Informal Economies in European and American Cross-border Regions

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ABSTRACT
Informality is often linked to borderlands in both academic scholarship and political debates. On one hand, border regions are known for the flow of goods, services and labor and, of course, borders represent state attempts to control or regulate these flows. At the same time, scholars of border politics often discuss the weakness of state administrations in border regions where authorities are far from central governments. Despite the clear relevance of informal sectors for borderlands studies, there is a dearth of analysis of this topic in border areas, especially in comparative terms. This article presents a comparative cross-regional study of informality in European (the Eurométropole and Bari, Italy–Durres, Albania) and continental American (San-Diego, USA–Tijuana, Mexico and Cúcuta, Colombia–San Cristóbal, Venezuela) cases. It responds to the following research questions: How can we compare informality in cross-border regions? How does informality relate to illegality in these regions? How can regional organizations respond to the social impacts of informality?

1. Introduction

Development processes are often synonymous with the generation of informal economies. However, the relationships between these two phenomena have puzzled and surprised scholars working on the subject over the last 30 years. Previously, scholarship on “informality” defined this sector as a natural outcome of traditional markets where industrialization had not yet occurred. Traditional economies were characterized by direct exchanges of goods and services amongst populations. Attention to this subject in the 1970s and 1980s by sociologists such as Manuel Castells, Alejandro Portes, Saskia Sassen, etc., however, clearly indicated that informal economies are a characteristic of advanced industrial states as well, especially in the United States where large informal sectors exist in geographic and market concentrations (Castells and Portes 1989; Portes and Sassen 1987). Following the publication of this scholarship, economists such as Schneider (2002), Marcouiller and Young (1995), etc. began investigating “informality” as a defining characteristic of “economic transition” and particular attention has been paid to the ways which “emerging states” and “emerging economies” (such as the so-called BRICS—Brazil, Russia, India,
China and South Africa) have benefited from large informal sectors. Moreover, political scientists, such as Chen have noted that informality generally results from weak or even dysfunctional state structures which cannot properly regulate economic markets.

Informality is often linked to borderlands in both academic scholarship and political debates. On one hand, border regions are known for the flow of goods, services and labor (Blatter 2001) and of course, borders represent state attempts to control or regulate these flows. At the same time, scholars of border politics often discuss the weakness of state administrations in border regions where authorities are far from central governments (Ramirez and Cadenas 2006). Other scholars of borderlands (Cornelius 2004) suggest that local governments follow policy incentives that are counterproductive to central governments’ attempts to control flows. For these reasons, this comparative article studies the nature of informal sectors on border communities in Europe, North America and South America.

The article responds to the following research questions: How can we compare informality in cross-border regions? How does informality relate to illegality in these regions? How can regional organizations respond to the social impacts of informality? The article is divided into four sections. Following this introduction, part two provides a theoretical discussion of informality (including a review of terminology and definitions of key terms) in literatures focusing on different world regions. It provides a conceptual framework for the study. Part three then examines the informal sectors in four cross-border regions in Europe (one internal European Union (EU) border region and one external EU border region), North America and South America. Finally, part four presents the theoretical conclusions.

2. Informal Economies and Development in Cross-border Regions

2.1. Literature Review

The informal economy usually conjures dark images as public debates often make reference to labels such as “hidden,” “occult,” “submerged,” “shadow” or “clandestine.” There is a general perception in these debates that the individuals involved are somehow active in some sort of illegal or harmful activity. While less judgmental in its style, the academic literature is equally unclear in its terminology, as the informal sector has been referred to as “subterranean” (Guttman 1977), “black market” (Dilnot and Morris 1981), and “shadow” (Cassel and Cichy 1986). Furthermore, the relationship between “informality” and “illegality” has been widely discussed in academic exchanges. Scholars such as Castells, Portes and Sassen have separated informal economies from illegal/criminal activities. More recently, scholarship on crime has demonstrated the fluid dimensions that sometimes link informality and illegality (Duprez, Leclerc-Olive, and Pinet 1996; Koff 2009), as many stakeholders seasonally pass from one dimension to another depending on their employment prospects in different moments. Finally, it is important to mention that many “informal” activities can be simultaneously combined with “illegal” ones. In a widely publicized case in Florence, Italy, Senegalese migrants were acquitted of selling “false” designer handbags on the streets of the city because the merchandise that they were selling was in fact authentic, although stolen (Koff 2008).

Thus, one must ask what is the informal economy? This term was coined in a 1973 study of Ghana’s urban labor market conducted by the International Labor Organization
In early studies, including this one, the concept was utilized to describe parallel markets existing in developing countries. Since that time, however, scholars have worked to refine and clarify this definition. The most commonly accepted definition was provided by Castells and Portes as “markets unregulated by the institutions of society in a legal and social environment in which similar activities are regulated” (Castells and Portes 1989, 14).

Scholars have not even been able to agree on how to conceptualize the informal sector. Some academics approach the informal economy as a sector of the global economy. Losby et al. (2002) explain how economists have divided economies into categories (see Table 1) including (1) “the primary sector” (well-paid, specialized positions), (2) “the secondary sector” (poorly-paid and poorly regulated low-skill employment), (3) “the informal sector” (unregulated labor) and (4) “the illegal sector.” While this classification is very useful, it does, however, falsify the relationships between the four categories because it presents them as rigidly distinct sectors.

Losby et al. also note that other scholars avoid classification based on market structures and instead they focus on the individual actors and exchanges within these systems. For example, they focus on whether workers are “off the books” completely or whether they do complementary work aimed at supplementing a family’s income. Are tax declarations falsified or are they disregarded completely? Are contracts involved at all?

Building on this approach, Martha Chen’s (2007) work clearly shows how these debates have evolved and how scholars and political institutions have broadened their definitions of “informal sectors.” According to Chen, common characteristics of these studies include cash as the medium of exchange and unreported tax or income. Parameters of study through which analyses are carried out include: legal versus illegal, significance and permanence, continuum of economic relations, and segmentation.

### 2.2. Theoretical Framework

The present article proposes a framework which is system-driven but which does not adopt the rigid classification presented by Cross and Johnson. It does consider the possible positions of actors in these systems (but not their individual behavior). The framework employed in this article adheres to the definition of informal economies described above by Castells and Portes. However, special emphasis is placed on the fluidity between formal, informal and illegal sectors. Figure one, which examines informal activities as the result of placement in a two-dimensional space, illustrates this approach. It is the extension of the author’s previous research on migrant participation in criminal markets in European cities (see Koff 2009). According to this previous study, migrant participation in criminal markets should not be viewed in terms of criminalization or victimization of migrant communities, but migrants should be seen as rational economic

| Primary sector | Secondary sector | Informal sector | Illegal sector |
|----------------|-----------------|----------------|---------------|
| High wage      | Low wage        | Self-employment| Criminal      |
| High security  | Low security    | Casual labor   | Unregulated   |
| Well regulated | Poorly regulated| Unregulated    |               |

Source: Losby et al. (2002, 102).
actors seeking to maximize their competitive advantage in labor markets by utilizing the resources at-hand, including social networks. At times, these networks can assist integration in formal markets, promote informality, or lead to criminal activities; sometimes migrants are simultaneously active in all three sectors. Also, the article classified criminal activity as “entrepreneurial,” “dependent work,” or “exclusion.” The first of these categories is defined by the exertion of power and autonomy in local criminal economies. The second category is characterized by a subjected but active role in local criminal economies and the third class reflects crime as a destructive response to socio-economic marginalization. Adopting this framework, this study juxtaposes in a two dimensional space the informal/illegal dimension with the primary/secondary dimensions identified by Losby et al. amongst others (see Figure 1). The informal/illegal axis indicates the degree

![Figure 1](image-url)
of criminality in specific informal markets. The primary/secondary axis indicates actors’ abilities to exert power in their economic activities (primary = power/autonomy whereas “secondary” = subjected position). This framework is important due to the dynamics that borderlands display in terms of the interconnection between informal and illegal activities.

2.3. Informality and Border Regions

Through the emergence of the “borderland” paradigm, authors such as Brunet-Jailly (2007), Agnew (2008) and Newman (2006) have emphasized the fact that border regions are characterized by a vitality that distinguishes them from other territories. Rich scholarship in this field emphasizes the positive impacts of cross-border cooperation (Scott 2007; McCall 2013), the need for cross-border environmental regulation (Maganda 2005), the emergence of cross-border identities (Bonilla et al. 1998), the important scope of cross-border economies (Perkmann and Sum 2002), and even the criminalization of border regions and state efforts to reinforce border security (Andreas 2000; Brunet-Jailly 2007).

Much of the literature on borderlands emphasizes social relationships in these different spheres. Despite this fact, very little research has been explicitly conducted on informal economies and their social impacts on border regions. This is impressive considering how often informality is mentioned as a characteristic of borderlands (Stryjakiewicz 1998) and how central “peripheries” are to the theorization of informality (see Peberdy and Rogerson 2000).

The literature on borderland informal economies focuses most prominently on cross-border regions in Africa. Most of the scholarship on West Africa, such as that produced by Olivier Walther (2009), focuses on cross-border informal economies as a mechanism for survival in territories abandoned by the state. Informal sectors emerge as an outcome of citizen mobilization in response to abuses by corrupt or inefficient governments. In fact, Donna Flynn (1997) contends that cross-border trade that began as a source of income has now become, more importantly, a source of identity in the region.

These sentiments are echoed in the literature on the Maputo corridor where scholars, such as MacGregor (1998) contend that informal cross-border exchange has been an essential part of Mozambique’s war economy. Whereas the government controlled regular markets in the capital, rebels created a sophisticated network of cross-border exchange which reinforced their social base. Moreover, fuel shortages in the capital led to violent predatory relationships in border areas where local populations had been displaced.

Finally, distinct attention to informality in Africa and the issue of “regulation” has emerged. Sally Peberdy (2000) contends that informal trade “implies a degree of illegality and non-regulation which are not always present.” In fact, Peberdy’s work specifically examines the linkages between formal and informal sectors and she questions South Africa’s regulatory framework as a proper policy response. Similarly, Njikam and Tchouassi (2011) conduct survey research on the participation of women in informal cross-border trade in three of Cameroon’s cross-border regions. They contend that this practice does encourage gendered violence, but at the same time it reinforces regional integration and the inclusion of women in decision-making processes, thus offering important reflections that are pertinent to regulation strategies.
The literature on informal economies in border regions in Europe, Asia and the Americas is much less developed. In part, this is due to the nature of border economies in these regions. In North America, many authors focus on the emergence of maquiladoras along the Mexico–United States borders (Kopinak 2004). While this scholarship recognizes the negative social impacts of these economic transformations on border communities, maquiladoras are part of the formal economy. Similarly, other authors (such as Andreas 2000) studying border economies focus specifically on illegal trade. While this phenomenon is growing in both North and South America, criminal economies, as noted above, are only a part of the informal sector. Also, due to their hurtful and exploitative nature, they cannot be considered synonyms for informality. The most complete study of informal economies at the US–Mexico border was written by Kathleen Staudt (1998) whose book examines the Ciudad Juarez and El Paso border case. Staudt contends that local residents generate income and housing through informal activities but that US and Mexican border policies inhibit the utilization of informal cross-border cooperation for mobilization or the establishment of political communities. Similarly, the literature on informal economies in cross-border regions in South America often view informal cross-border cooperation as a potential building-block for regional integration and development (see Ramirez and Cadenas forthcoming).

This point is also present in the literature on informal economies in Europe’s borderlands. This literature generally focuses on the European Union’s Eastern and Southern borders. While the scholarship on Europe’s South focuses mostly on trafficking and illegal activities (Alscher 2005) the literature on the East addresses both trafficking and the interaction between informal cross-border economies and European enlargement (see Krätke 2002; Bruns et al. 2013). These latter works in many ways mirror the African literature cited above that discusses daily cross-border informal activities as survival strategies in relation to over-regulation and inefficient/corrupt governments. It is a shame that very limited studies have been conducted within the context of European regional integration as this could help identify governance mechanisms that affect the expansion or reduction of the prominence of informal sectors. Koff and Naranjo Giraldo (2014) compare local and national government responses to informality within the framework of population movements and human security in the Bari (Italy)–Durres (Albania) and Melilla (Spain)–Nador (Morocco) border areas. This comparative study illustrates how over-regulation of population flows and repression of cross-border exchanges actually promotes informality (the case of Melilla–Nador). Conversely, the article contends through the analysis of Bari–Durres that the promotion of cross-border exchanges by local stakeholders can lead to the promotion of formalized border integration processes.

Finally, the literature on cross-border informal economies in Asia is the least developed scholarship on this phenomenon. Tina Harris (2013) examined the emergence of cross-border trade in the Himalayas through an analysis of the tension that has emerged between large-scale economic shifts and small-scale economic practices in local cross-border communities. Grundy-Warr, Peachey and Perry (1999) have contributed an interesting study on the “growth triangle” encompassing the Singapore–Indonesian border zone and how it has encouraged fragmented development. The article examines the social impacts of development in these communities which have led to high-tech poles on one hand, and squatters and transit migration on the other.
This review of the literature has shown that (1) there is a dearth of comparative frameworks in the studies on informal economies in cross-border areas, despite their importance to development in many of these regions, (2) the literature on this phenomenon mostly focuses on local case studies, and (3) regional contexts provide a framework that limits the examination of local causal factors because the emergence of informality is generally linked to regional development models. This last point is a fundamentally limiting factor in the generation of theory surrounding cross-border informality. The aforementioned comparative border study of informality within Europe by Koff and Naranjo Giraldo (2014) demonstrates that important differences exist between cross-border informal sectors within Europe. Similarly, comparisons of cross-border development within the Andean Community of Nations illustrate the differences between cross-border cases in that part of the world as well (see Ardila Calderón and Marcela Ceballos (forthcoming) in this thematic section, and Ramirez and Cadenas 2006). This article and the present thematic section in general aim to address these three weaknesses of the literature. The article contends that informal markets (and labor markets in general), especially in cross-border contexts, need to be examined in terms of their local complexities which do not necessarily reflect regional development models. On one hand, qualitative border studies do capture the complexity of informal sectors by describing why people “choose” to participate in these sectors and how their lives are affected by the conditions associated with informality. However, these studies are generally limited by the lack of an empirical framework that can be utilized to guide comparison. Almost no quantitative studies of informal sectors in cross-border regions exist because data is not available. Moreover, most quantitative studies of informality, such as those introduced above, classify economic sectors in ways that do not capture the fluidity of the phenomenon, especially in cross-border regions.

This article attempts to compare informality by modeling qualitative information on four different cross-border communities in three world regions. The originality of the article lies with the comparative cross-regional research design that it utilizes. Obviously, because a comparative research design is employed, theory-building is prioritized over the explanation of specific cases. The following section presents empirical considerations on informality in cross-border regions in Europe, North America and South America.

3. The Nature of Informality in Border Regions: A Comparative Perspective

3.1. Research Design

This article examines informality in four cross-border regions: (1) the Eurométropole (internal EU border), (2) Bari, Italy and Durres, Albania (external EU border), (3) San Diego, USA and Tijuana, Mexico (North American Free Trade Agreement), and (4) Cúcuta, Colombia–San Cristóbal, Venezuela (Andean Community). These cases were chosen for reasons related to research design. By studying borders in three different regional organizations, this study can vary the different types of integration that exist and observe the impacts on local border communities, especially informal sectors. European integration is characterized by institutional frameworks and policy networks. North American integration follows a market-based approach to region-building based on deregulation. South American integration formally implements a model based on the
European context but the weakness of regional institutions combines political region-building with the deregulation that characterizes North America. Should regional integration determine the extension and character of informality, then clear convergence of the European cases and distinct regional models amongst the North American and South American cases should emerge.

In terms of local characteristics, all of these cases are growing metropolitan areas that can attribute recent economic growth, in part, to cross-border integration. Also, the political relationships that link these cross-border cities are stronger than their political ties with their own capitals. Third, each of these communities is characterized by historical cross-border relationships which have provided the foundation for socio-economic and civil society interaction between populations within each case. Finally, flows of goods, services and labor are found in each of these cases and informality is present in all of them as well.

In terms of the types of “integration” found in the study, the cases diverge significantly. The Eurométropole represents a model of institutionalized integration as the local leaders of socialist parties in the participating cities in France and Belgium (especially Lille) carried out a strategy of political and economic “Europeanization” that was funded by the European Union through official initiatives. Conversely, Bari–Durres represents a case of integration by civil society–local government partnerships. Following the collapse of Communism in Albania and the disintegration of the Christian Democratic regime in Italy during the tangentopoli corruption scandals, local business leaders, NGOs and a new generation of local politicians collaborated on integration processes which were then institutionalized by bi-national agreements and EU funding.

The “American cases” (in the continental sense) are less institutionalized by nature because deregulation has been the basis of regional integration in these continents. San Diego–Tijuana offer a model of market-based integration where economic aspects are the driving factors. Cúcuta–San Cristóbal also demonstrate market-driven integration but the effects are mitigated by strong cross-border civil society cooperation which is the defining characteristic of this case.

3.2. Methods

This article is part of the University of Luxembourg funded HUMENITY (Human and Environmental Security in Border Regions: Cross-Regional Perspectives) research project. Research was conducted at the University of Luxembourg, Università di Bari, the Universidad de Antioquia, CLERSE, Université de Lille III and the University of California, San Diego. Because statistics on “informal/illegal markets” are almost impossible to find at the local, cross-border level, the article is based on qualitative research. In addition to secondary sources, primary sources such as newspaper articles, government documents, policy briefs, reports from non-governmental organizations and chambers of commerce as well as economic data were consulted. Interviews with political and economic stakeholders in local cases were also conducted.

3.3. Examining Informality in the Four Cases: Empirical Evidence

The literature review above has demonstrated that there are different approaches to the study of informality. The first question addressed in this article asks: How can we
compare informality in cross-border regions? As stated above, all four cases included in this study are characterized by informal economies. Should the hypotheses which have traditionally been forwarded in the literature on informal economies be applied to these cases, one would expect the highest informality in Cúcuta–San Cristobal and Bari–Durres due to lower levels of economic development and the “less official” nature of integration in these cases. The literature on informality and borders (Staudt 1998) has already indicated that these assumptions should not necessarily be true. The present situations in these cities confirm this finding.

As stated above, informality exists in all stages of development. The pertinent question asks: what form does it take? In the current literature on the subject, informality is often analyzed by segmentation and extent (see Chen 2007). This article adopts this framework as illustrated in Table 2, and contends that this approach provides an interesting basis for comparative empirical research on cross-border regions. Utilizing this framework, Table 2 illustrates the distinctions between the four cases included in this study. Whereas Bari–Durres and Cúcuta–San Cristobal have traditionally been characterized by systemic informality, the Eurométropole and San Diego–Tijuana have traditionally witnessed greater concentrations of informality.

In the Eurométropole, there are two types of informal businesses. First, the service sector (hotels, restaurants, etc.) and construction firms informally hire employees, especially migrants. Second, residents of the so-called banlieus or quartiers sensibles, the poor neighborhoods that lie at the outskirts of the region’s main cities, often start informal businesses (restaurants, vendors, etc.) in order to substitute the opportunities that regular labor markets lack (unemployment generally hovers around 30% overall and around 50% for young people). The coincidence of sector-specific informality and geographically concentrated informality has essentially established parallel societies and exclusion which has led to increased criminal activities, especially drug trafficking (Duprez, Leclerc-Olive, and Pinet 1996). In this case, cross-border economic development has promoted formal markets and institutionalized political exchanges. Local informal activities represent an alternative to those people excluded from cross-border integration processes as evidenced by its sector-specific and neighborhood-specific nature.

Similarly, informality in San Diego–Tijuana is relatively specific to targeted economic sectors. A study by James Gerber (2000) indicates that informal labor in San Diego and the adjacent Imperial Valley is concentrated in agriculture and tourism (hotels, bars, restaurants, etc.). In Tijuana and Mexicali, informality can be found in the same sectors but also in micro-industries, such as unlicensed street vendors and repair shops. Obviously, what Dan Sabet (2013) has called the “border bottleneck” has created numerous employment opportunities in both the US and Mexico in drug and human smuggling/trafficking.

However, unlike the Eurométropole, informality is not concentrated in one specific or a few particular geographical locations. Studies of the region have shown that informality is widespread and there are even informal sectors that cross the border. In San Diego,

| Informal economies by degrees of geographic and sector specificity. |
|---------------------------------------------------------------|
| Informality concentrated in specific sectors | Systemic informality |
| Informality concentrated in specific geographic areas | Eurométropole | Bari–Durres |
| Informality distributed widely throughout region | San Diego–Tijuana | Cúcuta–San Cristobal |

Source: Created by author.
wealthy neighborhoods are characterized by informal labor because families hire child minders, gardeners, domestic servants, etc. Informality also exists in construction and the service industries, just like the other case cities. Finally, the agricultural sectors in Imperial Valley and Mexicali are actually related in terms of labor so informal cross-border markets exist. In Tijuana, James Gerber (2000) estimates that informality is about 10% less than the national average due to the presence of the maquiladora industry. Nonetheless, he estimates that informal jobs represent 25–40% of local employment. This signifies a broad geographic presence throughout the city. Thus, unlike the Eurométropole, cross-border integration seems to promote informality as indicated by the breadth of its geographic extension.

The biggest difference between San Diego–Tijuana and both Bari–Durres and Cúcuta–San Cristóbal is that informality remains in the labor market as most businesses are registered with authorities and declare and pay some taxes. As stated above, informal markets have traditionally been larger and more general in character in Bari–Durres and Cúcuta–San Cristóbal. In the former, more than 30% of businesses were unregistered in 2002 and tax evasion has been rampant. In part, this occurred because the local economies were dominated by small businesses. In both Bari and Durres, more than 80% of all companies employed less than five people. Many of these enterprises are active in the textile industry or related sectors (Koff 2008).

Moreover, both cities have been characterized by traditional family economies where all members of the family work periodically in order to guarantee sufficient income for survival. According to Giandomenico Amendola:

Its [the family’s] flexibility has acted as a buffer during periods of economic crisis ... in that this labor, which outperforms the urban and less reusable workforce, was easily displaced, without a heavy impact on either the local system of production or, above all, the political system. (Amendola 1985, 12)

Thus, informality is not just part of a predominant local economic model, but it characterizes a local social system as well.

The situation in Durres is even more pronounced due to the widespread corruption that occurred in the post-Communism period and the weakness of Albania’s unreliable tax collection system in the 1990s and early 2000s. Consequently, both Bari and Durres have been characterized by extensive informal economies that permeate their territories.

While informality is widespread in this case, geographic concentrations exist. In general, informal economies are well-developed in the Provinces of Bari and Durres (the cities are capitals of the provinces with the same name) outside the cities where agricultural activities and textile factories are mainstays of local economies. Moreover, local scholars have noted that the traditional family labor model mentioned above are more deeply embedded in towns located at the peripheries of these cities than in the cities themselves. In part this is due to the structure of local markets because both Bari and Durres are port cities with regulated labor in the urban areas that lead to employment barriers. In both regions, but especially in Durres, informal settlements have emerged which are characterized by informal housing and work (Agenda Institute Report 2008). Consequently, while informality is a characteristic of the weakness of regulative organs in the region (as evidenced by the generalized nature of informality), it is not necessarily facilitated by cross-border integration.
Finally, informality is a defining characteristic of the Cúcuta–San Crístobal cross-border region. Like the other cases presented above, this area was once part of a single polity and there is still much civil society cooperation. However, since Venezuela left the Andean Community of Nations in 2006, it has periodically closed the border during political disputes with Colombia.

This has significantly affected the nature of cross-border commerce. In 2008, producers in Cúcuta sold 2.2 million pairs of shoes to Venezuela. In 2010 this number was reduced to only 147,000 “on the legal market” due to the closing of a highway following a toll dispute between the two countries. Moreover, the Venezuelan government (La Comisión de Administración de Divisas) suspended a payment of 1.5 billion dollars to Colombian shoe producers in Norte de Santander (the department in which Cúcuta is located). Similarly, the political tensions between Colombia and Venezuela led to a Venezuelan ban on agricultural imports from Colombia. Producers of sugar cane (and their employees) in Norte de Santander were significantly affected as only 25,000 tons of the 65,000 grown for export to Venezuela were actually sold (all figures come from Camera de Comercio de Cúcuta 2010).

These challenges give rise to significant informal commerce. At first, numerous observers noted the cross-border trade bringing trucks full of Colombian beef to Venezuela while Venezuelan trucks imported gasoline to Colombia for informal sale. Informal cross-border trade has since has become systemic with sales in leather goods, shoes, textiles, sugar cane and other agricultural products. Both Táchira (the department surrounding San Crístobal) and Norte de Santander rely heavily on informality in their local economies. According to studies conducted by the Cúcuta Chamber of Commerce, 66% of inhabitants in the metropolitan area work in the informal sector. The corresponding data for San Crístobal is not so different as more than 50% of workers are active in the informal sector and 52% of women work informally. In fact, academic studies on labor in the region (Caraballo 2007) show that labor patterns demonstrate similar characteristics on both sides of the border where more than 60% of workers are employed by companies with less than five employees. Moreover, 19% of this population are “workers or employees” while 27% are “self-employed.” This higher incidence of self-employment on small scales facilitates informal activities.

Caraballo also shows that social conditions are significantly affected by these employment situations. In Táchira, more than 65,000 homes (28% of all households) are below the poverty line, despite the area’s generally high score in terms of the Human Development Index. Similarly, social conditions in Cúcuta have become difficult. Approximately 27% of the total housing stock is considered to have “severe problems related to quality.” These issues have also affected the quantity of housing available in both border cities. In Cúcuta, 50% of families could not find housing in 1993. This has been reduced to 30% in 2000, which remains significantly high. Corresponding matching rates exist for Táchira. Similar trends related to insufficient public health services have been documented as well. Consequently, not only is informality a generalized characteristic of a region suffering from weak governance, but it is also promoted by the cross-border nature of economic activities and social ties. What explains these patterns in the four cross-border cases? This is the subject of the following sub-section.
3.4. Explaining Informality by Blurring the Concept

The previous sub-section examined the internal dynamics of informality, namely the geographic and sector distribution of informality in the case of cross-border regions and discussed the role of borders in these markets. However, this does not completely explain why informal sectors exist. In order to understand the nature of informality, how it impacts communities, and why it persists even in regions where there should be little incentive to engage in informal activities, this sub-section further examines informal sectors in terms of the contexts that surround them. In doing so, it responds to the second research question posed above: How does informality relate to illegality in cross-border regions?

Specifically, this sub-section analyzes the relationships between informal sectors, regular (formal) markets and criminality (illegality). The aforementioned article on local migrant crime (Koff 2009) on which this research is based, showed that the decision-making of migrants in regular and illegal markets was dictated by opportunity structures and supporting social networks. Consequently, migrants followed employment opportunities and made career decisions based on available resources that were embedded in local communities and social networks. They moved from legal to illegal markets and vice versa depending on how and when opportunities presented themselves. The article clearly illustrated that markets cannot be artificially separated but they are linked and there is fluid movement between them.

This framework can be utilized to explain informality in cross-border regions. Table 3 illustrates the implementation of this analysis. It examines the nature of the connections between informal markets and formal ones, and informal sectors and criminality.

These connections show how links between informal and the two alternative markets explain the nature of informality in the research cases. First, as stated above, the Eurométropole is characterized by geographic and sector specific informality that affects crime in marginalized areas. In fact, the informal sector and the criminal sector are not distinctly separated in the region. Drug trafficking has increased tremendously since the 1990s but no organized crime has developed beyond street gangs. Entrepreneurial crime in this area, such as drug trafficking, seems to be an extension of informality as it remains small-scale. Conversely, there are few connections between informal and legal labor markets which are cross-border in nature. This explains the isolation of marginalized neighborhoods, the lack of economic opportunities (especially for young people) and the resulting social difficulties that cause increased drug use in these areas.

In San Diego–Tijuana, the literature on informality has shown that there is a separation of informal sectors from criminal activity (see Sabet (forthcoming) in this thematic section, and Gerber 2000). This has occurred because the militarization of the US–Mexico border has increased entrance costs to local criminal markets. Human and drug smuggling/trafficking are now controlled by organized crime syndicates and thus by career criminals. Informality is dominated by migrants seeking economic opportunities

| Table 3. Informal sector relationships with criminal markets and formal economies. |
|-----------------------------------------------|
| Fluid connections with crime | Chronic disconnections with crime |
|-----------------------------------------------|
| Fluid connections with formality | Eurométropole | Bari–Durres |
| Chronic disconnections with formality | Cúcuta–San Cristobal | San Diego–Tijuana |

Source: Created by author.
without encountering the dangers involved in organized crime. Moreover, because much of the work in the informal sector is conducted by irregular migrants, employment in the formal economy is not an option either. Thus, informal work is the only option available to these actors. This puts them in susceptible positions as the nature of cross-border politics has facilitated the expansion of legal markets and crime but it has reduced opportunities in informal sectors.

In Bari–Durres, participants in the informal sector are less at-risk. Like the US–Mexico border, crime in this area is dominated by professional multi-national syndicates. Organized crime has been a distinct problem in both Southern Italy and Albania and international networks have been established for the trafficking of cigarettes, drugs, arms, and human beings. There is little space for individuals to enter the criminal economy because it has been so thoroughly professionalized. Similarly, formal activities are not the only option for local populations. As stated above, the traditional models of family labor have created fluid markets in which actors pass seasonally from formal to informal positions, sometimes holding jobs in both sectors simultaneously. Consequently, informality provides temporary or permanent economic opportunities to local populations in this case without necessarily promoting either cross-border exchanges or criminal activities.

Finally, the situation in Cúcuta–San Cristóbal demonstrates the widest range of relationships between regular markets, informality and crime. Because informality is so widespread geographically and sectorally, local citizens live in communities where the lines demarcating these sectors are truly blurred and there is great fluidity between the different markets. The combination of a plethora of small-scale businesses, weak regulative bodies and the presence of criminal organizations has facilitated increased cross-border exchanges in formal, informal and illegal markets. Moreover, the expansive nature of informality across the border and across economic sectors has established a system of fluid exchanges between these different sectors.

In terms of the impacts of these relationships, Figure 2 illustrates how formality and informality affect security in local communities. In the Eurométropole, there is less informality than in the other cases and, as stated above, links exist between informal sectors and low level drug dealing which creates public security challenges (public security is defined as the protection of communities, organizations, and institutions against threats to their well-being and property). In Bari–Durres, the informal sectors are more pronounced and embedded in local economic systems but once again, the challenges that informality creates are more related to public security than human security (human security is defined as protection of individuals against threats to their dignity, including physical violence and adverse socio-economic situations). San-Diego–Tijuana represents a case where informal and formal markets interconnect (due to the presence of maquiladoras) to create challenges to human security related to low income positions, social marginalization and increased poverty rates. Finally, in Cúcuta–San Cristóbal, one finds informal sectors that are so significant that they affect both the public security and human security of inhabitants of this cross-border region.

What is interesting about these trends is the fact that human security seems to be affected more in the cases where border integration is a defining characteristic of informality. In the cases where informal sectors emerge as alternatives to formal cross-border markets, their impacts are limited to public security arenas. Not surprisingly, these cases are related to the European Union where cross-border governance is more developed.
than the Americas. Thus, the final question addressed by this article asks: *How can regional organizations respond to the social impacts of informality?* This is the focus of the conclusion below.

### 4. Conclusion

The literature on informal economies shows that states usually address these activities by attempting to suppress them or regulate them. Generally, this approach does not work, especially in places where citizens hold little faith in their elected officials and in governing institutions. This is especially pronounced in cross-border regions because regulatory bodies cannot suppress phenomena that cross national borders. For this reason, this conclusion refocuses the debate over governance of informal sectors to the regional level.

The article has shown that comparative, cross-regional research is useful in order to model qualitative analysis of informal economies. The comparative research design employed in this article facilitates the examination of different state responses to informality. Table 4 presents these responses. It examines state approaches by focusing on two dimensions: regulation vs. deregulation and market-focused vs. system-focused policies.

**Table 4. Governance of informality by degree of regulation and focus of approach.**

| Market-focused | System-focused |
|----------------|----------------|
| Regulation     | Eurométropole (Paternalistic State) | Bari–Durres (Partner State) |
| Deregulation   | San Diego–Tijuana (Neo-liberal State) | Cúcuta–San Cristobal (Predatory State) |

Source: Compiled by author.
The table illustrates the four different approaches followed to address informal sectors in the cases selected for this study. In the Eurométropole, both France and Belgium have established policies that aim to regulate economic markets. This approach does limit the geographic and sectoral breadth of informality but it also contributes to the marginalization of important sectors of society which now have created parallel social systems in excluded neighborhoods located in the peripheries of the region’s major cities. This has influenced public security in the region. Moreover, these neighborhoods have often been stigmatized, reinforcing their geographic and political separation from formal economies and political entrepreneurs. One could argue that policy responses have contributed to the reproduction of informal sectors in this case.

Conversely, the government response found in San Diego–Tijuana is based on market deregulation. As the sections presented above have shown, this has facilitated cross-border informality which has expanded the geographic breadth of this phenomenon. This has negatively impacted human security in the region. In fact, since the passage of NAFTA, disparities in levels of wealth have increased markedly within and between San Diego and Tijuana which has further contributed to the reproduction of informal sectors in both cities.

A similar approach with similar results exists in Cúcuta–San Cristóbal. Studies of this cross-border region have shown that cross-border integration processes have been dominated by civil society cooperation, despite the fact that this area was considered an official “Border Integration Zone” by the Andean Community when Venezuela was still a member state. The establishment of cross-border civil society is important because it facilitates informal solutions to serious social difficulties related to Colombia’s Civil War, organized crime and economic disparities. However, the active social sector collaboration in this region also negatively influences government accountability at different levels, thus contributing to the establishment of a predatory state. This is seen through the documented widespread corruption found in the region which further contributes to citizen distrust and increased activities in widespread informal sectors.

Finally, institutional cooperation between Bari and Durres has attempted to minimize local informal sectors through a system-based approach that includes economic regulation, but also the implementation of social programs and civil society cooperation. While widespread informality still characterizes the economy of this cross-border region, much has been accomplished to address informal economic activities, including: (1) the improvement of local and national tax systems, (2) the enrollment of informal businesses onto lists established by the local Chambers of Commerce, (3) economic incentives provided to businesses that regularize workers, (4) general investment in programs aimed at improving transparency in local government, and (5) education and health programs that have positively impacted communities. In order to further address informal economies in the region, local governments must now address the marginalization of women and young adults who are the most numerous participants in these economies because they have fewer opportunities in regular markets and because of discrimination in society at-large. However, the approach taken based on partnerships provides a solid foundation for future initiatives aimed at groups that still cannot find employment in regular economic sectors.

Empirically, this article indicates that governance models do significantly affect informality in cross-border regions. While regional development models do impact cross-border
informal sectors, local stakeholders also participate in the establishment of informality and for this reason, regulation is often viewed in terms of repression. The research presented above has also shown that informal markets should be approached as fluid phenomena that are intrinsically linked to both formal and criminal economies. Consequently, one conclusion of this research is that informality, especially in cross-border regions, should not be addressed in a vacuum, but it needs to be part of a broader system of economic governance that also addresses formal and criminal markets.

For these reasons, the article contends that regional organizations, instead of nation-states, offer the potential to address informal economies in cross-border areas. It is not surprising that cross-border dynamics have less impact on informality in the European cases than they do on the American cases. Both NAFTA and the Andean Community of Nations have less developed cross-border institutions and less well-funded integration programs. The European Union has established a system of cross-border governance based on public-private partnerships that is necessary to address informality as a multifaceted phenomenon.

The danger with proposing regional approaches to the governance of cross-border informality is that these organizations are often characterized by democratic deficit and thus, they often lack legitimacy. Comparative research on the European Union’s INTER-REG initiatives implemented at the organization’s Eastern borders (see Demidov and Svensson 2013) and comparative research on cross-border integration at the EU’s southern frontiers (see Koff and Naranjo Giraldo 2014) has shown that these programs have failed when they have not been enacted in conjunction with civil society and economic stakeholders. Such research (see Scott 2007) has indicated that “top-down” border integration has led to ineffective initiatives and negative social impacts, including informality.

Effective economic governance, especially in cross-border regions, can only be achieved through partnerships including government and civil society. Citizens do turn to informal work when it provides the best possible alternative for income generation. However, they also seek opportunities in informal sectors when they lose belief in the legitimacy of those bodies providing other options (both criminal and regular). Neither government regulation nor cross-border civil society cooperation is enough to address informality. Non-governmental organizations must work with local governments to provide economic opportunities to citizens and restore faith in local political institutions. Only regional organizations can appropriately regulate cross-border markets while simultaneously supporting (both politically and financially) the establishment/consolidation of legitimate cross-border socio-political partnerships. However, these organizations must first legitimize their own roles in cross-border political systems.

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