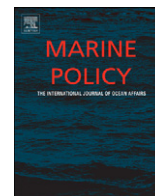




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## Middlemen, informal trading and its linkages with IUU fishing activities in the port of Progreso, Mexico

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### ABSTRACT

This paper explores the economic environment that makes informal fish trading possible, the nature of these activities and how they are interconnected or might stimulate IUU fishing activities in the port of Progreso, Yucatan, Mexico. The main argument is that fish trading by middlemen has been developed within the scope of an informal sector which depends on the existence of structural and organizational factors such as: a dual economic system where the formal and informal sectors are complementary, and an institutional environment and a socio-economic network that interconnects both sectors and supports the activity. Research for this study was carried out during 2008 and 2009 in the port of Progreso, Yucatan, Mexico. The survey strategy was a non-probability sample adapting and combining chain referral techniques because middlemen in this region are a hidden population. Findings indicate that the main motivation for middlemen to remain underground is to maximize benefits. In order to do so, they need to build a socioeconomic network which is the center of their trading system. This way of operating generates incentives for fishers to fish illegally because middlemen would buy their products even if they do not meet formal regulations.

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### 1. Introduction

Fish trading forms part of the group of ordinary, everyday economic activities which in some cases have not seemed worth official attention, compared to other traditional and non-traditional activities [1]. The emergence and evolution of the fish trade in developing countries, where most artisanal or semi-industrial fisheries are located, has progressed in different ways. In some cases, mainly in small-scale fisheries, fish trade continues to be embedded in a traditional economic system which the formal sector has not been able to absorb in order to generate a formal and registered fish trading activity [2]. Thus, fish trading in small-scale or semi-industrial fisheries is very often organized within an informal context. In other cases fish trading can be both informal and formal and be part of a commercial fisheries system [3,4].

Fish trading shapes formal and informal organizational structures in different types of fisheries. These organizational structures are compounded by a group of actors who interact depending on their economic interest. Middlemen are common actors in these structures and very often they are the linkages between small-scale

fisheries trading networks, and the local, national and globalized export markets especially in developing countries [5–7].

The role of middlemen and the reasons why their relationships with small scale producers are attractive in primary sector activities have been studied from different perspectives [8–10]. In fishing activities their role as credit or loan providers for fishers and the power and dependency this creates over them [7,9,11], the impact of loans and credits in terms of the resilience of fisheries and the livelihood of fishers [5] have been the focus of several studies. These studies have been mostly dedicated to the social and ecological implications of these events. However, the trading system of middlemen operates in a wider economic and political environment, which can have important implications for the fishing activity in general and for fish trading in particular.

Fish trading, the activities of middlemen and their relationship with IUU fishing activities are rarely accounted for in the management and governance of fisheries. There are few studies that directly analyze the structural context within which fish trading by middlemen is carried out, its transaction costs and the extent to which their system ranges between formality and informality.

This paper explores the economic environment that makes fish trading by middlemen possible, the nature of these activities and how they are interconnected or might stimulate IUU fishing activities in the main fishing port of the state of Yucatan, Progreso, in the southeast of Mexico. The main argument is that fish trading by middlemen has been developed within the scope of an informal

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sector which depends on the existence of structural and organizational factors such as a dual economic system where the formal and informal sectors are complementary, and an institutional environment and a socio-economic network that interconnects both sectors and supports the activity.

The next section presents the theoretical framework that provides the basis for the analysis, building on the existing and related literature. The third section provides the methodological approach, followed by the results containing the system structure, the business model of the middlemen and the implications of this activity in fisheries management, and finally the implications of middlemen fish trading and final remarks.

## 2. A framework for the analysis

Fishing has been one of the most traditional activities in many societies and the development and improvement of preservation techniques and transportation has expanded commercial fishing from local-small-scale to national and international large-scale enterprises [12]. However, commercial fishing has not always developed the necessary structure in order to be incorporated into the modern formal economic system. Fish trading, mainly in small-scale fisheries in developing countries seems to continue with a traditional structure embedded in the informal sector. Hence, it is important to understand the scope of informality and how fish trading is embedded within this form of economic behavior.

According to the International Labour Organization (ILO), informality is a common economic structure in developing and emerging economies [13]. Furthermore, it is now recognized that the informal economy is a feature of modern capitalism which is permanent and growing [14].

The evolution of the analysis of informality has shown that different manifestations of an informal sector can be found in an economic system, directly affecting the labor and commodity markets [15,16]. This can be explained because in an economic system there are a variety of institutions giving place to a number of different informal sectors, the characteristics of which depend on the institutional rules that its members are trying to find a way to evade [17]. This results in different views, concepts and explanations concerning the origins and causes of informality and its links with the formal sector.

These origins, causes and links of informality with the formal economy can be classified into three schools of thought: the dualists, the structuralists and the legalists [13,14]. According to Hart [18] most Third World economies have dual economies: formal and informal. In this dualistic approach the informal sector has no links with the formal economy and the formal economy is not able to generate wide employment opportunities [13,19]. It is argued that with development and economic growth the informal sector will be absorbed by the formal sector [14]. Moreover, it is explained that the emergence of an underground sector is more common after an economic or fiscal crisis, or it is one of the expressions of any of these crises [16]. An economic crisis, as a result of mass production and unemployment would force a number of unemployed people to find a way to become self-employed. On the other hand, a fiscal crisis is where 'fiscal demands or institutional rules are evaded or escalated' [1,16].

According to the structuralist view, the informal sector has links and interdependence with the formal sector and the wider economy [20]. Formal and informal sectors have backward and forward links, the former supply cheap goods and labor through small firms and unregistered workers, and the latter may provide raw material, making informality dependent and subordinated to the formal sector [21]. The structuralist also believe that development will not absorb the informal labor force as originally believed

[14], because being informal is a way of reducing cost by having a flexible labor force.

The legalist view sees informality as a combination of informal self-employed and micro-entrepreneurs who work informally to avoid the costs associated with registration. However, being informal does not necessarily mean being better off, considering the monetary earnings and all the additional benefits of the formal economy or worse-off when the total welfare of informal workers is considered. The legalists base their analysis on the opportunity cost of being in one sector or the other [22]. It is argued that formality has higher transaction costs because of the framework of institutional rules within which transaction and transformation activities are developed [17,23]. In addition, to avoid costs workers might choose to be informal due to their lack of skills or because they wish to have greater independence [17,24,25].

Therefore, according to these schools of thought and the characteristic of the informal sector presented it is possible to observe that the complex and evolving reality of informality needs to be explained considering some of the elements of these schools of thought and to add from new approaches. Thus, it can be argued that informality is more common within the context of an economic or fiscal crisis, but it can also be the result of inefficiencies related to overregulation or distortive taxation [26]. These inefficiencies can facilitate a person or an enterprise to be informal because of the opportunity cost and lower transaction costs as a result of tax avoidance. Moreover, the interdependence and the linkages they can have with the formal system can result in different degrees of formality or informality. This depends on the institutions, which can be formal in one country and informal in another depending on the regulations of each economy and the frequency and forms of backward and forward linkages with the formal sector, which makes informality a source of flexibility for production, labor and credit [14,23,24].

The linkages between the formal and informal sectors are supported by an organization constructed in terms of a socio-economic network capable of keeping the backward and forward linkages in operation. The formal and the informal sectors are linked through market transactions which can be in the form of contracts that imply mutual obligations [27]. These obligations are respected through the network mechanism which uses a logic of social power based on influence and prestige [28]. Prestige can refer to traditional status, attractiveness, knowledge, credibility, and reliability, and influence is associated with control over property and information [29]. These network mechanisms interconnect market participants in order to reach mutual benefits and limit opportunistic behavior [27]. A socioeconomic network would be essential to survive in the informal economic system and to generate the necessary links to obtain what is needed from the formal economy and to cover the demand for flexibility.

### 2.1. Informality in fisheries

In the fishing sector the FAO [30] indicates that illegal fishing refers to the violation of national laws or international obligations. Unreported fishing refers to fishing activities which have not been reported or have been misreported to the relevant national authority, in contravention of national laws and regulations and unregulated fishing activities are conducted in a manner inconsistent with state responsibilities for the conservation of living marine resources under international law.

Unreported or misreported fishing can be a sign of a fiscal crisis because not reporting or reporting a smaller volume of fish is a way to avoid costs by evading taxes. Lower catch volumes mean reporting less income which would result in reduced fiscal obligations. At the same time, illegal fishing is an activity that evades the already established institutional rules while unregulated fishing can

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