10.2 %
	All 8 neighbors	40.9 %	All 8 neighbors	39.7 %
Ireland	United Kingdom	13.4 %	United Kingdom	29.0 %
Switzerland	Germany	15.2 %	Germany	20.9 %
	France	5.7 %	Italy	7.6 %
	All 5 neighbors	29.4 %	All 5 neighbors	38.5 %

Percentage of all exports and imports with neighboring countries (Europe).

Sources: CIA's *World Factbook* and UN's *Comtrade Database*

Principal Trading Partners

Country	Percentage of Total Exports		Percentage of Total Imports	
China	Hong Kong	12.1 %	Vietnam	3.0 %
	Vietnam	3.4 %	Russia	2.8 %
	All 14 neighbors	22.8 %	All 14 neighbors	8.2 %
Vietnam	China	17.0 %	China	27.7 %
	Cambodia	1.6 %	Cambodia	0.4 %
	All 3 neighbors	22.8 %	All 3 neighbors	28.3 %

Percentage of all exports and imports with neighboring countries (Asia).

Sources: CIA's *World Factbook* and UN's *Comtrade Database*

Principal Trading Partners

Country	Percentage of Total Exports		Percentage of Total Imports	
Nigeria	Cameroon	0.6 %	Benin	0.1 %
	Niger	0.2 %	Cameroon	0.0 %
	All 5 neighbors	1.0 %	All 5 neighbors	0.2 %
Cote d'Ivoire	Burkina Faso	5.2 %	Ghana	0.9 %
	Mali	4.8 %	Burkina Faso	0.1 %
	All 5 neighbors	13.7 %	All 5 neighbors	1.1 %
South Africa	Botswana	4.3 %	Eswatini	1.3 %
	Namibia	3.8 %	Mozambique	1.1 %
	All 6 neighbors	16.9 %	All 6 neighbors	4.5 %

Percentage of all exports and imports with neighboring countries (Africa).

Sources: CIA's *World Factbook* and UN's *Comtrade Database*

Bilateral Trade

Bilateral trade takes two forms:

- Formally recorded through export documents and import procedures, and is no different than trade with other countries. It is simply between two countries that are geographic neighbors.
- Not formally recorded because the transactions are below a certain threshold amount, below which an import does not need a formal customs entry.

Formal Bilateral Trade (I)

Formal bilateral trade is facilitated by several factors:

- Currency simplification
 - Some countries share a currency (euro or CFA franc)
 - It is easier for businesses to obtain currency from a neighboring country if buying and selling there is common
 - Familiarity with the currency makes it easier to trade
- Commercial risk reduction
 - (The perception of) non-payment risks are reduced when sellers and buyers can meet each other. They possibly share the same language and culture.

Formal Bilateral Trade (II)

- Transportation simplification
 - Trucking companies usually serve customers in a neighboring country
 - Shipping costs are lower
 - Packaging can be the same as domestic shipments
 - Lead times are reduced
- Customs process familiarity
 - There are other businesses (banks, freight forwarders) with ample experience with the neighboring country that can provide assistance
 - There are often bilateral free-trade agreements

Informal Bilateral Trade

There is much bilateral trade that is not formally recorded by the exporting country or the importing country because the transactions are too small.

This trade is due to three sources:

- Retail sales to people who live in the neighboring country
- Workers who commute from a neighboring country
- Electronic sales done internationally from person to person

In balance-of-trade data, the amounts linked to these transactions are estimated rather than recorded.

Informal Bilateral Trade - Retail

Retail sales are generated by two groups of people:

- International tourists whose country of residence is different from the country visited and spend at least one night in a hotel (or other accommodation)
- International excursionists who are same-day visitors who live near the border

The value of this international trade is estimated through multiple means, such as the number of nights spent abroad, the number of car crossings, and other substitutes, but it is not known accurately. Since there is no standardization of data collection, data cannot be compared, either.

Informal Bilateral Trade - Retail

Tourists and excursionists make purchases abroad because of:

- Price differentials

There can be lower prices because of taxation, price controls, market conditions, or favorable exchange rates.

- Product availability

There are some countries where some products are abundant (more choices); other countries have different legislations and some products are legal there, and illegal in the tourist's country of origin.



Andorra is a popular destination for excursionists from France and Spain, because its VAT is 4.5 percent (rather than 20 and 21 percent, respectively).

Source: Iakov Filimonov



Tijuana, Mexico, has pharmacies designed to sell to Americans, who can benefit from lower drug prices, for both prescription and non-prescription medicines.

Source: Deman



Taxation of gasoline is much lower in Nigeria than it is in Cameroon or Benin. Entrepreneurs purchase gas in Nigeria and resell it in their home country.

Source: Lukasz Semeniuk



UK excursionists (yellow license plates) in Dundalk, Ireland. Favorable exchange rates made purchases attractive.

Source: Mick Harper



An Italian supermarket with very affordable wines. The abundance of competition increases choice and reduces prices, enticing purchases by foreigners.

Source: Cenzo

Informal Bilateral Trade - Work

There are numerous people who live in one country and work in another.

- Commuters

These workers cross the border daily.

- Guest workers

These workers reside in the country in which they work but send money to their family in their country of origin.

In both cases, funds earned in one country are spent in another, and are considered imports by the host country.

Commuting Workers

The reasons for commuting to work in a different country include:

- A cost-of-living differential favoring the home country

The cost of living in Geneva, Switzerland is very high, and people can live in France for much less. The same is true for Luxembourg, and people live in France, Germany, or Belgium.

- A cultural preference

Rather than impose an international move to their children (and an unfamiliar school system), the workers commute.

Cost of Living Comparisons

Average value (2020 Data)	Luxembourg, Luxembourg	Metz, France	Arlon, Belgium	Trier, Germany
Revenues				
After-tax Monthly Salary	€ 3,600.00	€ 2,200.00	€ 2,500.00	€ 2,500.00
Expenses				
Monthly Rent (1 BR)	€ 1,550.00	€ 500.00	€ 650.00	€ 980.00
Monthly Utilities	€ 235.00	€ 130.00	€ 200.00	€ 190.00
Monthly Internet Access	€ 48.00	€ 25.00	€ 48.00	€ 42.00
Pair of Jeans (Levi's 501)	€ 90.00	€ 75.00	€ 93.00	€ 70.00
Milk (1 gallon)	€ 5.20	€ 3.50	€ 3.80	€ 2.90
Meal for 2 people, mid-range restaurant	€ 70.00	€ 50.00	€ 60.00	€ 48.00

Comparison of the cost of living in three cities less than 50 km from Luxembourg.

Source: Numbeo's *Cost of Living Data*



Singapore schools are very expensive (\$1,500 per month for non-Singaporean citizens), teach in English, and are very regimented. Malay workers choose to commute rather than enroll their children in a non-familiar environment.

Source: Diyben

Guest Workers

Guest workers reside in the country in which they work, for long periods, ranging from six months to three years. They are temporary residents, hired because the host country has a shortage of workers.

Guest workers leave their families in their home countries and send money to them. This flow of funds is officially recorded and called remittances.

Some make the host country their permanent residence, and their families join them. They eventually immigrate.

Remittances

Remittances in USD millions (2019)							
India	83,131	France	25,738	Vietnam	17,000	Russia	10,556
China	68,398	Nigeria	23,800	Ukraine	15,814	Italy	10,361
Mexico	38,520	Pakistan	22,507	Belgium	12,683	Spain	9,975
Philippines	35,167	Bangladesh	18,348	Indonesia	11,667	Nepal	8,128
Egypt	26,791	Germany	17,040	Guatemala	10,621	Lebanon	7,467

Top twenty countries in remittances received.

Source: World Bank

Remittances Impact

Remittances as a percentage of GDP (2019)							
Tonga	37.6 %	Nepal	27.3 %	Jamaica	16.4 %	The Gambia	15.5 %
Haiti	37.1 %	Montenegro	25.4 %	Moldova	16.3 %	Marshall Islands	14.3 %
S. Sudan	34.4 %	Honduras	22.0 %	West Bank	16.3 %	Georgia	14.2 %
Kyrgyzstan	29.2 %	Lesotho	21.3 %	Samoa	16.2 %	Zimbabwe	13.5 %
Tajikistan	28.2 %	El Salvador	21.0 %	Kosovo	15.6 %	Nicaragua	13.2 %

Top twenty countries in remittances received as a percentage of GDP.

Source: World Bank

Electronic Commerce

Most of electronic commerce is domestic. However, it is estimated that about 14 percent is international, involving a seller in one country and a buyer in another.

Electronic commerce is generally not formally recorded, as the amounts involved are small. Your textbook sells worldwide in electronic form, for example (for USD 30.00).

Electronic commerce is not limited to neighboring countries. It can involve countries that are far apart.

Electronic Commerce

Electronic commerce is supported by platforms that have made purchasing (and selling) goods internationally easy.

- Business-to-consumer platforms (B2C) such as Amazon, Expedia, Abebooks, and hundreds of others, allow businesses to sell products to consumers worldwide.
- Consumer-to-consumer platforms (C2C) such as Etsy, Airbnb, Shutterstock, allow consumers to sell to other consumers worldwide.
- Business-to-business platforms (B2B) such as Alibaba, have become common ways for companies to source suppliers. The transactions are often large enough, though, to be formally recorded.

Electronic Commerce

Electronic commerce is facilitated by two other factors:

- Small-packet companies deliver worldwide. The postal service is often the cheapest alternative, but FedEx, UPS, and DHL can ship far more quickly, sometimes in two to three days.
- Payment alternatives have simplified purchases. Credit-card networks, such as Visa and American Express, and dedicated C2C systems, such as Paypal, Venmo, and others, have made peer-to-peer payments easy to make.