

Regional and Global Trade Strategies for Liberia

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Growth Week 2013

Outline

- A two-pronged trade strategy: WTO & ECOWAS
- Liberia's Regional Trade Prospects
- Unfinished ECOWAS Trade Liberalization Scheme
- Moving Towards the ECOWAS CET
 - Liberia's Tariff Structure and the Proposed CET
 - Revenue Estimates
 - First-order Welfare cost estimates for rural and urban HH

1. Pursue a two-pronged trade strategy: WTO & ECOWAS

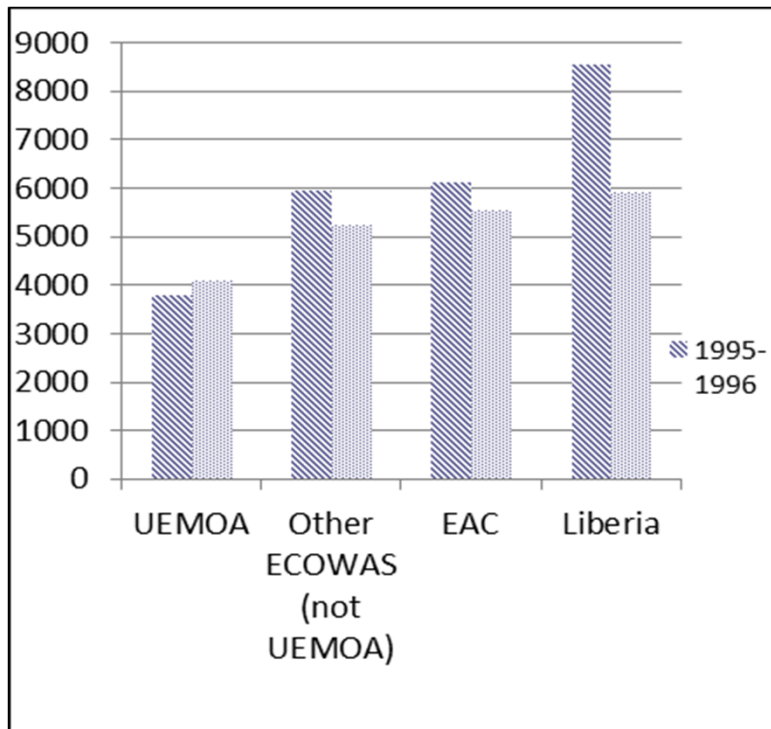
- Recent sustained growth in the region is strong reason to devote human (and political) capital on the regional strategy
- ...but at non-negligible economic costs (subsidizing Nigerian inefficient producers)
- ..while WTO negotiation process brings perceived benefits (lock in reforms including lowest possible tariff rates compatible with CET + other less tangible ones)
- ...and negotiation process arguably under greater Liberian control than CET negotiation with larger partners at the wheel...

2. Regional Trade Prospects (I) : Moving beyond 'traditional' exports

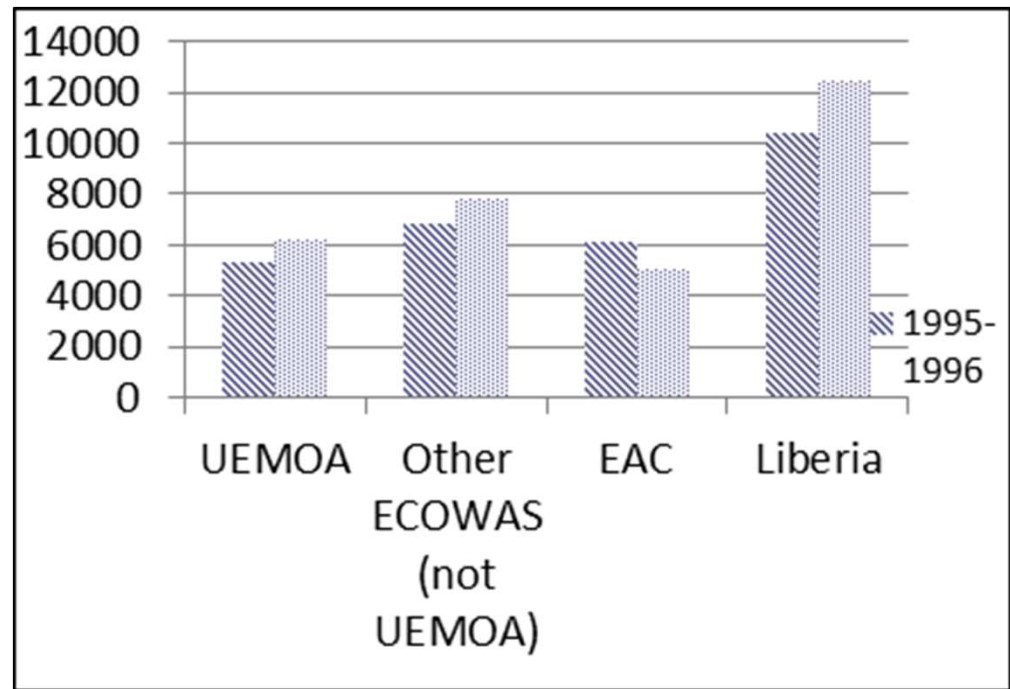
- ...Trade policies + institutions + Geography jointly determine trade when going beyond 'traditional' exports.
- Trade policies: for its small size about 5% average tariff (actual= 5.3%; with CET=10.3%) and no NTBs
- Institutions: Rely largely on WTO membership (except for extractables that require also transparent contractual and fiscal regimes)
- Geography: Is the large market in Nigeria worth the CET? (no ECOWAS member is currently in top 10 destinations for exports or origins of imports of manufactures for Liberia)

Liberia's Regional Trade Prospects (II): Average distance of Trade (ADOT) in manufactures

- ... ADOT for exports in other-ECOWAS rising = Lack of reduction in trade costs?



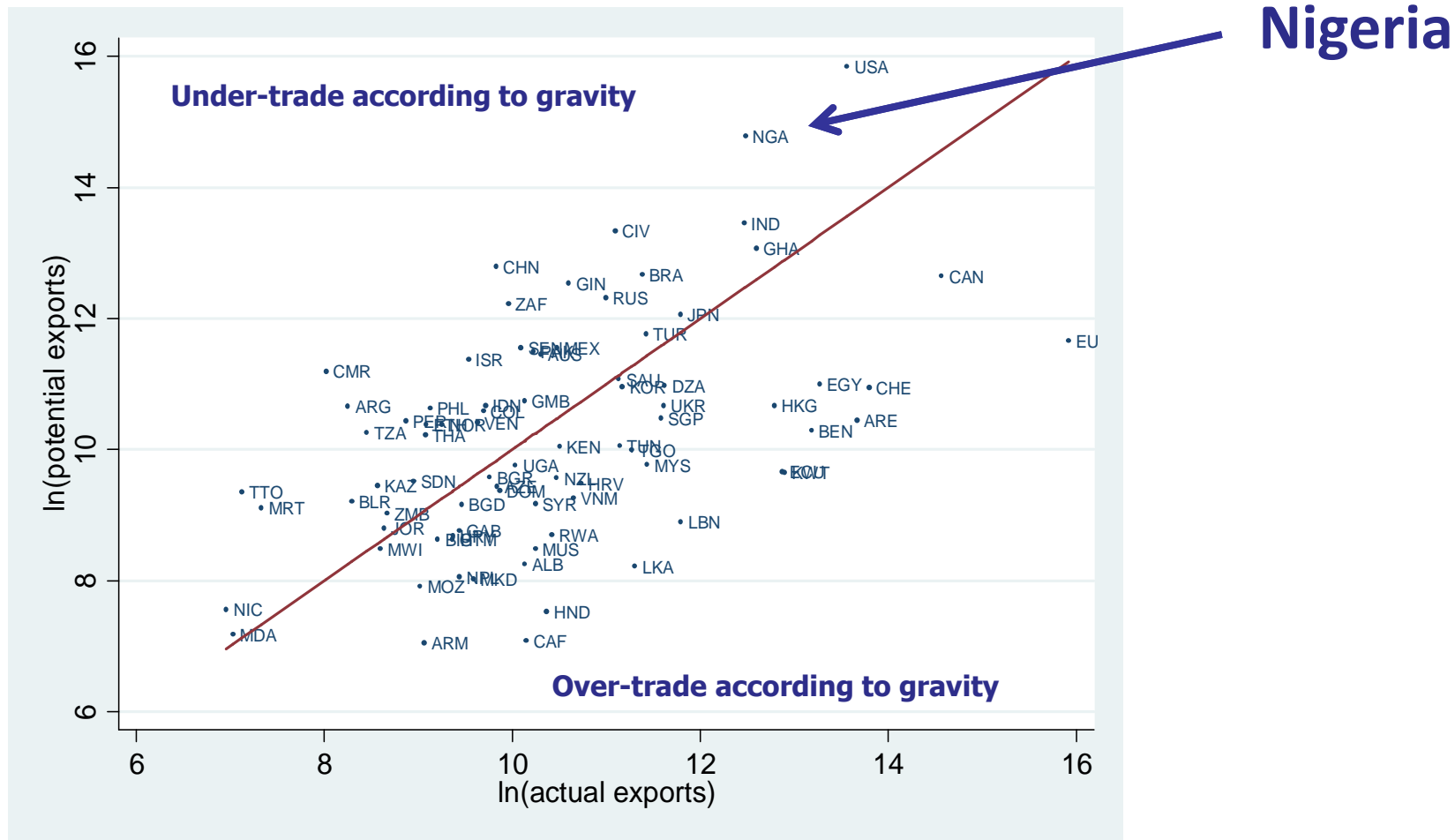
Imports (95-6 vs. 09-10)



Exports (95-6 vs. 09-10)

Regional Trade Prospects (III)

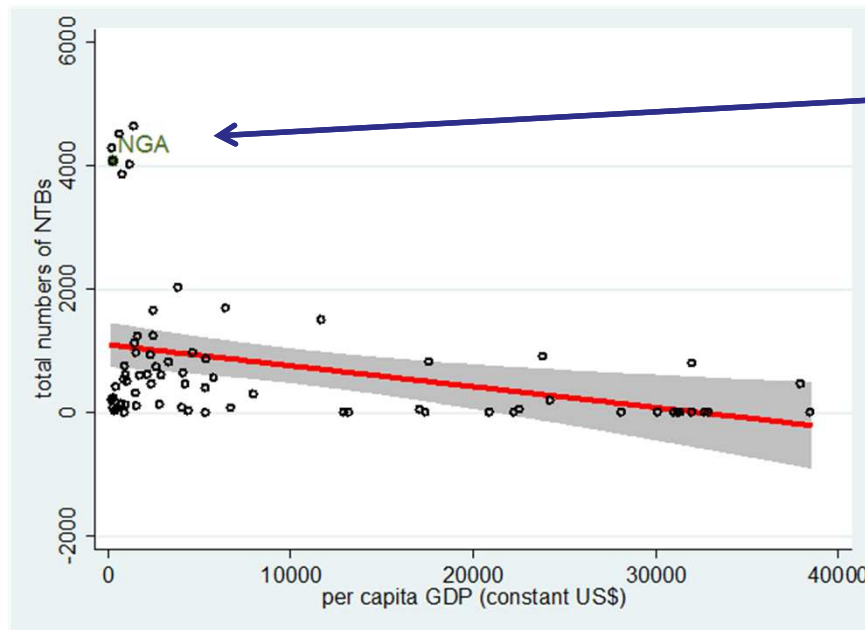
Liberia: Potential vs. Actual exports of Manufactures



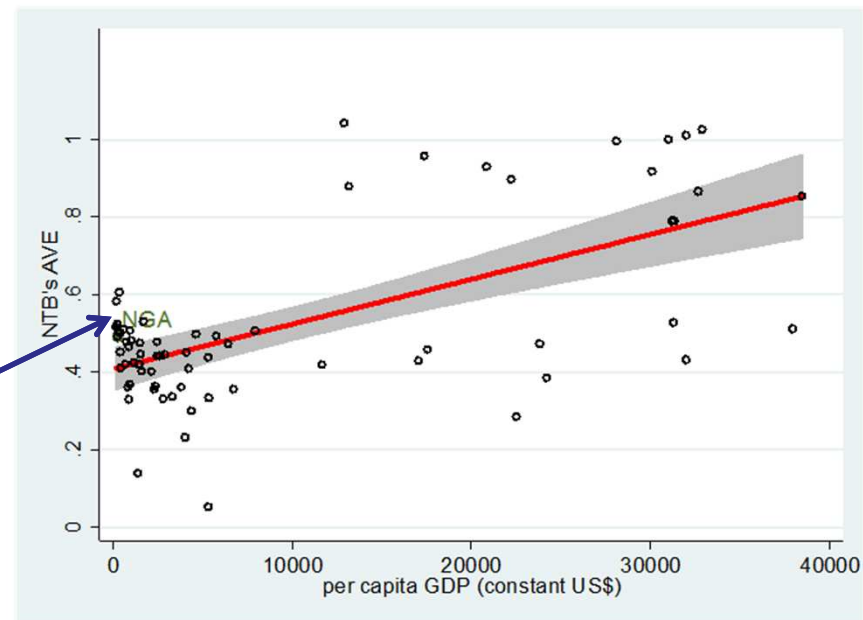
Excluding vessel registries

3. Unfinished ETLs

- Nigeria's Average Tariff = 11.4% but OTRI = 32%



Number of technical regulations vs. per capita income



Ad-valorem equivalent of technical regulations (close to 50% for Nigeria)

4. Moving to the CET: Revenue Effects (I)

Estimates based on 'TRIST' PE model applied to Customs Revenue transactions (2011)

- All ECOWAS imports duty free: tariff revenue loss of 25%, but combining this with a removal of waivers would increase tariff revenues by 14% (and total revenues by 8%).
- Proposed 5-band CET: average tariff up from 5.3% to 11.9% and tariff revenues up by 116% (and total revenues by 62%) with a reduction in imports of 3.5%.

4. Moving to the CET: Revenue Effects (I)

- 4-band UEMOA CET (no 35% band): Tariff revenues up by 89% with new average tariff of 10.3%.
- Proposed 5-band CET, but maintaining all current waivers: tariff revenue up by 57% for a new average tariff rate of 8.5%.
- Moving to a 10% uniform CET would increase total tariff revenues by 53% for a new average tariff of 8.3%

4. Moving to the CET: Welfare Effects (I)

Simulations of a LES for rural and urban households at HS-4 level (non-traded goods, and exclusion of auto-consumption for price increases)

- Going to CET, purchase costs would go up by:
 - 3% for urban households and 6% for rural households: difference reflecting a higher share of non-traded expenditures (not affected by tariff changes) for urban households.
 - Under strong insulation from tariff changes (pass-through of 0.3 instead of 0.5), estimated cost increase reduced by 1 percentage point.

4. Moving to the CET: Welfare Effects (II)

- Adding up 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) would cut in half the estimated cost increase.
- A uniform across-the-board of 10% would increase cost estimates by about two-thirds of the estimates of moving to the ECOWAS CET.

Conclusions

- Pursue regional and multilateral integration
- Maintaining the current exemptions on staple commodities would benefit the poor (particularly rural)
- ECOWAS still founded on exchange of market access (20th century regionalism)
- ETLS signed by most members in 1993 – still to be implemented
- So, need to carry out reforms that will help Liberia enter the 21st century world trading system.
- Maintain participation in ECOWAS, but go beyond regional decision-making when needed policies are not implemented.

Annex (I): Alternatives to the 5-band CET

	1	2		3		4		5	
	Actual (2011)	CET_N		CET_N		CET_N		CET_N	
		(waivers removed)		(allowing current food waivers)		(allowing current non-food waivers)		(allowing all current waivers)	
	in '000,000	Value Δ	% Δ	Value Δ	% Δ	Value Δ	% Δ	Value Δ	% Δ
Total Imports	1,249.6	-43.7	-3.5%	-30.1	-2.4%	-37.0	-3.0%	-23.3	-1.9%
Tariff revenue	66.1	77.1	116.7%	51.5	77.9%	63.7	96.5%	38.1	57.6%
Total revenue	126.4	78.7	62.2%	53.0	41.9%	65.0	51.4%	39.4	31.1%
Collected applied tariff rate	5.3%	New tariff rate: 11.9%		New tariff rate: 9.6%		New tariff rate: 10.7%		New tariff rate: 8.5%	

Annex (II): Statutory and Applied Tariffs

		1	2	3	4	5	6	7	8
Chapters	Description	Total HS6 lines	Average Statutory tariff	Max Statutory 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 & Fur	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%

Annex (III): Welfare costs

	Tariff Change	Assumptions	WELFARE COST ^a	
			(Expenditure ratio to buy pre-CET basket)	
			RURAL	RURAL
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 of 10%	1.049	1.021
11	"	Across-the-board tariff of 15%	1.081	1.031

Thank you!

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