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Regional and Global Trade Strategies for Liberia

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Executive Summary

Liberia intends to deepen its participation in Economic Community of West African States (ECOWAS) by adopting the common external tariff (CET) of the Customs Union (CU). This implies that Liberia will have to modify its tariff structure to be much closer to the CET of the CU (which is yet unknown because of upcoming demands for exceptions to the schedule and demands for reclassification of goods). This report is in response to the Government of Liberia's request to the International Growth Centre to estimate the likely effects of this change, particularly on households' well-being and on government revenue.

Findings suggest that there will be an adverse impact on household well-being; however, we argue that Liberia will have no difficulty obtaining exceptions to the CET. These exceptions will mitigate the adverse effects of adopting the CET on households. We believe that Liberia will obtain these exceptions, first because the African experience with CUs shows that "sensitive lists" and accompanying exceptions to CETs are frequent. Furthermore Nigeria, one of ECOWAS' Member States with the biggest market, will be the first to seek exceptions and reclassifications and therefore remove potential impediments to Liberian demands.

This study's final analysis suggests that moving to the CET with exceptions could almost double Liberia's tariff from its current import weighted applied average of 5.3% (according to customs data for 2011) to somewhere in the 8%-13% range. This large increase is expected to raise government's total revenues from international transactions (approximately 30% of total government revenues and 8% of GDP in 2011)[1] by 30% to 60% but might have long-run detrimental effects on efficiency and subsequently on growth. Under the new tariff structure, larger regional partners—Nigeria in particular—are likely to find it profitable to enter the Liberian market, displacing cheaper extra-regional imports. Consequently, by moving to the 5-band proposed CET, Liberia might end up subsidizing its inefficient regional partners.

More specifically, the revenue estimates in the report suggest that:

- Admitting all ECOWAS imports duty free would result in a tariff revenue loss of 2.5%, but combining this regime with a removal of waivers would increase tariff revenues by 37% (and total revenues by 19.3%).
- Moving to the proposed 5-band CET is estimated to raise the average tariff from its current level of 5.3% to 13.1%, with an increase in tariff revenues of 138.4% (and total revenues by 73.2%) and an expected reduction in imports of 3.8%.

[1] The 30% estimate based on "Annual Fiscal Outturn FY2010/11" –publication of the Ministry of Finance of the Republic of Liberia. Gross Domestic Product value was approximately USD 1.545 billion in 2011 according to WDI data.

- Moving to the proposed 5-band CET but maintaining all current waivers would still increase estimated tariff revenue by 58.4%, resulting in a new average tariff rate of 8.5%.

Costs borne by households to maintain well-being levels experienced under Liberia's current tariff regime are estimated to:

- Increase by 3% for urban households and 6% for rural households, the difference reflecting a higher share of non-traded expenditures (e.g. health expenses, entertainment, etc.) that would not be affected by moving to the CET for urban households.
- Increase by 2% and 4% for urban and rural households, respectively, in the case that households are, in effect, quite insulated from the transmission of tariff changes to the prices with which they are confronted in their purchasing decisions.
- Increase by about 1.5% for urban households and 3% for rural households, if policies add up to four food commodities (rice, fish, cassava roots, and palm oil) on an exception list (i.e. commodities that would keep Liberia's current tariff schedule).

In the face of these estimates, should Liberia pursue this regional strategy? As discussed in this report, there are many intangible benefits to reap from regional cooperation, including the reduction of political tensions and the enhanced social capital needed for effective cooperation through greater and more frequent communication, which both raise the probability of a successful "deep" regional integration. **Although these benefits from "deep" integration are yet to be seen, overall Liberia should eventually benefit from deeper integration in ECOWAS.**

In the meantime, until these benefits materialize, we believe that Liberia would be better served by a lower average tariff than that which is likely to be obtained under ECOWAS. While increased costs to households do not justify leaving ECOWAS, they justify the two-pronged trade strategy advocated here. We recommend that Liberia expend most of its scarce human resources to obtain WTO membership and then leverage its WTO status to lock in reforms, including the lowest possible tariff rates that it (and WAEMU partners) can obtain for the CET. Obtaining WTO membership will use scarce human resources but will bring many benefits—some less tangible—like increased awareness of the gains from trade, better visibility and credibility with its trading partners, and the adoption of rules and regulations that respect the principles of non-discrimination and national treatment. Not least, the WTO accession negotiation process is arguably under greater Liberian control than that surrounding the ECOWAS CET, which is likely to be dominated by the powerful Nigerian producer interests. WTO membership will bolster Liberia's pursuit, when appropriate, of its own independent trade policies.

Rwanda's development's strategy, summarised in this report, is instructive in this regard. Also recovering from a costly civil conflict and with less favourable geography because it is landlocked, Rwanda can attribute its stellar performance to its own policies, both prior to and following its accession to the EAC CU. Rwanda carried out extensive unilateral reforms that greatly enhanced the efficiency and transparency of its trade regime (GATT valuation for imports, simplification of documentation requirements, liberalisation of the warehouse services sector, adoption of a risk assessment system, more customs declaration points, computerisation of customs, one-stop shop for business registration). All these reforms were undertaken unilaterally and outside of the EAC, earning Rwanda the top rank for global reformer in the WB DB report in 2010 (and the second rank in 2011). Adopting the EAC CET was costly for the poor in Rwanda (and also in Burundi, the other late joiner) mostly because of the "sensitive item" list that had been previously set up by Kenya, Tanzania and Uganda. However, the implementation of the exceptions list in the relatively smaller EAC CET is still on-going, suggesting that agreeing to a CET in the much larger ECOWAS community will be difficult. Finally, even though Non-Tariff Barriers (NTBs) are still in place in the EAC, close monitoring—which is currently absent in ECOWAS—is helping reach the objective of going beyond the elimination of tariff barriers.

20th century regionalism, the framework upon which ECOWAS was founded (and under which continues to operate), is a bargain involving an exchange of market access at the expense of outsiders. **With the reduction in trade costs and the subsequent fragmentation of production, 21st century regionalism comprises a new bargain: an exchange of domestic market reforms for Foreign Direct Investment (FDI)—which brings home the services activities necessary to participate in the global value chain.** In this new environment, where trade is trade in tasks and increasingly involves an exchange of intermediate goods, protectionist behaviour–or the exchange of market access—amounts to depriving one's economy from participating in global outsourcing. It is against this changing background that ECOWAS' "old regionalism," built on the exchange of market access, has to be evaluated. This report gives several examples of the unfinished business of fully exchanged market access in the region through the ECOWAS Trade Liberalization Scheme (ETLS) signed by most members in 1993. Notably, Nigeria—the heavy-weight in the region because of its large market size—has essentially remained closed to imports, a reflection of the strong protectionist interests of the powerful lobby of producers. Indeed, estimates for this report show that, relative to predictions, Liberia under-trades with Nigeria. In conclusion, Liberia should not shy away from reforms that will help it enter the 21st century world trading system, but should maintain its participation in ECOWAS and go beyond regional decision-making when the necessary policies are not implemented.

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1 A Two-pronged Trade Integration Strategy for Liberia

No country can participate in a market economy without a minimum of "public goods" (health, legal system, etc.), which is another way of saying that appropriate institutions and sound policies are needed to participate successfully in the world trading system. Achieving this objective is a tall order for any low-income country. It can be even harder for a country whose economy suffered probably the worst economic collapse in the world (90% collapse of GDP during the civil wars), during which an already badly managed economy saw its management worsen. Strong recovery is on its way, but with Liberia's very limited domestic market and low income, growth cannot be sustained without extending the market through international trade. Fortunately for Liberia, it is relatively well-connected to regional and international markets.

As Rwanda's experience described below shows, even with poor connectedness, good policy choices—mostly undertaken unilaterally—have resulted in strong growth of both exports and imports. With scarce human resources, the Government of Liberia (GoL) has to juggle with:

- WTO membership requirements, and
- How to best shape its participation in ECOWAS

But progress at integration in ECOWAS has been slower than in other Regional Economic Communities (RECs) in Africa and elsewhere. Since 2008, Nigeria has proposed a 5th tariff band for the ECOWAS Common External Tariff (CET), while progress at meeting the objectives of the ECOWAS Trade Liberalization Scheme (ETLS) signed in 1993 has been very slow. With no signs of speeding up implementation of the ETLS objectives, prospects for rapid trade-led growth at the regional level are dim.

Indeed the 5th tariff band at 35%, which has been approved by the Ministers of Finance in March 2013, is still highly controversial, as countries will likely scramble to re-classify goods into tariff bands that suit them and seek exceptions (type B exceptions). This paper argues that the current 5-band tariff is in no ECOWAS member's economic interests (except for the powerful lobby of Nigerian producers). Under these circumstances and recognizing that regional integration is good politics, Liberia can still:

- participate in the ECOWAS CU, provided it involves small changes from its present tariff structure, which is broadly consistent with its longer-term growth and poverty objectives.

As a small economy, Liberia should pursue an export-oriented development strategy to ensure future growth. WTO membership will be helpful for carrying out this strategy. The question then is: how much attention should Liberia spend on the regional strategy, since implementing WTO-consistent trade rules and laws will require expending political capital?

This paper evaluates the gains and potential costs of this regional strategy in this broader perspective. On the one hand, sustained growth in the region is a strong reason to pursue a regional-focused strategy, since close-by markets could open up and trade costs could be reduced through regional cooperation. Regional cooperation through trade agreements is also good politics.

On the other hand, Liberia will certainly be moving towards a tariff structure that is more protectionist than the one most appropriate for a small economy. This means subsidizing the production of inefficient regional partners that will, in turn, displace lower cost imports into Liberia from the rest-of-the-world. In effect, the current ECOWAS regime emphasizes the exchange of market access among partners in a way that belongs to 20th regionalism rather to the 21st century regionalism, which exchanges domestic reforms lowering barriers to trade for FDI. Thus political gains from ECOWAS membership may be stunted by lack of gains on the economic side because of the slow progress towards market integration in the region. Hence, in this report we emphasise the importance of a trade-strategy that is oriented towards multilateralism and the need for Liberia's approach to be a two-pronged trade strategy.[2]

The paper's outline is as follows: Section 2 shows that by several measures, Liberia is not trading as much as predicted with ECOWAS, which is likely a reflection of the slow reduction in trade barriers in the region.[3] Section 3 summarises the benefits from WTO membership for Liberia's trade strategy. Section 4 recounts Rwanda's experience: while joining the EAC probably resulted in a net economic cost for Rwanda, its previous sound trade policies and an excellent management of large aid inflows resulted in a positive outcome from EAC membership. Section 5 discusses the political and economic benefits of regional integration. Sections 6 and 7 provide quantitative effects of moving towards an ECOWAS CET in terms of government revenues and households' welfare, respectively.

2 Liberia's Regional trade Prospects: policies, trade costs, and geography

Natural endowments, policies, and institutions—along with physical geography (proximity of partners and their size)—are the three most important features in explaining a country's actual trade and in defining its trade potential. Leaving aside the very important benefits from the Liberian Registry—the world's premier open ship registry—Liberia's exports are concentrated in "traditional" exports, i.e. extractables (iron ore, diamonds, soon potentially oil) and commodities (rubber,

[2] Liberia could also opt for a unilateral open trade policy with low and uniform tariffs and limited Non-tariff Measures (NTMs) as followed with great success by Chile, or even go further along the path followed by Singapore and Taiwan. This open strategy which has served well for small economies is not suggested in this paper because of its high political costs but could be kept in mind if progress on integration in the region does not accelerate beyond its current pace.

[3] One caveat to using the ASYCUDA data in this paper is that it does not represent cross-border trade. According to Stryker and Amin (2012), cross-border trade can represent 20-30% of total trade.

timber) in which costs are largely determined by climatic conditions and resource endowments. Under sensible policies, trade patterns for these “traditional” exports are largely pre-determined by a wide range of circumstances as there is a comfortable margin between costs and price at destination. By contrast, for non-traditional exports, trade policy is an important determinant of success.

2.1 Diversifying and extending exports

Extending its export basket beyond traditional exports is usually an indication of an economy’s success, since countries that get rich typically do so by producing the goods that rich countries consume. (Controlling for other factors, countries that export a more complex basket of goods usually experience subsequently higher growth.) In developing its trade strategy, one of Liberia’s challenges is to diversify its exports beyond these traditional exports. How and to what destinations?

Climbing up that ladder is a long haul. It is here that a regional trade strategy can make sense. “New” goods that are exported for the first time are more likely to be exported to closer markets than traditional goods. Market knowledge is likely to be greater for close countries and, if regional integration has also successfully reduced behind-the-border trade costs, trade costs with neighbouring countries will be lower. But low-income countries’ market potential is also closely related to their neighbours’ market potential, and when low-income countries are surrounded by other low-income countries, this market potential is low. Nonetheless, for new goods which likely face a comparative disadvantage in far-away markets, regional markets are a natural destination if regional trade costs are low. However, these trade costs (low policy-imposed trade barriers, transaction and transport costs, and sunk costs for new products) are difficult to measure. Indicators that follow in this report try to tackle these difficulties.

Since success at increasing one’s share in world trade depends on how well one performs relative to competitors, the tables included here evaluate Liberia’s indicators against those of a few comparators: Sierra Leone and Rwanda as “similar” competitors and Nigeria, which is not a comparator, but the heavyweight in decision-making at the ECOWAS level. And to evaluate the economic prospects of deeper integration in ECOWAS, we consider ECOWAS’ relative performance to that of the EAC—considered a successful African REC. Indicators for the West African Economic and Monetary Union (WAEMU), a sub-group of ECOWAS—also considered a successful REC—are included by a comparison between WAEMU and “rest of ECOWAS”.

Annex 1 summarises widely-accepted, generally successful policy principles and indicators of a country’s competitiveness. It also gives comparative Regulatory and Governance indicators (Table A.1.1) and trade policy indictors (Table A.1.2). Overall, Liberia’s regulatory and governance indicators are in line with those of a low-income country, though not as favourable as those of Rwanda. The trade policy indicators show that Liberia faces few barriers in its export markets. On the other hand, all indicator values for Nigeria are poor. For trade policy, once NTBs are taken into account, Nigeria is among the most protected countries (ranked 99 in a sample of 104 countries).

Consider now Liberia's trade patterns. Excluding vessel registries (HS-89), Table 1 shows that Liberia's exports are less concentrated than those of Ghana and Nigeria. Excluding extractables and commodities, the top 5 exports account for 56% of total exports. (In comparison, Rwanda's top 10 exports, not reported here account for 52% of total exports. [4])

Table 1: Average Shares of Top 10 Goods for African Countries and Selected ECOWAS Members

	Liberia		Nigeria		Ghana	
	All goods	Excluding extractable and commodities	All goods	Excluding extractable and commodities	All goods	Excluding extractable and commodities
1	45.9% (31%)	20.9% (79.9%)	75.6%	18.5%	45.5%	68.8%
2	22.1%	12.0%	10.3%	14.4%	23.8%	6.2%
3	16.9%	9.1%	4.8%	6.3%	4.1%	3.9%
4	2.8%	8.5%	1.4%	5.1%	2.7%	2.5%
5	2.6%	7.3%	1.0%	4.3%	2.6%	2.0%
6	2.5%	3.9%	0.8%	3.6%	1.7%	1.9%
7	1.4%	3.6%	0.6%	3.4%	1.5%	1.7%
8	0.8%	3.4%	0.4%	3.1%	1.3%	0.7%
9	0.6%	2.5%	0.4%	2.8%	1.3%	0.7%
10	0.6%	2.4%	0.3%	2.0%	1.1%	0.6%

Source: Authors' calculations based on HS-4 digit, 2010, excluding HS-89. Vessel registration share in parenthesis if it were included among exports.

Usually one observes quite a lot of churning among the top exports, even during a fairly short interval of time. This reflects the changing pattern of comparative advantage. Over the period 2005-10, Liberia experienced relatively little change among top exports, perhaps reflecting the strong composition of exports in extractables and commodities that are relatively insensitive to changes in the economic environment.

Annex A1 explores further Liberia's changing trade patterns compared with those of competitors. (Table A3 gives a measure of export diversification for Liberia and comparators by counting the average number of "new" exports or "discoveries" over 2000-08.) Within the African RECs, three patterns stand out. First, the EAC, despite being more diversified (in the sense of having fewer empty tariff lines to fill with "new" exports), has an average rate of creation of new goods about a third higher than

[4] Since vessel registration (HS 89)—the top foreign-exchange earner-- is a service that does not depend on the traditional determinants of trade in goods, it is excluded from all tables. COMTRADE data has many blanks at the HS-6 level for products in which there are earlier and/or later significant positive values suggesting measurement/reporting problems. Easterly and Resheff (2010) show that aggregating to the HS-4 level alleviates the measurement error problem.

that of ECOWAS. Second, the number of "discoveries" is about the same among both sub-groups, around 10 per year on average from 2000-08. Third, next to Burundi (also in the midst of a civil war between 1993 and 2005), Liberia is the country with the greatest number of empty lines and the lowest number of new goods, about half the average. Since Liberia was also just coming out of civil war in the middle of the period, this is not surprising. But Sierra Leone, also a civil-war stricken country from 1991 to 2002 has an average rate of new products twice as high, a benchmark for Liberia to consider.[5]

2.2 Geography and Trade Costs

Since Liberia is very small in the ECOWAS region, even though some neighbours are also low-income countries with limited market potential, one might expect that—thanks to economic integration—at least some of the neighbouring countries would figure among Liberia's top 10 trading partners. Table 2 shows that this is not the case on the export side, regardless of whether all goods or only manufactures are included. On the import side, only Ivory Coast is in the top 10 of Liberia's trading partners when all goods are included because of petroleum imports. Restricting the analysis to manufactures, China accounts for 36% of imports, followed by the US (presumably reflecting close historical ties). In sum, Liberia trades with far-away partners.

Table 2: Liberia's Trading Partners: Top 10 destinations and origins

Rank	**Destinations**				**Origin**			
	All goods		**Manufacturing goods**		**All goods**		**Manufacturing goods**	
	Country	**Share**	**Country**	**Share**	**Country**	**Share**	**Country**	**Share**
1	USA	23.8%	India	13.9%	China	44.9%	China	36.7%
2	South Africa	19.6%	Belgium	13.8%	USA	9.8%	USA	13.7%
3	Spain	7.7%	Germany	10.5%	France	4.1%	Turkey	4.9%
4	Mozambique	6.1%	UK	8.8%	Ivory cost	3.7%	India	3.6%
5	Canada	6.1%	Switzerland	8.3%	Turkey	3.5%	Thailand	3.3%
6	Denmark	5.6%	Canada	8.0%	Netherlands	3.1%	Netherlands	2.6%
7	Germany	4.3%	Turkey	6.6%	India	2.6%	France	2.4%
8	Belgium	4.0%	Italia	4.4%	Thailand	2.1%	Japan	2.2%
9	Netherlands	2.8%	Finland	3.9%	Spain	2.1%	Malaysia	2.2%
10	India	2.5%	USA	3.6%	Malaysia	1.5%	Korea	2.2%

Source: Authors' calculations, 2009-2010 averages excluding vessels HS-89. Including HS-89, the top two export destinations would be Poland (25.3%) and Germany (18.4%)

As discussed in Annex 1, bilateral trade depends strongly on the market size of partners and on trade costs. A reduction in all costs related to distance (including better information about distant markets) should lead countries to increase their volume of trade with distant partners, while on the contrary, if the relative costs associated with distance increase, countries should, on average, trade more with closer partners. Then an increase in the Average Distance of Trade (ADOT) would

[5] Annex 1 compares survival rates of "new products" as defined in Table 2 for Liberia, Nigeria, Rwanda and Sierra Leone. Survival rates for Liberia are the lowest in the group, although Nigeria has few new goods exported and low survival rates.

indicate that costs of trading with far-away partners are falling most rapidly. (Annex A1.3 gives the definition of ADOT and how it is related to the gravity model results discussed in Figure 2.) Conversely, one would expect a reduction in the ADOT if trade costs with close partners decreased relative to trading costs with far-away partners. Since partners in a REC are geographically close, "deep" integration leading to a reduction in trade costs with partners should then be reflected in a reduction in the ADOT.

Figure 1 displays ADOT measures for Liberia along with averages for EAC, WAEMU, and other ECOWAS countries. Several patterns stand out. First, Liberia is an outlier in the group in terms of its ADOT for imports which stands between 10,000 and 12,000 km—more than twice the distance of other countries. On the export side, at 6,000-8,000 km, Liberia's pattern is closer to the group averages. Second, EAC trades more with regional partners than does WAEMU or ECOWAS. EAC's relatively lower ADOT may be partially attributable to the greater geographical proximity among EAC partners, which arguably facilitates deeper integration, which in turn reduces regional trade costs more rapidly than far-away trade costs of imports. Moreover, the EAC is the only grouping whose ADOT falls during the period for both imports and exports, suggesting a regionalisation of trade.[6]

Figure 1: Measures of the Average Distance of Trade

Fig. 1a: ADOT All Imports

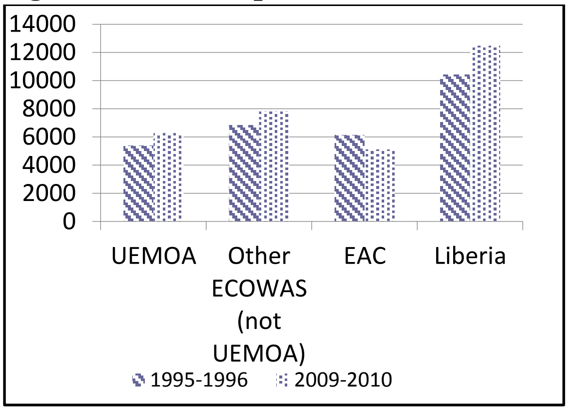
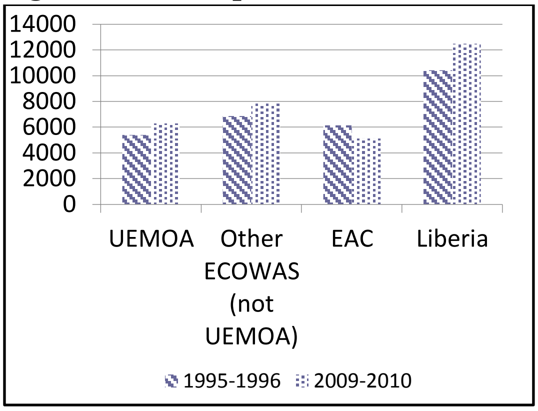


Fig. A1b: ADOT Imports of Manufactures



[6] For WAEMU and ECOWAS, the pattern generally goes in the other direction, suggesting that trade costs with distant partners are falling more rapidly that trade costs with regional partners. Comparing WAEMU with other ECOWAS countries suggests that WAEMU's regional trade costs are lower on both the export and import side reflected in an ADOT that is about a third lower, reflecting the deeper integration among these countries that share the same currency. Intra-regional trade among EAC countries has been around 10% for the past 15 years, about two percentage points above intra-ECOWAS trade which is largely driven by intra-WAEMU trade (see section A.1.2 and Figure A1)

Fig.1c: ADOT All Exports

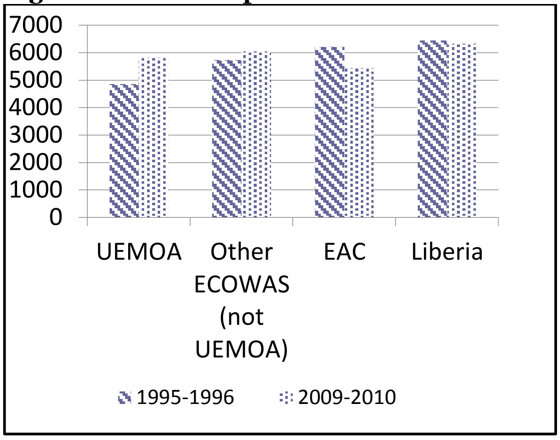
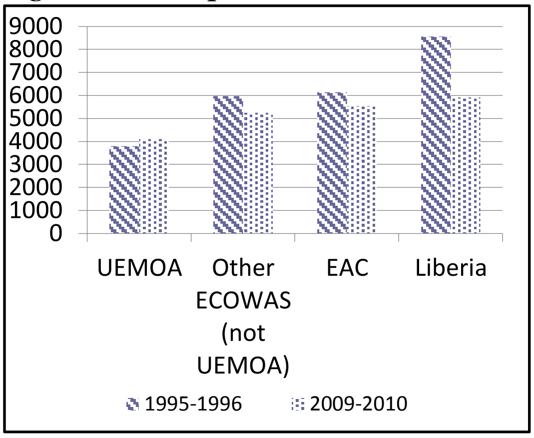


Fig. 1d: ADOT exports of Manufactures



Source: Authors' calculations

Finally, and perhaps most significantly, if regional ties were really deepening through a reduction in trade costs, the ADOT for Liberia's trade should have declined during the 15 year interval, especially since barriers to regional trade were initially high. In fact, Liberia sources imports from more distant partners (mainly China), and on the export side there is only a regionalisation of trade for manufactures. In sum, a comparison of the beginning and end of the 15 year period suggests an absence of regionalisation of trade.

Further confirmation of limited regionalisation of trade is obtained from the estimates of a gravity model of trade.[7] Since the model tightly fits the data both for all exports and for exports of manufactures, it is worth checking if Liberia's actual exports are close to those predicted by the model.

Figure 2 illustrates the scatter plot for Liberia's total exports. (Model estimates and scatter plots for manufactures are reported in Annex 1.) Points above (below) the 45^o line represent countries that receive less (more) exports than predicted by the model (taking into account all the above mentioned factors as well as country specific factors for exporters and importers). When considering all partners (Figure 2a), the U.S. is close to the model's prediction, whereas trade between Liberia and the EU is higher than predicted by the model.

[7] The gravity model captures two robust stylised patterns in trade data. First the intensity of bilateral trade is roughly proportional to the GDP of the exporting country and the GDP of the importing country. Second it is inversely related to trade costs, usually captured by the distance separating the partners. Other determining factors such as a common language, a common currency, belonging to regional trade agreement also enter into the picture (see section A.1.2).

Figure 2: Potential and Actual Exports of all Products for Liberia

Fig. 2a: (all partners)

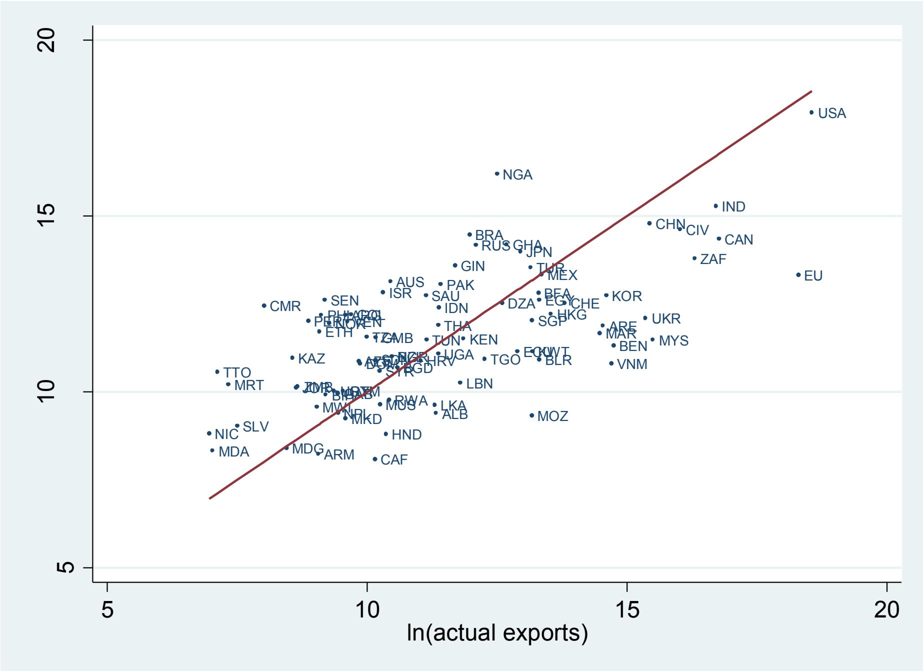
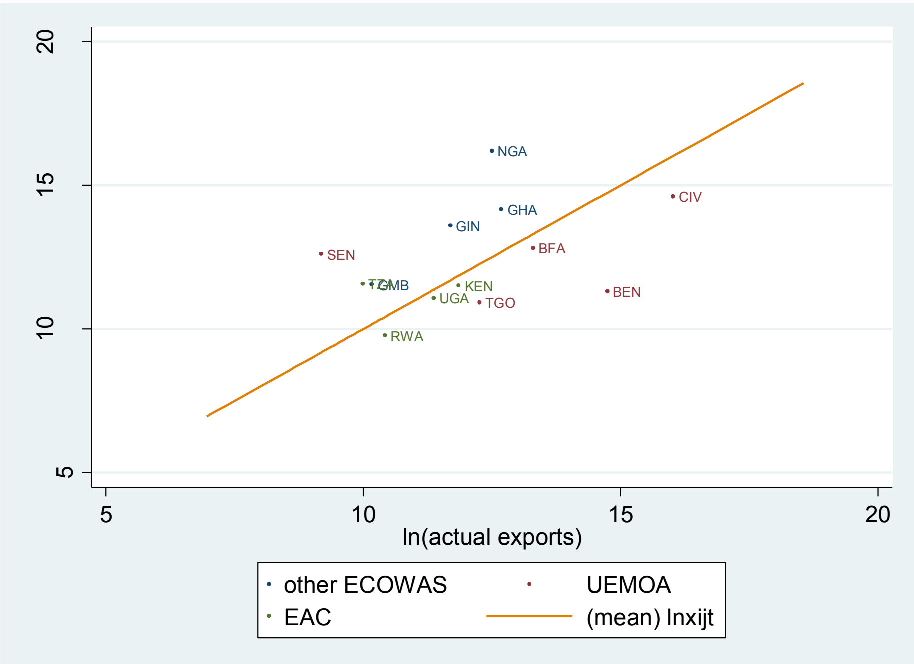


Fig. 2b (regional partners)



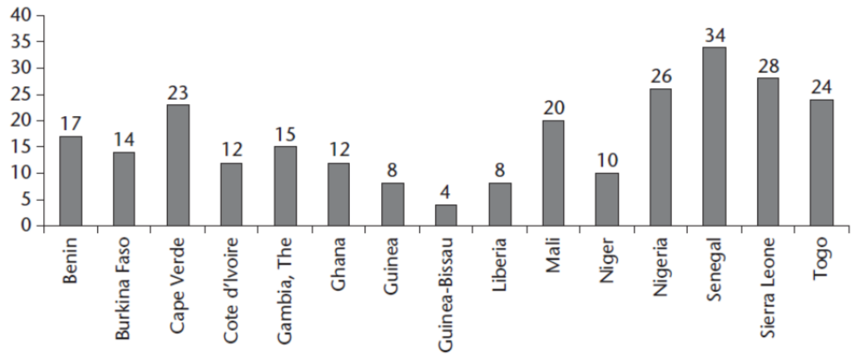
Source: Authors' estimates (see Annex A1.3): Note the line in the figures is the 45º line

Significantly, Figure 2 shows that Liberia exports less to Nigeria than predicted by the model. Recall that the model predicts trade based on the market size of the partner. Since Nigeria has been growing rapidly and has a huge market potential for countries in West Africa, this is further (indirect) evidence that trade costs (or other factors impeding trade between the two partners) are greater than predicted by the model. The same pattern (Figure 2b) holds when trade patterns are examined within the

RECs. According to the gravity model, partners in ECOWAS tend to under-trade relative to partners in the other RECs.

Lastly, Figure 3 shows the trade complementarity index of ECOWAS. Although the maximum score of the region is not high (out of 100), noticeably, Liberia has one of the lowest score among all partners. This casts doubts on the perceived and potential benefits for Liberia's higher access to the ECOWAS market.

Figure 3: ECOWAS Complementarity Index



Source: Guilherme Reis and Thomas Farole (2012) "Trade Competitive Diagnostics", Toolkit", WB and IBRD, p. 38. The index takes values 0 to 100, with 1 showing perfect complementarity between a country's exports and another country's, or ECOWAS' in this case, imports. High index values are indicative of potential gains from trade. However a low index value does not immediately imply the absence of potential gains from trade as intra-industry trade would be consistent with low complementarity indices.

The indicators displayed above lead to the following observations:

- For its stage of development, Liberia does not demonstrate export concentration, nor is there much change among top exports, but Liberia's rate of creation of "new" exports is about half the rate for Sierra Leone and Rwanda.
- No ECOWAS member is among the top 10 destinations or origin for Liberia's trade in manufactures.
- When compared with the EAC, the expected regionalisation of trade from regional integration measures has been weak among non-francophone ECOWAS members.
- Liberia trades less with Nigeria than predicted by a gravity trade model that takes into account partners' size and distance, confirming the poor governance and trade policy indicator values for Nigeria in Annex A1.

3 Benefits from WTO Membership

Until Liberia has developed its human capital, the returns from investing resources in meeting WTO membership accession criteria will be greater than those spent trying to obtain rules and the kind of governance in ECOWAS that would be in Liberia's interests. This is simply because WTO accession is mainly in Liberia's hands, with the required engagements largely in a direction that will help Liberia expand its participation in world trade. Meanwhile any negotiations in ECOWAS depend very much on the position of other partners. In any event, other ECOWAS partners are also WTO members, so there is an added benefit from WTO membership for Liberia's position in ECOWAS. Completion of WTO accession talks are targeted for 2016.

3.1 Gains from Membership

Liberia, which started the WTO accession process in June 2007, is among 12 Least Developed Countries (LDCs) that have not acceded to the WTO as original WTO LDC members. Because only 5 LDCs have acceded to the WTO since 1995, the WTO issued revised guidelines in 2012 to somewhat simplify the complex negotiation process under the 2002 guidelines. However, as the only beneficiaries were the LDCs, they assumed a weak bargaining position, so the new set of guidelines had very few effective changes. In effect, the LDCs gained very little beyond binding for agricultural goods (50%) and non-agricultural goods (35%) at higher rates than the average for recently acceded LDCs.

With few exceptions, Liberia's applied tariffs average around 10% for both agriculture and manufactures, and its maximum statutory rate is 50% (see Table 3). So when making its initial market offer for goods, Liberia will not have to lower its customs duties. However, this offer will be contingent on the planned harmonisation of its tariff regime with the ECOWAS proposed CET. Therefore, joining the CET will mean that Liberia's initial tariff binding offer will have to be within the boundaries of the ECOWAS CET. This is unfortunate, because this means that Liberia will find it difficult to bind its tariffs below the ECOWAS CET rates. These rates are still to be determined, as members will negotiate on a list of "sensitive" products to be excluded from the recently-agreed 5-band schedule. In fact, the uncertainty surrounding the application of the final CET schedule is preventing Liberia from locking in low applied tariffs at the WTO. Doing so would gain credit with existing WTO members, an advantage that Liberia should consider in its trade strategy.

Liberian services sectors are also relatively open to trade, although quite a few are not yet regulated, and there is little understanding in the country about their regulation and business implications (ITC, 2012). Strengths and weaknesses will have to be assessed before Liberia can table an offer. As to commitments on rules and disciplines, Liberia will have to modify a number of rules so as to ensure that it respects the principles of non-discrimination and national treatment for its trading partners (specifically, revise its system of import permit declarations, which is a non-automatic licensing system).

While there are some costs to WTO membership (adoption of additional intellectual property rights, removal of restrictions on foreign investment, elimination of forced technology transfer, and institutional adjustments beyond the country's current capabilities), the above benefits and the possibility to use WTO membership to lock-in recent domestic reforms provide good reason for Liberia to press on with the process of membership accession.[8]

Experience suggests that a country like Liberia with fledgling institutions could expect to gain from WTO membership, because doing so represents a relatively strong external commitment to pro-growth policies. (A unilateral commitment to pro-growth reforms is easier to reverse than an external commitment.) From an examination of data for all developing countries between 1980 and 2001, Tang and Wei (2008) find that GATT/WTO accession tends to raise income temporarily (growth and investment accelerate for 5 years leading to an economy permanently larger by 20%), but only for those countries with poor governance.

In addition, an analysis of HS-6 bilateral trade data shows that the extensive trade (new products and or new destinations of existing products) and intensive trade (existing products or partners) behave differently upon accession to the WTO. Dutt et al. (2011) estimate that WTO membership increases the extensive margin by 31%, while membership has a negligible impact on the intensive margin. This could reflect higher costs related to uncertainty for new products and partners than for existing ones. WTO membership could then help raise Liberia's low rate of "new" products noted above.

3.2 Managing natural resources

For a long time Liberia will rely on exporting natural resources for which current WTO rules are of little help since domestic tax policy –for which WTO rules only require non-discrimination—is equivalent to trade policy. Moreover, the contractual and fiscal regimes in resource sectors are carried out under opaque bilateral arrangements outside multilateral rules. In this regard, Liberia's Extractive Industries Transparency Initiative (LEITI) is a step in the right direction—as are the undergoing reforms to the Petroleum Law—that demonstrates commitment to preserving Liberia's natural assets and to bringing transparency in trade (see DTIS (2008)). This initiative should apply to all renewable natural resource products (e.g. wood products) and will help address the risk of hold-up (post investment change in fiscal terms that will discourage FDI) and opaqueness in the allocation of licenses (discrimination and corruption).

As discussed by Collier and Venables (2010) and Ruta and Venables (2012), what is needed is a rule analogous to the non-discrimination principle requiring an open process for the allocation of resource-extraction rights—somewhat similar to commitments by members of the multilateral WTO agreement on Government procurement. Thus, improving the investment climate for FDI (necessary to obtain membership) should be designed so as to prevent long-term opaque contracts with

[8] Since countries are not forced to apply for membership, the fact that just about all LDCs that are not yet WTO members are applying for membership is an indication of the overall positive perception about membership.

foreign companies, since the WTO does not have a role in the enforcement of resource extraction agreements.

Subject to the necessary management of its natural resources, Liberia, in pursuing and gaining WTO membership will gain many advantages deserving priority in the design of its trade strategy:

- Secured non-discriminatory MFN treatment from its partners for its exporters;
- Discussions in Liberia on membership which will result in much learning about the benefits of trade in the community and create momentum on aid for trade among donors;
- Support in resisting demands for protection by citing its obligations under the WTO (since, say a ban on imports of footwear by Liberia might bring a WTO dispute);
- Access to the Dispute Settlement Process and to the legal assistance from the Advisory Centre on WTO law (ACWL).

4 Rwanda's Experience in the EAC

Undergoing recovery from civil conflict and landlocked, Rwanda has clocked one of the fastest growth rates in Africa over the last decade, with income growing at an average annual rate of 8% and the percentage of population living in poverty falling from 57% to 45% between 2006 and 2011. Rwanda's growth strategy called for the "Promotion of Regional Economic Integration and Cooperation" (GOR (2000, p. 2)).[9] Along with Burundi, Rwanda joined the EAC-3 in 2009. The EAC is often cited as the example that shows that "deep" integration (i.e. moving beyond the elimination of tariffs and NTBs among members) is possible in Africa. Although Liberia was not a latecomer in ECOWAS—because of the civil war and because of its small size in ECOWAS—much like Rwanda in the EAC, Liberia has little bargaining power in ECOWAS. As shown here, Rwanda's success owes much to reforms carried out unilaterally (many aimed at reducing trade costs) and especially to an excellent management of foreign aid which averaged 20% of GDP—aid that was almost entirely channelled to public investment programmes in the AFT-designated sectors.[10]

[9] 'Sustainable Growth for Jobs and Exports' and "governance" to establish regional comparative advantage in soft infrastructure are two of the three pillars in the GOR's recent Economic Development & Poverty Reduction Strategy (2008-12). To support this strategy the GOR launched its National Export Strategy (NES, December 2010) with the objective of deepening traditional exports (coffee, tea and minerals), diversifying into non-traditional exports (BPO and horticulture, home décor & fashion), and foraying into Greenfield sectors (biotech and cloud computing).

[10] Melo and Collinson (2011) detail Rwanda's trade integration strategy and Newfarmer et al. (2012) discuss the key elements in the "results based management" Rwandan public financial management system: transparency, and zero tolerance for corruption. The results-based management systems involve a clear statement of strategic objectives for the long term; carefully articulated (usually quantified) economic objectives each year; necessary projected policy measures needed to achieve the objectives, and a system of monitoring and reporting that is fed into the next year's objectives. This is accompanied by a system of performance contracts at each level of government, starting with the

4.1 Extensive unilateral Reforms to facilitate trade

Rwanda's trade regime gained in terms of transparency and efficiency largely through unilateral measures reducing protection, combined with improvements in trade facilitation. In 2009, administrative changes (e.g. increased operating hours and enhanced cooperation at the border, along with the removal of some documentation requirements for importers and exporters) reduced the time to clear customs from 3 days in 2007 to 1 day 9 hours in 2008. Rwanda also moved to the GATT system valuation of imports (transaction value) for standardisation and transparency. The main borders' customs offices representing 99% of customs operations were computerised in 2008. Road blocks from the Revenue Authority were removed throughout the country. The cost of port and terminal handling was reduced by liberalising the warehouse services sector. Customs declaration points were also increased to accelerate the process.

A new risk assessment system was put into service (with an automatic channelling system based on an importer's track record and the type of shipment). As a result, duty collections and refunds were promptly processed. The ASYCUDA++ system was streamlined and extended to almost all border posts in Rwanda. As a result of these measures, the number of days to export and import has decreased steadily over the last three years. Documents such as importation bank declaration and arrival notice have been abolished to facilitate trade. Yet, the costs of importing and exporting a standardised container to Rwanda are still among the highest in the EAC region. In the EAC, Rwanda was the first country to abolish working permits for citizens of the EAC to promote free movement of labour. These and other reforms reduce transaction costs substantially. These policies have allowed Rwanda to tap into a global and regional talent pool that has augmented domestic technology and skills. They have certainly contributed substantially to reducing trade costs. As a result of these measures, Rwanda ranked first as the top global reformer in the WB 2010 DB Report (Liberia was tenth in 2010) and second in the 2011 DB report.

A telling example of the gains from unilateral policies is the introduction of a one-stop-shop for business registration of new firms. In a carefully conducted impact evaluation in 11 countries including Rwanda, Gathani et al. (2013) control convincingly for other factors that might affect firm creation. Their estimates for Rwanda indicate that the creation of the one-stop-shop for business registration increased new firm creation by 186% after the reform came into effect (high estimates for other countries as well).

4.2 Adopting the EAC Tariff Schedule: Is a CET in sight?

The ultimate objective of adopting a CET is to harmonise trade policies and have common trade policy stance. Adopting a simple (i.e. few tariff-bands to discourage

Ministers' deliverables to President. Each year the government holds a "National Dialogue" with the citizenry at large, taking call in questions to respond to specific concerns.

lobbying for exceptions) is an important first landmark.[11] The greater the number of exceptions, the less useful is the CET in achieving its objective of a common trade policy. Ultimately, a CET with many exceptions is not really a step towards harmonisation and transparency in trade policy among members.

When it joined the EAC CU in June 2009, Rwanda moved from a four band structure to the EAC three-band tariff structure (raw materials and capital (0%), intermediates (10%), and finished (25%)) that was implemented among the EAC-3 in 2006. In principle, this was a move towards greater efficiency, since it was a move towards greater uniformity. This tariff schedule largely reflects the tariff schedules of the EAC-3 (the initial founders). However, this 3-band tariff schedule was accompanied by exceptions (a total of 58 products) on a "Sensitive Items" (SI) list which represents only 1% of import lines and concerns a small share of total import value, ranging from 3.2% in Tanzania to 5.4% in Uganda.[12]

Moving to the CET stimulated Rwanda's exports, but it also reduced the purchasing power of the poor.[13] Frazer compared the effect on the cost of living from moving to the CET for poor and rich households. He included in his analysis 19 major consumption goods that accounted for 72% of the total consumption of low-income households. For example, the pre-CET tariff for sugar in Rwanda was 14.6% but 42.1% post-CET. Aggregating across categories, Frazer estimates that the move to the CET resulted in a 3.8% decline in real income for the bottom decile but in no decline for the top decile.[14]

When Rwanda joined the EAC in June 2010, it applied and obtained exemptions from the CET for a period of one year, requesting lower or zero tariffs on goods produced by partners but not by Rwanda (vehicles, tractors, construction materials, cement and wheat grain). However, application of the CET has since been pushed back to 2015 because of negotiating difficulties, notably on rules of origin due to the multiple memberships of EAC countries: Burundi, Kenya, and Rwanda belong to COMESA, while Tanzania belongs to SADC[15]. This makes it impossible to apply the CET to non-members and is a reason why the 26 members of these 3 RECs are negotiating a TRIPARTITE FTA which is not going to lead to the initial single FTA

[11] A second landmark in moving towards a common trade policy is reaching agreement in a revenue sharing formula as is the case in SACU since only then costly RoO can be dispensed with. Reaching that second stage, however, requires trust and delegation of authority to a supra-national authority.

[12] Not surprisingly, the items on the SI list do not weigh heavily on the total import value of the EAC-3 (less than 5% of import value), but they weighed heavily in the total import value of the newcomers (Burundi and Rwanda). For Rwanda they accounted for over 20% of their imports! This meant a loss of tariff revenue for the newcomers and a subsidy to the EAC-3 partners where at least one (probably Kenya) produced the goods on the SI list.

[13] Using firm level data, Frazer (2012) estimated that the fall on the average tariff of goods imported by exporting firms decreased by close to 5 percentage points upon joining the EAC resulting in an average increase of exports of between 5% and 10% across all firms.

[14] Tariff revenue also fell, partly as accession coincided with the world-wide recession, with about half from the loss of tariff revenue on goods previously imported from EAC partners and the other half from the lower tax base on goods coming from outside the EAC (now calculated at point of entry in the zone, rather than at the Rwandan border).

[15] Common market for Easter and Southern Africa and Southern African Development Community

envisaged.[16] But as membership has expanded, disagreements among members about the CET have increased. So even in the EAC where there is more harmony among members, consequential changes in the EAC CET have recently been announced, while some countries have also announced that they are altering their exemptions list. Evidently, the EAC is a ways from adopting a truly effective common trade policy since countries will continue to obtain exemptions from the relatively simple3-band structure.[17]

COMESA has also moved to the same 3-band tariff structure as EAC (raw materials and capital (0%) intermediates (10%) and finished (25%)) in 2009 to be operational in 2012, but delayed to 2014. However, interests among the 19 members diverge strongly, with Mauritius at one end and Egypt at the other. Flexibility to take into account diverging interests allows countries to exclude products and to protect sensitive products during the transition period, so that over 1000 lines have been put up for derogation from the 3-band CET schedule.

4.3 Deepening of integration needs to be monitored

An important aspect of the deepening of integration in the EAC is the close monitoring of NTBs. This monitoring has been active in the EAC. Since EAC members have committed to eliminate all NTBs to intra-regional trade, their evolution has been monitored closely. For example, the following had been identified for immediate removal in 2010: non-recognition of Sanitary and Phytosanitary (SPS) certificates by Kenya for tea imports; the non-recognition of EAC rules of origin (RoO) by partners; multiple weighbridges along the Northern corridor and road blocks; Cotecna inspection certificates requested by Tanzania for imports, etc. While some NTBs were being eliminated, others were being imposed. For example, in January 2013, new measures have been reported (Tanzania, re-imposing a visa charge of USD 200 for business persons; Kenya restricting cut flowers from Tanzania to Europe, etc.).

Monitoring of progress at integration at ECOWAS level seems absent, at least on its website (which shows that despite ECOWAS regular meetings for monitoring purposes), where monitoring does not seem transparent. In West Africa, progress on integration is not to be found on the ECOWAS website but on the West Africa Trade Hub (WATH)[18]. For example, WATH (2012) reports in detail the lack of progress in Nigeria in implementing the ETLS. After identifying major areas of obstacles to trade in the region, the report laments the lack of progress of the ETLS protocols,

[16] Originally, a single proper FTA was to be negotiated but, during the negotiations the focus has changed towards a Member-State driven negotiation process along variable geometry lines that will allow the coexistence of different trade arrangements. See Erasmus (2013).
[17] Recent changes include the CET on rice and sugar and other products under production shortfalls in http://www.theeastafrican.co.ke/news/Shot-in-the-arm-for-trade-and-integration/-/2558/1883916/-/8ae3uxz/-/index.html
[18] The USAID-WAEMU regular road governance reported on the West Africa Trade Hub is the kind of follow-up on monitoring of NTBs that should take place on a regular basis on a larger scale. See http://www.watradehub.com/competitive-environment/transport-infrastructure.

suggesting that the report could be posted on the ECOWAS website "to update its website on the implementation of the ETLS by member states and to monitor Nigeria's progress" (p. 6).[19] One cannot escape the conclusion that the will to reduce barriers to trade in ECOWAS is weak relative to some of the other African RECs.

5 Liberia in ECOWAS: Political benefits but slow progress at economic integration

RECs like ECOWAS have many objectives among which regional cooperation is most important. Cooperation, however, takes a long time to show visible signs in the form of the provision of effective regional institutions necessary to facilitate trade. For Liberia, there are gains from cooperation at the regional level, as already seen by the Mano River Union. The provision of these regional public goods requires the provision of both a "hard" infrastructure and of a supportive "soft" infrastructure in the form of an appropriate regulatory framework that can only be developed at the regional level. These benefits are accepted, but Liberia has to weigh these benefits against the economic costs discussed here. This requires discerning between the politics and economics of regional trade agreements (RTAs).

5.1 Discerning the Politics from the Economics

RECs always have multiple objectives, here summarised under the rubric of politics. These objectives include democracy and human rights (SADC and MERCOSUR Treaties) regional cooperation and coordination (ASEAN), the expansion of foreign direct investment (COMESA), and often the development of the least-developed members (SACU).[20] For ECOWAS, the Treaty calls for the establishment of a West African parliament, an economic and social council, and an ECOWAS court of justice to replace the existing Tribunal and enforce Community decisions. The ECOWAS treaty also formally assigned the Community with the responsibility of preventing and settling regional conflicts, clearly indicating the importance of political objectives.

Establishing a REC like ECOWAS also extends beyond security: because increased trade raises countries' knowledge of each other over time, trading partners are more likely to have greater trust in each other (even in neighbouring countries that typically go to war), and hence are more likely to accept the necessary delegation of

[19] A search for NTBs on the EAC website on August 12, listed 20 instances of NTBs. The absence of a search engine on the ECOWAS website did not allow comparison.

[20] The most famous example of the primacy of politics is the establishment of the European Steel and Coal Community (ESCC) established between France and Germany in 1951 as a precursor to the European Common Market with specific objective to prevent France and Germany from entering into another conflict. Shortly before the signing of the ESCC, Robert Schuman, then French Minister of Foreign Affairs said "Through the consolidation of basic production and the institution of a new High Authority, whose decisions will bind France, Germany and the other countries that join, this proposal represents the first concrete step towards a European federation, imperative for the preservation of peace."

authority to a regional body to build the institutions at the regional level that will deliver regional public goods.[21]

Recent developments in the many FTAs around the world support the view that economics and politics are complements (rather than substitutes as argued by the defenders of multilateralism). The reasoning is simple: because FTAs augment the volume of trade, they should reduce the probability of war. As political scientists have argued, when FTAs are sufficiently "deep" in the sense that they go beyond the elimination of tariffs among partners, institutions are created in which countries not only negotiate on trade issues but also carry out discussions that spill over to political issues and thereby attempt to diffuse political disputes that could escalate into political conflicts. In addition, if there are trade gains, the opportunity cost of war is higher; conversely, multilateral trade openness that reduces trade dependence on neighbours reduces the opportunity cost of war.[22]

Given the prevalence of conflicts in the region's recent history, the importance of the potential political benefits of pursuing preferential regional integration should not be underestimated; this is why an introduction to a recent handbook on preferential trade agreements is entitled "Beyond Market Access" (Chauffour and Maur eds. (2011)). As put by the government of Rwanda, its trade strategy is to promote "regional integration and cooperation," (underline added) and in the case of ECOWAS, the Community of States has "the responsibility of preventing and settling regional conflicts." Indeed, without regional cooperation, harmonisation of customs clearance procedures (e.g. a single window clearance process) and regulatory structures for trading regionally will not take place, resulting in higher trade costs and less regional integration (see the country rankings in ease of trading borders in Table A2, col. 3).

5.2 The Economics of ECOWAS: Market access and the unfinished business of the ETLS

On the economic front, 20th century regionalism, upon which ECOWAS is founded, was largely about an exchange of market access. With the reduction in trade costs and the subsequent fragmentation of production, 21st century regionalism has a new bargain: an exchange of domestic market reforms for FDI, which is necessary to attract the services and activities to participate in the global value chain. In this new environment, where trade is trade in tasks and increasingly involves an exchange of intermediate goods, protection –or exchange of market access—amounts to depriving oneself from participating in global outsourcing. It is against this changing background that ECOWAS' "old regionalism" built on exchanging market access has to be evaluated.

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[21] Subsidiarity indicates that decision-making jurisdiction should coincide with public goods spillovers (multilateral institutions for transnational public goods, regional institutions for regional public goods, like infrastructure especially for landlocked countries, and national institutions for national public goods). Sandler (2006) provides many examples of regional public goods.

[22] The supporting evidence is in Martin et al. (2008) who also show that countries that had a recent conflict are less likely to enter into an FTA as confidence needs to be rebuilt.

The ECOWAS Trade Liberalization Scheme (ETLS) was signed by most members in 1993 (but is not yet ratified by Parliament by Liberia). The ETLS calls for the removal of all barriers to trade. This entails eliminating not only tariffs on imports from ECOWAS partners but also ALL NTBs. However, implementation is at the discretion of members, which explains partly why progress has been so slow. Meanwhile, slow progress is probably also due, at least partly, to the generally weak institutional environment reflected in the low indicator values of regulatory and governance indicators for most ECOWAS members (see Annex 1, Tables A1 and A2).

Some members, especially Nigeria, are far from implementing the ETLS. Several indicators of NTBs lead to the conclusion that Nigeria is rife with NTBs (the saying goes that, de facto, anything that is produced in Nigeria cannot be imported).[23] Nigeria has a large number of NTBs and ranks in the bottom quartile according to the Overall Trade Restrictiveness Index (OTRI) in Table A2. (Nigeria's OTRI estimated at 27% is the equivalent uniform tariff of a country's tariff schedule and non-tariff measures that would maintain domestic imports at current levels.) Melo and Ugarte (2012) report that in Nigeria, technical regulations followed by import prohibitions were the most frequent form of NTB. Technical regulations appear as a single NTB on 82% of the lines, with an estimated ad-valorem tariff equivalent of 50%.

Technical regulations are not necessarily welfare-reducing. This is why the number of technical regulations increases with per capita income, reflecting among others, production methods for complex manufacturing products (e.g. electronics) and SPS for agricultural products. Nigeria, however, is an outlier, as not only does it have one of the least complex export baskets in a sample of countries including Haiti (see Table A2, column 8), but it is also an outlier on a scatter plot relating technical barriers to trade (and their ad-valorem equivalents) against per capita income. It is hard to escape the conclusion that these NTMs have protectionist intent and that strong lobbying by vested interests will make it hard to remove these NTBs.

Market access is also dependent on meeting origin requirements. Rules of origin (RoO)—which will continue to be necessary until a formula for revenue sharing is established in the CU (as in the case of SACU)—are another source of potential protectionism. Extensive review of RoO around the world indicates that often they tend to be captured by business interests as has been the case for the EU and US in their multiple FTAs and by South African business in SADC.[24] This is why it is often said that preferential access is "giving with one hand (market access) and taking away with another (costly-to-comply RoO)". For example, in the ECOWAS RoO for fish, following a rule set up by the EU, establishing origin requires that the fish be caught

[23] See Nigeria Customs https://www.customs.gov.ng/ProhibitionList/import.php. Bagged cement, mosquito repellent coils, all types of footwear, soaps and detergents, ballpoint pens are on a list that has not changed much since 2008. Except for cassava and toothpicks which have been removed and what is indicated in bold, this list is the same as the bans that were in place in October 2008 and reported in Annex G in Treichel (2010). Based on interviews with business people, Hoppe M., and F. Aidoo (2012) document the many barriers (formal and informal) to trade between Ghana and Nigeria.
[24] For case studies see Cadot et al. (2006) and for recommendations for reforms, see Cadot and Melo (2007).

in a vessel registered in a Member State with at least 50% of the crew being nationals of one of the Member States. And for goods that are not wholly produced (i.e. manufactures), 30% of the ex-factory price of the finished good must originate among members. According to our inquiries, Liberian producers find the process of obtaining a certificate of origin complicated and costly, so that apparently only a handful of exports to ECOWAS members have taken place under preferential access. So in effect, market access is much less than the preference margin implied by the partner's MFN tariff.

6 Moving towards an ECOWAS CET: Revenue effects

6.1 Liberia's Tariff Structure and the Proposed CET

Liberia's border tariffs are guided by two instruments: (i) the statutory tariffs established by the Revenue Code of Liberia Act of 2000 (amended in 2011) and the recently updated by the Customs Tariff of Liberia of 2012 and (ii) a list of products subject to periodically announced waivers declared through Executive Orders. Permanent so far (i.e. renewed periodically) are: (a) since 2006, the elimination of a USD 2 tariff per 50kg. of Portland cement; (b) since 2008, in reaction to the rising price of rice, the tariff of USD 0.044 per kg has been waived; (c) since 2008, a waiver on key inputs in a variety of agricultural activities, first covering about 100 HS-6 tariff lines, then 212 lines starting in 2009 as industrial activities were added. The average statutory tariff on these products was 6.4% (Artuc and Bown (2013) estimates). In addition, one-time waivers were granted to imports of certain buses and automobiles, certain fuel imports, and certain medicines.

Table 3: Liberia's Tariff Structure, Statutory and Applied and the Proposed CET

		1	2	3	4	5	6	7	8
Chapters	**Description**	**Total HS6 lines**	**Average Statutory tariff**	**Max Staturory Tariff**	**Average w/ waivers**	**%tariffs>15%**	**Import share (2011 Customs)**	**Applied tariff (2011 Customs)**	**Proposed ECOWAS CET**
01-05	Animal and Animal Products	334	7.8%	25.0%	7.6%	1.2%	5.0%	5.9%	19.1%
06-15	Vegetable Products	348	9.1%	25.0%	9.0%	8.3%	25.6%	0.6%	15.4%
16-24	Foodstuffs	185	13.9%	25.0%	13.9%	33.0%	6.1%	16.3%	23.0%
25-26	Minerals	103	8.6%	25.0%	8.2%	4.9%	2.4%	8.4%	7.1%
27	Mineral Fuels	43	9.1%	15.0%	3.0%	0.0%	24.3%	7.9%	6.3%
28-38	Chemicals & Allied Industries	769	7.0%	25.0%	7.0%	3.1%	2.9%	8.0%	8.1%
39-40	Plastics / Rubbers	211	9.0%	25.0%	9.0%	12.3%	2.4%	5.8%	11.9%
41-43	Raw Hides, Skins, Leather & Fu	69	14.0%	25.0%	14.0%	52.2%	0.1%	23.3%	13.3%
44-49	Wood & Wood Products	234	14.6%	45.0%	14.6%	35.9%	1.0%	9.2%	12.0%
50-63	Textiles	791	14.0%	20.0%	14.0%	40.2%	1.8%	9.4%	18.8%
64-67	Footwear / Headgear	47	15.2%	25.0%	15.2%	2.1%	0.5%	14.5%	19.7%
68-71	Stone / Glass	186	12.4%	25.0%	12.4%	23.7%	0.8%	5.9%	15.1%
72-83	Metals	550	6.2%	20.0%	6.2%	1.3%	4.5%	3.6%	14.5%
84-85	Machinery / Electrical	769	8.2%	25.0%	7.9%	6.6%	11.8%	3.7%	8.8%
86-89	Transportation	130	8.8%	50.0%	7.8%	3.8%	9.7%	5.0%	10.0%
90-97	Miscellaneous	353	16.1%	50.0%	16.1%	46.5%	1.1%	12.7%	14.0%
Total average		**5122**	**10.1%**		**9.9%**	**16.7%**		**5.3%**	**13.6%**

Source: Author's calculations based on Liberia's Statutory Tariffs 2012, the Proposed ECOWAS CET 2012, and ASYCUDA data for 2011

Table 3 summarises Liberia's tariff schedule, statutory and applied, by broad sector classification. Average statutory tariffs in column 2 can be contrasted with the corresponding applied rates in column 4 (resulting from the waivers). Maximum statutory rates in column 3 show a range going from 15% to 50%. Liberia's statutory schedule has about 13 bands ranging from 0% to 50%, and a specific tariff is applied to 1.5% of products. This is a large number of bands which is costly in terms of efficiency. First, the distortionary costs of a given average level of protection increase with greater variance in tariffs. Hence, fewer tariff bands—as under the proposed CET—are a move in the right direction. Second, a large number of tariff bands encourages lobbying to change product classification across bands and to a waste of resources.

Column 5 shows that high tariffs (exceeding 15%) are concentrated in light-industry sectors that are labour-intensive, i.e. wood, textiles and miscellaneous sectors for which there must be domestic production. Not surprisingly, the import shares of these sectors (col 6) are generally low, suggesting small revenue losses if these were to be lowered. While waivers should account for only 0.2% of revenue loss, customs data for 2011 reveal that tariff revenue was lower than expected, due to the higher weight of imports with waived tariff duty. The weighted average of tariff rates, as calculated from actual tariff revenue collected at the border, was 5.3% in 2011. The weighted average of statutory tariffs was 7.7% in 2011.

In total, 2.8% of tariff lines received waivers in 2012 (Table 3 col.3), and the difference in the (simple) average with waivers (10.1%) and statutory rates (9.9%) is small. These waivers were to remove barriers to importing key industrial and agricultural inputs or to alleviate poverty. Even though these waivers introduced uncertainty—unlike other countries where waivers are the result of intense lobbying by protectionist interests—it is fair to say that the decisions were broadly in the national interest.

Column 8 shows the proposed ECOWAS CET rates for the 16 industry categories in the table. The (simple) average CET is about 3 times the applied tariffs from the Customs data which are used in the revenue simulations below. Of the 16 industries, for only three industries would the move to the CET result in lower tariffs. Thus, Liberia's situation in ECOWAS as a latecomer is quite different from that of Rwanda in the EAC, where the move to the EAC CET resulted in a reduction in tariffs for a number of raw materials and intermediate goods.

6.2 Revenue Estimates from adopting the CET

Revenue implications of moving to the CET and alternative tariff structures use the TRIST simulation software (see Annex A2) applied to Liberian Customs data for 2011, the latest year available to us. Customs data are available at the HS-8 level using the 1996 HS nomenclature, while the proposed ECOWAS CET schedule and the Customs Tariff Schedule of 2012 are defined on the basis on the more recent widely used 2012 HS-10 nomenclature. (Annex A2 explains how the concordance was carried out between the two schedules.) Using Customs data is the most appropriate basis for estimating short-term revenue effects of tariff changes, since it takes into account all exceptions to the tariff schedule taken at Customs. It also takes into account revenue changes on other sources of revenue, such as excise taxes that are usually applied on imports inclusive of tariffs. So if a tariff is raised, imports will fall and the revenue from the excise tax will be lower, because the tariff is now applied on a smaller base.

Two sets of simulations are carried out, one modelling the move from Liberia's tariff structure towards the ECOWAS CET and the second considering alternatives to the CET. On moving to the CET, we consider two CET regimes, one corresponding to WAEMU's 4-band CET (CET_U) and one corresponding to the 5-band structure proposed by Nigeria that was recently adopted (CET_N). Since we are not quite sure where the HS-10 products for the 35% band would fall in CET_U, we make the conservative assumption (from the point of view of revenue losses) that the products would all be drawn from the 4th highest (20%) tariff-band. We also consider the revenue effects of moving to a 10% uniform tariff, which would preferable on efficiency grounds. Because of the non-negligible amount of waivers, we first simulate the revenue effects of removing the waivers. This gives the following first set of simulations:

- E-1: Remove all waivers, apply all statutory tariffs to the Rest of the World, and apply zero tariffs to all imports from ECOWAS members
- E-2 : Adopt CET_U
- E-3: Adopt CET_N
- E-4: Adopt a 10% uniform tariff

Table 4: Moving to the 5 band ECOWAS CET

	1	2		3		4		5		6	
	Actual (2011)	Actual collected (2011) tariffs for RoW and 0 tariff for ECOWAS		Satutory for RoW and 0 tariff for ECOWAS		CET_U (waivers removed)		CET_N (waivers removed)		10 % uniform for RoW and 0 tariff for (waivers removed)	
	in '000,000 USD	Value Δ	Percent Δ	Value Δ	Percent Δ	Value Δ	Percent Δ	Value Δ	Percent Δ	Value Δ	Percent Δ
Total Imports	1,249.60	0.7	0.1%	-12.10	-1.0%	-38.1	-3.0%	-47.6	-3.8%	-27.1	-2.2%
Tariff revenue	66.1	-1.6	-2.5%	24.50	37.0%	73	110.5%	91.4	138.4%	49.1	74.3%
Total revenue	126.4	-1.7	-1.3%	24.40	19.3%	73.5	58.1%	92.5	73.2%	48.9	38.7%
Collected applied tariff rate	5.3%	5.2%		7.3%		11.5%		13.1%		9.4%	

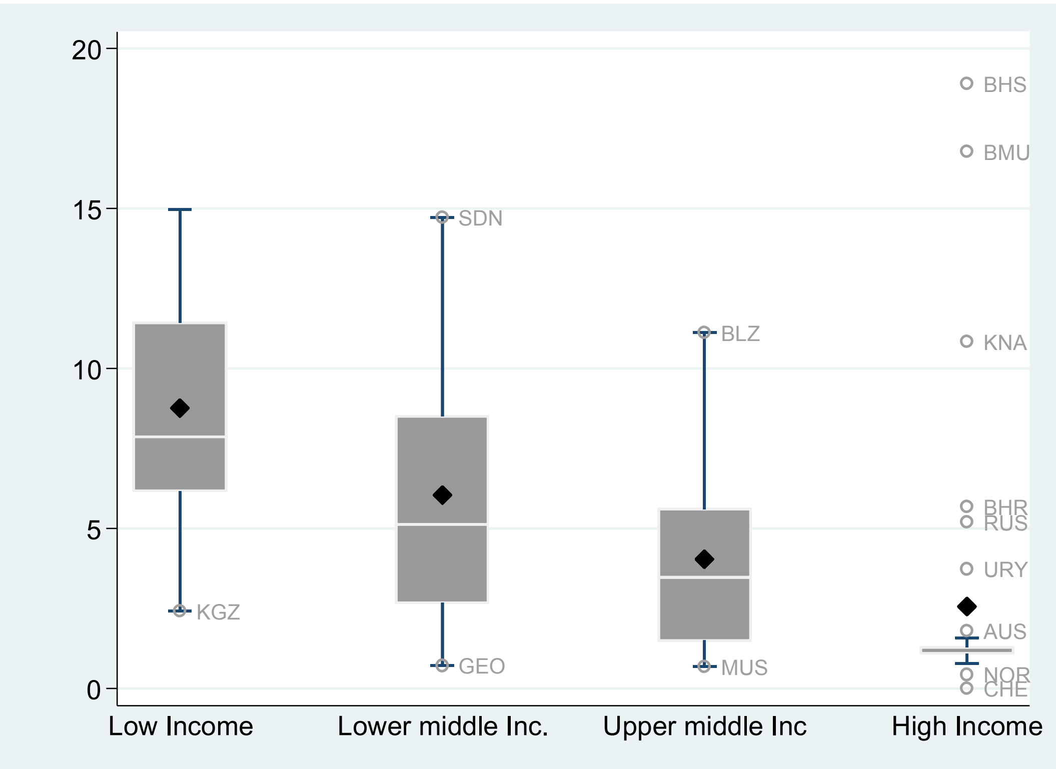
Source: Authors' calculations based on TRIST results.

Table 4 shows that preferential zero rates for ECOWAS members are not fully applied (col 2). Allowing for ECOWAS imports to enter duty free would lead to a reduction in tariff revenues of 2.5% (about USD 1.6 million) with the average applied tariff falling from 5.3% to 5.2%. As discussed in the previous section, a main reason could be the costly Rules of Origin certificates. Of course, it could be that these RoO, which are necessary to prevent trade deflection, are justified on economic grounds. But it could be that the rules have been captured by protectionist lobbying interests, or simply that exporters were not aware of the possibility of exporting duty free to ECOWAS partners.

The largest revenue losses result from applying waivers. Moving to statutory rates would not only undo the effect of applying zero tariffs to ECOWAS imports but would also increase revenues by 37% while affecting imports by -1%. This said, as discussed above and shown below (see the simulation results in Table 8), the main beneficiaries are the poor, so the revenue loss is in effect a desirable redistributive policy by the government in the absence of other fiscal levers.

Columns 4 and 5 depict the effects of moving to a 4 band and to a 5 band CET. As expected, the increase in revenues is substantial in both cases as revenues increase. It is worth noting that in both cases tariff revenues almost double in spite of a reduction in imports. The 5 band CET generates the largest effect, despite the large drop in imports (USD -47.6 million). Under the 5-band CET, the tariff rate would more than double, certainly a large efficiency cost for a small economy where, for efficiency objectives, average protection should be below 5%. Figure 3 shows the distribution of trade-weighted average applied tariffs for 102 countries for year 2011. It is clear from the box-plot that for low-income countries the median tariff is around 7.5%, whereas the bottom quartile is around 6%. For upper-middle income countries median and average tariffs are around 5%; whereas for high-income countries, average and median tariffs are around 2.5%. Therefore, for efficiency objectives, we believe that Liberia's tariff of 5.3% is optimal.

Figure 4: Global Weighted-average Applied Tariffs 2011



Source: Authors' calculations based on 2011 data from World Development Indicators. We used only countries which had data available for trade-weighted average tariffs (a total of 102). Country categorisation by income was obtained by the World Bank 2013. Black diamonds represent means, while the white bars are medians.

The move to the ECOWAS CET would indeed increase government revenues by 73.2%, a short term gain for government revenue but a costly one in terms of welfare (see Table 7 below). Furthermore, in the longer run, a substantial decrease in efficiency would result, since there will be switch of imports from the rest-of-the-world towards ECOWAS members, resulting in trade diversion (replacing low-cost imports from far-away partners by high-source regional imports). Finally, moving to the 10% uniform tariff—which would be costly for the poor but would increase efficiency—would still increase government revenue by 38.7%.

6.3 Trade Diversion/Creation and Scenarios for exceptions to the CET

Next we carry out a second set of simulations that assume applying the 5 band CET—which was very recently agreed upon by ECOWAS members—and allow for exemptions to selected products. How many exceptions can Liberia expect to obtain?

Table 5: ECOWAS CET; Liberia, Nigeria Tariff Schedule

Category	Tariff band	ECOWAS CET Tariff lines HS-6 (HS-10)	Nigeria Tariff Lines
Social goods	0%	65 (69)	599
Raw materials & capital goods	5%	1659 (1738)	2106
Intermediate goods	10%	868 (1027)	747
Final consumer goods	20%	1512 (1790)	2051
Specific goods for regional development	35%	298 (374)	164
Tariff (simple average)		13.5%	11.4%

Notes: ECOWAS CET Tariff regime announced March 2013 at HS-10 level with 5899 HS-10 tariff lines. (Number of corresponding HS-10 tariff lines in parentheses) Note that our database has a total of 4998 HS-10 lines, thus the figures in Table 4 are based on that data. Liberia's statutory average tariff is for the lines in the corresponding CET band. Nigeria: Total tariff lines: 5667

The experience of other African RECs that have moved towards a CU strongly suggests that all members will likewise be requesting exceptions, so Liberia should not have difficulty in obtaining "gain de cause" in its request for exceptions. Table 5 shows the classification of the agreed 5-band tariff schedule along with the number of tariffs lines in each band. The last column shows the corresponding number for Nigeria's schedule. It is noteworthy that as soon as the 5-band was finalised, the Nigerian Association of producers requested reclassifications that would result in deep changes in the structure.[25] Among others, the association requested that complete knock down components (CKDs) for car, motorcycle and bicycle assembly which currently enter duty free in Nigeria be reclassified in the zero tariff band (a type "B" exception, i.e. a product that will be re-categorized through negotiation). This is why, when compared with the agreed CET schedule, Nigeria has close to 10 times the number of zero tariff lines (see column 3) in its 0% schedule. So Liberia should not have difficulty in obtaining exemptions. The revenue consequences of maintaining these exemptions are given in Table 6.

[25] The powerful Nigerian association of traders and producers has been complaining about the 100% increase in tariffs for raw materials (from 2.5% to 5.0%). ECOWAS vanguard (2012) details the negotiations at tariff classification (e.g. printed cotton under chapter 52 at 35% and upstream cotton textiles at 20% or the decision by Nigeria to impose a 65% tariff on wheat even though it is in the 35% band to induce flour mills to use locally produced cassava).

Most of the current exemptions in Liberia affect rice, cement, equipment used for road construction, agricultural equipment, and forestry equipment. The following scenarios progressively introduce Liberia's current exemptions into the ECOWAS CET (i.e. the CET_N scenario of Table 4) to allow for food exemptions (rice), non-food exemptions, and all current exemptions. Finally, E-7 estimates the revenue effect of moving to a 10% uniform tariff:

- E-5 : Adopt CET_N but allow for duty exemptions on rice
- E-6 : Adopt CET_N but allow for duty exemptions on non-food items
- E-7 : Adopt CET_N but allow for all current duty exemptions

Table 6: Alternatives to the 5-band ECOWAS CET

	1	5		3		4		5	
	Actual (2011)	CET_N (waivers removed)		CET_N (allowing current food waivers)		CET_N (allowing current non-food waivers)		CET_N (allowing all current waivers)	
	in '000,000 USD	Value Δ	Percent Δ	Value Δ	Percent Δ	Value Δ	Percent Δ	Value Δ	Percent Δ
Total Imports	1,249.60	-47.6	-3.8%	-34.4	-2.8%	-34.6	-2.8%	-21.4	-1.7%
Tariff revenue	66.1	91.4	138.4%	65.7	99.5%	64.3	97.4%	38.6	58.4%
Total revenue	126.4	92.5	73.2%	66.8	52.8%	65.8	52.1%	40.1	31.7%
Collected applied tariff rate	5.3%	13.1%		10.8%		10.7%		8.5%	

Source: Author's calculations based on TRIST.

Column 2 replicates the revenue estimates of moving to the CET (i.e. col. 5 of Table 5). Allowing for current duty exemptions on rice from the proposed CET would lead to a smaller decrease in imports, as rice imports are no longer taxed, and a smaller increase in revenues. Allowing for non-food waivers would have a smaller effect on imports and revenues than allowing for food waivers, with the average tariff reduced by one percentage point (to 10.7%) instead of 2 percentage points for food waivers. Finally, allowing for all waivers would almost cut in half the estimated increase in revenue from moving to CET_N.

To sum up:

- Admitting all ECOWAS imports duty free would result in a tariff revenue loss of 2.5%, but combining this with a removal of waivers would increase tariff revenues by 37% (and total revenues by 19.3%).
- Moving to the proposed 5-band CET is estimated to raise the average tariff from its current level of 5.3% to 13.1%, with an increase in tariff revenues of 138.4% (and total revenues by 73.2%) and a reduction in imports of 3.8%.
- Moving to the proposed 5-band CET but maintaining all current waivers would still increase estimated tariff revenue by 58.4% for a new average tariff rate of 8.5%.

The detailed review of Liberia's applied tariff shows that moving to the CET would certainly increase government revenues substantially. But this increase in revenues should be evaluated in terms of Liberia's long-term trade strategy. Moving to the proposed CET would more than double its average protection to 13%, certainly a substantial loss in efficiency—loss that would still be non-negligible if current waivers were kept, since the average applied tariff would still climb by a third to 8.5%. This rate would still not be out of line with average rates among comparator countries (see Table A.1.2 col. 1), although these comparators are usually economies with larger domestic markets.

Another important effect to note is the degree of trade creation and diversion by having duty free trade with ECOWAS partners and increasing tariffs to the CET level with the Rest of the World. Table 7 shows that imports from ECOWAS are mostly increased at the expense of more efficient partners from the rest of the world. Indeed, by applying the 5-band CET without allowing for the current waivers, almost 90% of new imports from ECOWAS are diverted from other partners.

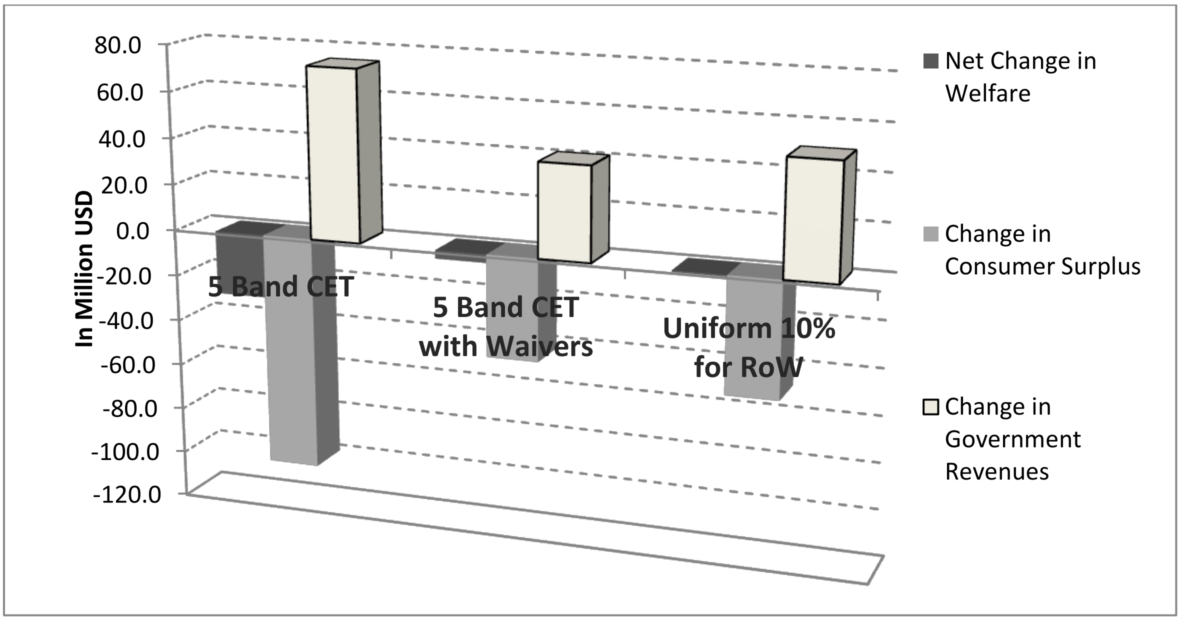
Table 7: ECOWAS Trade Creation, Diversion and Correction 2011

In USD '000,000	1		2		3		4	
	Satutory for RoW and 0 tariff for ECOWAS		CET_N (waivers removed)		CET_N (allowing for all waivers)		10 % uniform for RoW and 0 tariff for ECOWAS (waivers removed)	
	Value Δ	Percent	Value Δ	Percent	Value Δ	Percent	Value Δ	Percent
Change in imports from ECOWAS	2.2		4.5		1.9		2.7	
Of which:								
Trade creation	0.2	10.50%	0.2	5.07%	0.2	12.08%	0.6	21.32%
Trade diversion	1.8	78.78%	4.0	89.33%	1.5	75.30%	1.9	72.05%
Trade correction	0.2	10.72%	0.3	5.60%	0.2	12.62%	0.2	6.62%

Source: Authors' calculations based on TRIST results. A detailed description of the methodology can be found in Annex 2. Note that trade correction is trade re-sourced from other partners but which is welfare enhancing.

Lastly, Figure 5 shows the net welfare effects, calculated as change in consumer surplus plus change in government revenues. We can see that the 5-band CET has the most detrimental effects on overall welfare, despite the higher resulting change in government revenues. Adopting the CET but allowing for current waivers would result in a net welfare loss of about 0.05% of initial total imports, since the loss in consumer surplus is almost entirely offset by the increase in government revenues.

Figure 5: Changes in consumer surplus, government revenues and net welfare



Source: Authors' calculations based on TRIST results. For a detailed explanation of the methodology please see Annex 2.

7 Costs Estimates for Urban and Rural Households of Moving to the CET

Estimating the likely effects on poverty of the substantial price changes that would accompany the move to the CET requires price elasticities of demand usually not available for a large set of household consumption expenditures, especially in a low-income country like Liberia. As explained in Annex 4, the widely used Linear Expenditure System (LES) is simple and transparent to use. It also suitably accounts for auto-consumption, an important aspect of consumption by rural households in Liberia. As explained in Annex 3, the LES could be applied to a large number of household categories, but, as a first-pass, we prefer to concentrate on only on overall costs (rather than poverty measures) with restricted to a rural urban divide (rather than divide by quintile or decile groups within each category).

The estimates rely on the 2007 household survey, as the 2010 survey did not collect data on expenditure shares. Annex 3 details the steps taken to prepare the data for estimation and explains why 29 categories of commodities appear appropriate to capture the main expenditure categories for rural and urban households for which the move to the CET would result in substantial tariff changes. The budget shares and tariff schedules are described in Table A4.1.

To understand how households would be impacted by the proposed tariff changes, the following differences between rural and urban expenditure patterns need to be taken into account:

- Auto-consumption accounts for close to 1/3 of the value of rural expenditures and only 5% for urban households (see the shares in Table A4.1).
- Non-traded and other commodities (not affected by the tariff change) account for 36%of urban estimated expenditures and 25%for rural households.

On the one hand, auto-consumption shields rural households from tariff changes; while on the other hand, a higher share of non-traded goods shields urban households. (The price of non-traded commodities is assumed to be unaffected by the move to the CET.)

In addition:

- The ECOWAS CET rate is higher than Liberia's applied 2012 tariff for 25 out of the 29 commodity categories.
- The [purchased] (total) expenditure-weighted MFN tariff for rural households is [4.5%](6.2%) and for urban household is [6.5%] (6.7%)
- The [purchased] (total) expenditure-weighted ECOWAS-CET tariff for rural households is [8.4%] (14.2%) and for urban household is (11.4%) (11.9%)

The welfare effect of moving to the CET is measured by estimating the change in expenditures for the household of achieving the utility level under Liberia's current 2012 applied tariffs (inclusive of the waivers). Estimates, reported as percentage change in expenditures, are reported in Table 7. (Parameter selection and calibration are discussed in Annex 4 with sensitivity of results to parameter changes reported in Table A.4.2.)

Table 8: Welfare Estimates of Tariff changes.

			WELFARE COST[a]	
	Tariff Change	Assumptions	(Expenditure ratio to buy pre-CET basket)	
			RURAL	URBAN
1	ECOWAS-CET	Full tariff change pass--through, no adjustment for auto-consumption	1.121	1.056
2	ECOWAS-CET	20% tariff change pass--through, and adjustment for auto-consumption	1.0648	1.020
3		50% change pass---through, and adjustment for auto-consumption	1.0648	1.033
4	CET EXCLUSION	FUEL	1.061	1.037
5	‘’	RICE	1.050	1.031
6	‘’	RICE + FISH	1.046	1.029
7	“	RICE + FISH+ CASSAVA ROOTS	1.039	1.027

8	"	RICE + FISH+ CASSAVA ROOTS+PALMOIL	1.036	1.024
9	UNIFORM TARIFF	Across-the-board tariff of 5%	1.019	1.012
10	"	Across-the-board tariff of10%	1.049	1.021
11	"	Across-the-board tariff of 15%	1.081	1.031

Source: Authors' calculations from formulas in Annex 4.
[a] Estimates indicate the increase in cost to obtain the same level of utility as under the pre-tariff change commodity basket, i.e. in row 1 moving to the ECOWAS CET would cost rural households 12.1% more than it cost them under Liberia's applied tariff schedule. The cost of purchasing the initial basket would be 7.5% higher for rural households and 4.9% higher for urban households
All scenarios are estimates of moving from Liberia's applied tariffs in 2012 (including waivers) using the household budget shares and income from the 2007 household survey (see Annex A3)
All references to commodities are to those in Table A.4.1. Rows 4 to 11 assume a pass-through of 0.5.

Moving to the CET will often result in tariff changes that will increase the landed price of imports in the range of 10 to 20 percentage points. This is a large change, so the question of how much of this change is transmitted to domestic prices (the "pass-through") is important in determining the impact on households. As discussed in the annex, a pass-through of 0.5 is representative of estimates and our preferred assumption, but a comparison of rows 2 and 3 shows the importance of the assumed value on the resulting estimates. In the absence of a full agricultural household model in which the household adapts its production and market decisions to changes in policy, it is plausible to assume that the extent of the shock resulting from a move to the CET would be proportional to the share of purchased expenditures by the household. Take then auto-consumption (valued at transaction prices for purchased commodities in the household survey) and assume that the impact on the household of the price change will be proportional to the share of purchased expenditures in the total estimated value of consumption. A comparison of rows 1 and 2 shows the effect of taking these two effects into account. (Table A.4.2 gives results for other elasticities.)

Our "best-guess" estimate (row 3) is that moving to the ECOWAS CET would raise the cost of obtaining the same level of utility as before would increase by 6% for rural households and by 3% for urban households. (Row 3 shows that the estimate is reduced by about a third if the pass-through is reduced to 0.2.) The differential in cost estimates between rural and urban households largely reflects a consumption pattern more intensive in non-traded commodities for urban households than for rural households in the survey. If the differences in the expenditure patterns in the household survey are deemed unreliable, a modified ball-park estimate would be in the range of 4-5% increase in expenditures for households. (Table A.4.2 shows the sensitivity of this estimate to the assumption about the importance of incomprehensible household expenditures.)

The remaining rows show the effects of several exclusions. Row 4 shows that excluding fuel would in fact increase its cost estimate, because fuel is one of the four product categories with a tariff that would be lower under the CET. Excluding rice (row 4) would reduce costs substantially for rural households, as the cost of moving to the CET would decrease expenditures by 15% (to 5% instead of 6%). Urban households, for whom rice is much less important in the consumption basket, are not much affected by the rice exclusion. Successively adding other commodities to include four commodities in the exception list (row 8) would almost cut in half the estimated cost increase for rural households of moving to the CET and by a third for urban households.

The last three rows give estimates for uniform across-board-tariff structures which are desirable on efficiency and transparency grounds, even if politically difficult to implement. It is noteworthy that moving to a 5% across-the-board tariff structure (row 8) that is very close to the current average tariff (5.3%) would have small cost-raising effects, and that a uniform 10% tariff would still be less costly for households than the proposed CET.

In sum, if Liberia moves to the proposed CET, cost estimates for households to maintain the well-being levels under Liberia's current tariff regime are estimated to:

- Increase by 3% for urban households and 6% for rural households, the difference reflecting a higher share of non-traded expenditures (e.g. health expenses, entertainment, etc.) that would not be affected by moving to the CET for urban households.
- Increase by 2% and 4% for urban and rural households, respectively, in the case that households are, in effect, quite insulated from the transmission of tariff changes to the prices with which they are confronted in their purchasing decisions.
- Increase by about 1.5% for urban households and 3% for rural households, if policies add up to four food commodities (rice, fish, cassava roots, and palm oil) on an exception list (i.e. commodities that would keep Liberia's current tariff schedule).
- Be only two-thirds of the estimates of moving to the ECOWAS CET if a uniform across-the-board of 10% is applied.

8 Conclusions

Our findings suggest that Liberia's participation in the ECOWAS CET is expected to be beneficial to the country in terms of allowing for deeper integration and strengthening cooperation and peace in the region. However, the new weighted average tariff of 13% will most likely result in high costs for consumer welfare, despite a more than double increase in government revenues. We argue that Liberia's current trade policy of applying waivers to main consumption staples like rice should be continued in the ECOWAS CET to dampen the otherwise detrimental effects to households' welfare, especially the rural poor ones.

While these costs do not justify leaving ECOWAS, they justify the two-pronged trade strategy advocated here in which Liberia expends most of its scarce human resources to obtain WTO membership, using levers to lock in reforms including the lowest possible tariff rates that it (and WAEMU partners) can obtain for the CET.

20th century regionalism upon which ECOWAS was founded (and under which continues to operate) was a bargain about an exchange of market access at the expense of outsiders. With the reduction in trade costs and the subsequent fragmentation of production, 21st century regionalism is about a new bargain: an exchange of domestic market reforms for FDI—which attracts the services activities necessary to participate in the global value chain. We believe that Liberia should not shy away from reforms that will help it enter the 21st century world trading system, but should maintain its participation in ECOWAS and go beyond regional decision-making when the needed policies are not implemented.

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