

Slumdog Economist

Street stalls. Phone cards. Running shoes of dubious origin. Robert Neuwirth writes about businesses that are outside the mainstream, under the table, and crucial to the global economy.



BY ROBERT CAPPS

Soon, two-thirds of the world's workers will be part of street economies, Neuwirth says.

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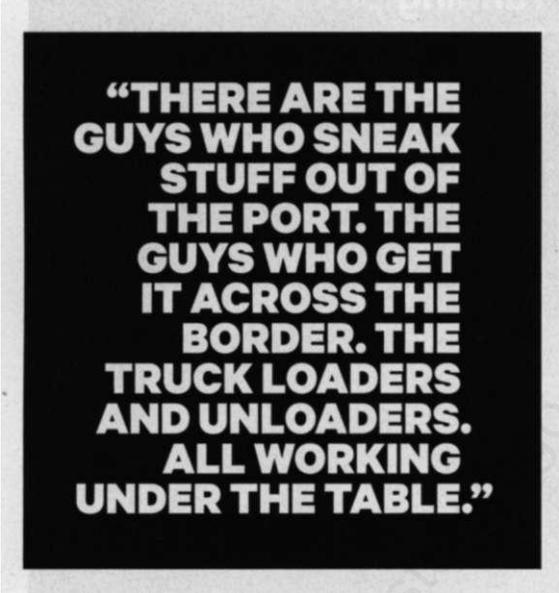
ot many people think of shantytowns, illegal street vendors, and unlicensed roadside hawkers as major economic players. But according to journalist Robert Neuwirth, that's exactly what they've become. In his new book, *Stealth of Nations: The Global Rise of the Informal Economy*, Neuwirth points out that small, illegal, off-the-books businesses collectively account for trillions of dollars in commerce and employ fully half the world's workers. Further, he says, these enterprises are critical sources of entrepreneurialism, innovation, and self-reliance. And the

PHOTOGRAPH BY JESSICA DIMMOCK

globe's gray and black markets have grown during the international recession, adding jobs, increasing sales, and improving the lives of hundreds of millions. It's time, Neuwirth says, for the developed world to wake up to what those who are working in the shadows of globalization have to offer. We asked him how these tiny enterprises got to be such big business.

WIRED: You refer to the untaxed, unlicensed, and unregulated economies of the world as System D. What does that mean?

NEUWIRTH: There's a French word for someone who's self-reliant or ingenious: *débrouillard*. This got sort of mutated in the postcolonial areas of Africa and the Caribbean to refer to the street economy.



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which is called *l'économie de la débrouillardise*—the self-reliance economy, or the DIY economy, if you will. I decided to use this term myself—shortening it to System D—because it's a less pejorative way of referring to what has traditionally been called the informal economy or black market or even underground economy. I'm basically using the term to refer to all the economic activity that flies under the radar of government. So, unregistered, unregulated, untaxed, but not outright criminal—I don't include gun-running, drugs, human trafficking, or things like that.

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Certainly the people who make their living from illegal street stalls don't see themselves as criminals.

Not at all. They see themselves as supporting their family, hiring people, and putting their relatives through school—all without any help from the government or aid networks.

The sheer scale of System D is mind-blowing.

Yeah. If you think of System D as having a collective GDP, it would be on the order of \$10 trillion a year. That's a very rough calculation, which is almost certainly on the low side. If System D were a country, it would have the second-largest economy on earth, after the United States.

And it's growing?

Absolutely. In most developing countries, it's the only part of the economy that is growing.

It has been growing every year for the past two decades while the legal economy has kind of stagnated.

Why?

Because it's based purely on unfettered entrepreneurialism. Law-abiding companies in the developing world often have to work through all sorts of red tape and corruption.

The System D enterprises avoid all that. It's also an economy based on providing things that the mass of people can afford—not on high prices and large profit margins. It grows simply because people have

to keep consuming—they have to keep eating, they have to keep clothing themselves. And that's unaffected by global downturns and upturns.

Why should we care?

Half the workers of the world are part of System D. By 2020, that will be up to two-thirds. So, we're talking about the majority of the people on the planet. In simple pragmatic terms, we've got to care about that. **You talk a lot about wares that are sold through tiny kiosks, street stalls, and little informal markets. Where do those goods come from?**

The biggest flow of goods is from China. It's no secret that China is the manufacturing engine of the planet. In a lot of ways, they're

more capitalist than we are. If someone wants something made—even if that person isn't licensed—a Chinese factory will make it. It's also easy to deal with China. You can go to the local Chinese consulate and get a tourist visa within a couple of hours. You can't say the same about coming to the US. So African importers, for instance, travel to China and commission Chinese firms to make goods for them to sell in Africa.

But it's not all Chinese manufacturers, right? In your book, you write about how huge international corporations want to get their goods into informal markets. Sure. Procter & Gamble, Unilever, Colgate-Palmolive: They sell lots of products through the little unregistered and unlicensed stores in the developing world. And they want their products in those stores, because that's where the customers are.

How does that work?

Basically, they hire a middleman. Procter & Gamble, for instance, realized that although Walmart is its single largest customer. System D outposts, when you total them up, actually account for more business. So Procter & Gamble decided to get its products into those stores. In each country, P&G hires a local distributor—sometimes several layers of local distributors—to get the product from a legal, formal, tax-paying company to a company willing to deal with unlicensed vendors who don't pay taxes. That's how Procter & Gamble gets Downy fabric softener, Tide laundry detergent, and all manner of other goods into the squatter communities of the developing world. Today, in aggregate, these markets make up the largest percentage of the company's sales worldwide.

You write that there are even street-vendor-specific brands.

Absolutely. A good example is UAC Foods, which is based in Nigeria but active throughout West Africa and traded on the Nigerian Stock Exchange. It's a highly formal company that was originally incorporated by the British more than 100 years ago. UAC Foods owns hotels and restaurants, but it also has this product called the Gala sausage roll. You never find Gala being sold in normal stores. It's sold only by unlicensed roadside hawkers and at roadside kiosks. Basically, UAC recognized that this product wasn't going to sell well in a normal store. But sausage rolls are in demand where people are on the go, when

Shadow Markets of the World

If all the world's informal markets were formed into a single independent nation, its \$10 trillion economy would be the second-largest on the planet (behind only the US). These markets thrive in places where taxes are low, poverty is high, and resources are scarce. The colors on this map indicate the size of each country's underground economy, as a percentage of its GDP.

0-10% 10-20% 20-30% 30-40% 40-50% 50-60%+ Data unavailable

SOURCE: FRIEDRICH SCHNEIDER ET AL., "NEW ESTIMATES FOR THE SHADOW ECONOMIES ALL OVER THE WORLD," INTERNATIONAL ECONOMIC JOURNAL, 2010



they need a quick snack on the side of the highway or in a traffic jam. So UAC relies on this informal phalanx of thousands of unregulated hawkers who sell Gala sausage rolls all over the streets of African cities. This is UAC's distribution channel for this one product.

Some of the biggest street-market businesses are based around mobile phones. How does this work?

Most of the world outside of Europe and the United States doesn't have the option of a monthly mobile phone plan. The com-

panies just sell airtime in the form of rechargeable cards, and customers pay as they go. And the best way to have these cards available everywhere, at any time, is to seed them among the unlicensed street vendors and roadside kiosks. In fact, to advertise their services, mobile companies produce these colorful umbrellas adorned with their company logo, which they give to street vendors. In Lagos, street markets are sometimes called umbrella markets, because there are so many of these umbrellas.

And this is pretty lucrative for them?

Oh yeah. When the cell company MTN launched in Nigeria in 2001, it thought that it would replicate the mobile phone market of Great Britain or the US. It didn't do very well with that. So it retooled and came back with this System D-oriented approach, and now it has more than 40 percent of the market. Its profits are around \$2.4 billion in Nigeria alone. So you're talking about a truckload of money being generated by a totally informal sales force.

But, of course, many products in these markets aren't so legit. There are a lot of knockoffs and counterfeit items—clothing, handbags, electronics.

The Chinese even have a word for these goods: *shanzhai*.

Literally translated, *shanzhai* refers to the mountain hideouts of bandits in the Middle Ages. But it has come to mean cloned or knockoff-branded goods. Usually these knockoffs switch a letter in the brand name. I've seen phones that say Motolola instead of Motorola. I've seen Hogu Boss or Guuucci spelled with three U's. In some ways, it's not even a real attempt to deceive; everyone knows that Gucci is not spelled with three U's. Often they're actually great products. The highest-end knockoff Puma soccer jerseys or sneakers are indistinguishable from the genuine items. And indeed, word on the street is that the same factories that subcontract with Puma and Adidas and other companies are sometimes the ones making the knockoffs.

But how do people get those illegal goods from China to the underground markets?

They massage the manifest for the shipping containers. Or send them to ports where there's less supervision and reduced customs fees. Sneaking things into a country is itself a huge source of System D employment. There are the guys who sneak stuff out of the port. Then there are the guys who get it across the border. And there are the truck drivers and the loaders and unloaders. It's a fantastic number of people—all of them working under the table.

You also say that System D is a source of innovation.

That's true. Chinese phones were the first to offer dual-SIM-card capability, for example. It was a reaction to a need that



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wasn't being met by the formal market. In many countries of the developing world, different mobile companies have the best service in different regions. So, if you're in the big city but your mom is out in the country and your brother is in another city, you might need separate services to talk

to both of them. With a dual-card phone, you can keep two SIM cards in your handset and switch services as easily as you answer call-waiting. There's a big market for that, and the System D entrepreneurs figured this out long before the legit world did. Nokia makes one now, but the underground Chinese manufacturers had them back in 2007.

So System D companies can move faster than more formal businesses.

System D merchants are the ones figuring out what people need. As I said, it's these merchants who go to China and place the orders. Chinese manufacturers didn't figure out that a dual-SIM-card phone would be a really good thing. Some folks from Africa and elsewhere said, "Hey, this would be a popular product. We want it." And the Chinese were happy to make it.

Merchants drive the innovation?

Yes. I'll give you another example. In many places in Africa, there's no municipal water system. You have to buy drinking water. In West Africa, System D came up

with something called Pure Water, which is water in a baggie that's filled and sealed by a special machine. You get half a liter of water for a minimal price on the street. This has become the way that people throughout West Africa get their drinking water. System D entrepreneurs produce it, and System D hawkers sell it. Together they've created a new kind of product that serves a vital need, and they make money doing it. The government in Nigeria even figured out a way to work with the unlicensed Pure Water companies to monitor the purity of their water without forcing them to get registered or regulated or to pay taxes. Every baggie now has a stamp showing it's been approved by the Nigerian equivalent of the US Food and Drug Administration.

Why aren't established companies taking advantage of these opportunities?

Formal companies are wedded to a business plan. It's much easier for System D companies to turn on a dime. If conditions change—if Nigeria develops a water sys-

tem, say—yeah. Pure Water makers will suffer for some short time, but then they'll figure out the next thing to do. They're just much more nimble.

Are there things that the US should be doing to take better advantage of the realities of System D in the developing world?

Absolutely. For starters, if we really want to engage in true, ground-level economic development in these countries, then we have to begin looking at these markets. These are the places where the bulk of people are being employed. And we have to listen for these markets to tell us what's needed in a community. It's not a bureaucrat in Washington or Nigeria who can best establish what's needed to help the poor in Lagos. It's the people who are working in these markets and living on the streets who can tell us that. And maybe more US companies can begin acting like Chinese firms, recognizing that there's a market there and a niche to be filled. In the future, it's going to be a very lucrative and important niche indeed.