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LIBERIA'S FOREIGN TRADE PATTERN, 1940-1968

By

D. Franklin Neal

The views expressed in this document are those of the author. They do not therefore necessarily represent those of the Department of Planning and Economic Affairs or of the Government of Liberia.

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INTRODUCTION

Even though Liberia's external trade in the last two decades expanded at an unprecedented rate, this development occurred with the minimal of conscious direction. The fact that the Liberian economy grew at an accelerated pace, however, was no accident. It was the consequence of a stable government, the Open Door Policy, a sound currency - (the U.S. dollar). In addition, a rich treasure of iron ore deposits and a tested climate for the rubber plant placed the country in a favoured position to attract investment capital into these two industries. As investments in the iron ore and rubber industries expanded and grew so did the economy expand at an unprecedented rate.

Since 1954, when 85% of Liberia' exports were to the United States and 60% of imports were from that country, there have been vast changes in Liberia's pattern of international trade but there has been no review or change in her trade policies. New products have been developed for exports and new markets have opened.

Since the goods we must buy abroad can only be acquired from the earnings from exports sales, trade policy then becomes an important component of development policy.

Strong ties between the European Common Market and other African countries are emerging and new attempts at regional economic cooperation are being made while there is a push for generalized non-reciprocal preferences in the markets of the developed nations on a non-discriminatory basis. These developments suggest the need for a fresh look at Liberia's international trade policies in the light of the requirements of the 1970's.

This paper seeks to examine the changes which have taken place over the last three decades and to re-evaluate commercial policies in the light of the nation's needs and the new trends and prospects in trade and multilateral cooperation over the next decade.

Chapter I

LIBERIA'S FOREIGN TRADE PATTERN, 1940-68

Since the beginning of World War II, Liberia's foreign trade pattern has undergone three substantial changes: first, export volume has increased thirty-fold from $5 million in 1941 to $150 million in 1967. Secondly, iron ore which was not even mined until the early 1950's has replaced rubber as the principal export. Lastly, the European Common Market has taken over from the U. S. as the principal market for Liberian exports.

Exports

During the 1940's, rubber was Liberia's only export of any consequence. The U. S. bought over 90% of total exports which averaged only $10 million annually. During the early 1950's, Liberia began to exploit iron ore and diamond deposits, but rubber continued to account for at least 85% of total trade.

The late 1950's saw substantial changes taking place. The iron ore mines went into full production and exports doubled from $40 million to $80 million. Rubber increased in volume but accounted for only 50% of total trade. The U. S. purchased only 50% of Liberia's exports in 1960 while the European Common Market and the United Kingdom substantially increased their purchases. It was only during the last five years of the 1950's that Liberia freed itself from total commercial dependence upon its rubber trade.

The first five years of the next decade continued the trends established in the late 1950's. The Common Market continued to buy more of Liberia's products. The United States purchased less than 50% of total exports for the first time.

By 1964 exports jumped to $120 million despite a heavy decline in the world price of rubber. The period 1965-67 saw further consolidation of the trends in volume, composition and destination of exports. Total exports rose to $159 million by 1967 and iron ore continued its steady growth as Liberia's principal export commodity, rising to 73% of total exports in 1967. Although the total quantity of rubber exported increased during this period, rubber exports accounted for a small share of total exports (17% in 1967) because of declining rubber prices and increasing iron ore exports. Exports to the United States declined further, both in percentage (down to only 30% in 1967) and value (from $57 million to $47 million during this period). The Common Market purchased 56% of Liberia's total exports in 1967.

Table II

THE VALUE OF LIBERIA'S TOTAL IMPORTS AND EXPORTS INCLUDING IRON ORE, RUBBER AND OTHER EXPORTS FOR SELECTED YEARS FROM 1941 TO 1967 WITH US AND EEC SHARE OF LIBERIAN EXPORTS, (IN MILLIONS OF DOLLARS)

Year	Total Imports	Total Exports	(Iron	Rubber	Other)	US Share %	EEC Share %
1941	3	5	0	4	.1	n.a.	n.a.
1945	14	11	0	10	1.0	n.a.	n.a.
1950	11	28	0	19	9	92%	6%
1955	26	43	7	33	3	87%	9%
1960	69	83	35	39	9	50%	25%
1965	105	135	96	29	10	37%	52%
1967	125	158	115	27	16	30%	56%

Source: Foreogn Trade Supplement, of 1960 for 1941 to 1960; the Economic Survey, 1967 for 1965 and 1967.

Agricultural Exports

Agriculture accounts for only 20% of the total value of exports, although this sector of the economy provides employment for nearly 80% of the adult working population. The most important export crop by far is rubber, while coffee, cocoa, and palm kernels are exported to a much lesser extent. Liberia's Four Year Plan for Economic and Social Development outlined the following objectives in agriculture: "to encourage the introduction of new export cash crops to diversify agricultural exports ... to promote local processing of the products of our fields and forests; to foster the production of local raw materials necessary for industrialization. Thus the two main goals in agriculture are the diversification of export crops and the processing of agricultural products in both finished and semi-finished form for the export market.

Rubber

Since 1926 when the Firestone Company began work on the rubber plantation that was to become the largest single rubber estate in the world, the Liberian rubber industry has enjoyed a primary position in the economy. It accounted for well over 50% of exports until 1958 when the first iron ore mine began full production. It will remain Liberia's principal economic activity in terms of generating employment and income for Liberians, since it still provides nearly half the total paid employment in Liberia (versus 10% for the iron industry).

About three-fourths of annual rubber exports are produced by the six foreign concessions which own about half of Liberia's 275,000 acres of rubber. Private farms, from a few large estates to small family plots, produce the remaining exports. Exports have continually risen in quantity through the years but total income derived from rubber has declined. From 1964 to 1967, export volume increased by 30% but value actually decreased by 10%.

Since 1961 when the price of rubber was 30 cents per pound, the price has steadily declined. In 1967 Liberian farmers received only 12½ cents per pound, the lowest in nineteen years which necessitated a decision by Government to institute a price support system. In the late 1968 and early 1969 there was some improvement in rubber prices due mainly to the U.S. decision to maintain higher stockpiles.

The substantial increase in rubber exports during the early 1960 despite the fall in prices is due to the rapid expansion programme begun in early 1950 in response to the high prices of rubber during the Korean War, and to the development of new clones in the replanting programme, mainly on the plantations of foreign companies. Yields per acre on both the concessions and larger private farms are expected to rise sharply in the next four to five years as the replanted acreage reaches maturity. By the mid 1970's production growth will probably decline. Over the period 1969-1975, production growth should be about 5% per annum. The following table presents total rubber exports since 1945 with a projection for 1975.

Table II

QUANTITY AND VALUE OF RUBBER EXPORTS, 1945-1967
WITH A PROJECTION FOR 1975

Year	Quantity (Millions of Pounds)	Value (Millions of Dollars)
1945	43.2	11.6
1950	66.7	18.8
1955	87.5	31.7
1960	95.6	37.6
1965	116.1	29.0
1975	165.0 (low)	-
	220.0 (high)	-

Source: Firestone Plantations Company in Growth Without Development. op. cit., page 154 and the FAO, op. cit. 4.

Rubber Price Outlook

The long-run price outlook for rubber is not encouraging. The dilemma of natural rubber results from the growing competition from synthetic rubber production and consumption. For example, consumption of synthetic rubber between 1953 to 1955 was 1.3 million tons out of a total world rubber consumption of 3.1 million tons. By 1966 out of a total of 6.6 million tons of world rubber consumption synthetic rubber accounted for 4.1 million tons. Whereas synthetic rubber was 38% of the total rubber consumed between 1953 - 1959, by 1966 it had risen to 63%. Annual consumption of synthetic rubber has been rising by 11% while natural rubber consumption has been increasing by only 3%. To further add to the forecast of gloom, FAO projects that by 1975 natural rubber supply will be in excess of demand of 16-18%[1/] This magnitude of excess will inevitably contribute to a further downward pressure on natural rubber prices.

Prices during the 1970's are likely to fall even below the 1960's price levels. This strongly suggests that many Liberian farmers or for that matter many rubber producing countries would not cover their cost of production at a much lower price level. Viability of the rubber industry will depend upon the extent to which the cost reducing effects of high yielding clones, etc. would be effective in offsetting rising wages and other related costs.

To meet the challenge of a price squeeze the rubber industry in Liberia and in particular independent Liberian farmers will have to become more efficient. Improved managements, replanting to increase yield per

1/ Agriculture commodities projections for 1975 and 1985 - FAO, Rome 1967 Vol. 1 pp 314-326.

acre, incentives schemes to increase the productivity of tappers, improvement in quality are of crucial importance if the rubber industry is to over come the vagaries of the the price world market and the competition from synthetics.

Coffee

After rubber, coffee is the second most important cash crop in Liberia and the main cash crop of small family farms. Encouraging results have been achieved since 1960 in stabilizing coffee exports. Before 1960, Liberia's coffee exports fluctuated between 300 and 1000 long tons. The principal markets were the Netherlands and Germany which accounted for 75% of total exports. A public marketing organization, the Liberian Produce Marketing Corporation, then took over the exclusive right to export coffee. The United States became the principal market, buying about 80% of all exports. Exports rose but still fluctuated because an undetermined amount of the exports were brought over the borders from neighbouring countries.

To ensure an adequate and stable market for Liberian coffee, Liberia adhere to the International Coffee Agreement. Its quota rose from 1,100 tons as a non-member to 3,600 ton per year. Provision is made for an annual increment of 10% until a total of 6,000 ton is exported. Liberia is also allowed to sell to non-quota countries and this market is estimated by LPMC at 300 - 500 long tons per year.

Efforts are now being made to insure a steady supply of coffee for export by replanting sub-standard trees on the small farms. The main market remains the U.S. and the EEC countries which import about 10-20% of total Liberian coffee exports. The following table presents total coffee exports since 1955 with a projection for 1975.

Table III

THE QUANTITY AND VALUE OF LIBERIAN COFFEE EXPORTS, 1955, 1966, 1965-68 WITH A PROJECTION FOR 1975

Year	Quantity (long tons)	Value (thousands of dollars)
1955	330	226
1960	895	538
1965	3,164	1,839
1966	8,183	5,659
1967	4,243	2,839
1968	4,532	3,113
1975	6,600	4,356

The United States will probably continue to take most of Liberia's exports because of the difficulty of overcoming the EEC duty of 9.6%. Assuming the EEC **countries** would buy 15% of total coffee exports during the next five years, in the absence of tariff concession and the price of coffee would remain stable at about $660 per long ton, it would cost Liberia about $50,000 per year in tariff duties. Assuming that this represented savings it would provide stimulation to producers who must double their 1965 production by 1975 if Liberia is to fulfill its ICO quota, it should be pointed out that the benefits of this increase in **exports** will flow directly to the producers on small family farms who are presently only on the fringes of the monied economy.

Palm Kernels

Palm kernels have long been exported by Liberia and rank third as an agricultural export after rubber and coffee. Most of the kernels originate from wild trees on small family farms. The outside of the palm nut is used for locally consumed palm oil and the kernel is sold to LPMC which has the exclusive right to export. In the early 1950's exports were at the 50 million pound level, but in recent years exports have averaged between 15 and 30 million pounds. The following table presents exports from 1950 to 1967, with a projection for 1975:

Table IV

QUANTITY AND VALUE OF PALM KERNEL EXPORTS, 1950 - 1967 WITH PROJECTION FOR 1975

Year	Quantity (million pounds)	Value (million dollars)
1950	41	n.a.
1955	21	1.0
1960	34	1.9
1965	26	2.1
1967	29	1.8
1975	45-55	3-4.0

Source: Growth: 1950, 1955, 1960. Economic Survey 1965, 1967, 1975, staff research, Department of Planning and Economic Affairs.

The above table shows that palm kernel exports are usually less than $2 million annually but there are plans for three new plantations which should greatly increase export of kernels as a by-product to the production of palm oil. Assuming that all presently planned 16,000 acres come into production, the increase could be about 20 million pounds annually.

While the export of palm kernels is not hindered by any tariff in the Common Market, the increase in palm kernel exports forecast above hinges substantially on marketing arrangements since the proposed plantations may not be viable unless Liberia gets preferential access to the European Markets, just as many African countries presetly have.

The processing of palm kernels into white oil could be facilitated through the appropriate international trade policy. A feasibility report concluded that a plant for white oil presents an attractive investment possibility, both for the local and export market.

Exports, however, would be hindered by the 15% duty applied to kernel oil in the EEC. The relatively high rate is used to protect the large scale crushing industry in the Netherlands, Belgium and elsewhere which are currently working at less than capacity. Whether kernel oil exports can be stimulated and increased with the EEC countries is unclear because it would be a product "similar to or competitive with" European products, and therefore import policy on such a product is to be determined solely by the EEC members, after consultation with the Associated States. This provision can be read to mean that the interests of an associated state will be protected for these competing products but more likely, the EEC has reserved power over theses products to preserve their own interests. A tax has already been proposed on certain oils and fats to decrease their consumption and increase butter consumption to eliminate the butter surplus in the EEC countries. This policy, though presently shelved, was aimed directly at protecting the interest of EEC members where products from third countries compete with products of the Associated States.

Cocoa

Cocoa exports have been steadily rising in the past few years but production, which is solely from small farms, is still small. Less than a million dollars annually is exported and up to 50% of this originates outside of Liberia where prices have generally been lower. The exclusive exporters, LPMC, intends to stimulate local production through an intensive research and replanting programme since there is a potential for cocoa cultivation. It is expected that exports will double to about 3,000 or 4,000 long tons in the next five years. The following table presents Liberia's cocoa exports from 1955 to 1968, with a projection for 1975:

Table V

THE QUANTITY AND VALUE OF LIBERIA'S COCOA EXPORTS, 1955-68, WITH PROJECTIONS TO 1975

Year	Quantity (long tons)	Value (thousand of dollars)
1955	480	314
1960	996	507
1965	864	346
1968	2,390	1,606
1975	4,000 (est.)	2,400 (est. @ $600/ton

Source: Data for 1955 and 1960, Foreign Trade Supplement, Bureau of Economic Research and Statistics, 1965-1975, staff research, Department of Planning and Economic Affairs.

Cocoa is currently in very high demand on the world market. As of April 1969 the price was $840 per long ton. LPMC predicts a price of about $700 in 1971 and $600 by 1973, though it is admitted that prices are too volatile to predict with much certainty. The price may be stabilized if agreement is reached within the world cocoa organization where discussions are currently taking place.

Liberia's principal market for cocoa is the European Common Market. Presently there is no difficulty selling over the tariff barrier of 5.4%. However, if the world price declines in the next few years, Liberia may experience more difficulty in surmounting this tariff barrier since the

EEC is under obligation to take into consideration the interests of its present Associated States. This may present some difficulty in obtaining an adequate quota allotment for Liberia. When Nigeria became an associated state quotas were assigned to it on the theory that the interests of the other associated states had to be protected. The other associated members then had about a 40% share of the market versus Nigeria's 20%. Perhaps Liberia's small level of production (amounting to .7% of the EEC market in 1968) may not seriously affect the interest of the present associated states.

If Liberia is able to secure some preferential treatment, on the other hand, and current projections of price and quantity are accurate, the duty saved (at 5.4%) would be a little over $100,000 during 1970-1974, if unlimited access were granted. If quotas were imposed based on the average 1966-68 exports plus a 3% yearly increment (like the formula applied to Nigeria), the duty saved would be about $60,000. What is significant is that cocoa production is mainly in the hands of small farmers. While the duty saved is important, the real benefit of some form of association is eliminating the discrimination in the EEC and making further development of the cocoa industry profitable.

<u>New Export Possibilities</u>

The first goal of the Four Year Plan for agriculture is to "encourage the introduction of new export cash crops to diversify agricultural exports and increase income and employment for Liberians". This diversification is necessary to reduce Liberia's excessive dependence on two primary export products. There are extensive uncultivated land areas in Liberia suitable for various cash crops, including palm oil, copra, fruits and tobacco.

Palm Oil

The most promising of these new export possibilities is palm oil. No palm oil is presently exported from Liberia although small farmers produce enough for the local market. A large increase in palm oil production is planned for the 1970's using commercial plantations. 5,000 acre plantation has been fully planted and is now beginning to produce. A Liberian-owned plantation (3,500) acres is now in the nursery state of production and a third (7,500) is planned but not yet financed.

The biggest problem in developing these plantations is gaining access to the European markets since other West African countries have preferential access to the EEC or the United Kingdom while Liberia does not. A second problem is that palm oil is currently a favorite international solution to the diversification of agricultural exports in less developed countries. As a result, a large increase in the supply of palm oil perhaps double by the mid 1970's could depress prices. It has been predicted that the price of palm oil (cif, Europe) will fall in the range of $155 per metric ton during the mid-1970's compared to a level of $220 or more in most years since 1954. Besides the increased production, there are other factors which make the outlook uncertain for palm oil. The EEC proposed (and then shelved) a plan to tax products competing with butter in order to decrease the butter surplus in Europe. In addition the expansion in demand for oilcake meal has stimulated the production of by product oils which compete with palm oil. The above price predictions also assume that growth in soybean oil output will be slowed down under the U.S. Government's price support programmes or that Public Law 480 shipments of soybean oil will rise substantially and take some of the oil off the market.

Exports of palm oil from Liberia are difficult to predict since financing has not been completed for all three plantations and since high local acceptance of the oil, which has a distinctly different taste will taste a little different **from palm oil of wild** palm, may also reduce exports. But rough estimates have been made: by 1976, Liberia will produce between 4,000 and 8,000 metric tons and by 1979, between 14,000 and 18,000 metric tons of palm oil.

Liberia needs access to the markets of the EEC countries to sell such a large oil production. All 18 African Associated States avoid the 9% tariff barrier under the Yaounde Convention; this barrier, however, may be reduced by the EEC to 7% in the near future but that preferance is still sufficient to hinder development of palm oil in Liberia. There is also a price support system which benefits producers when the world price falls below the "reference price", currently at about $225 per ton. When Nigeria became an associated state the EEC countries allowed a certain quota of palm oil products in their markets duty free while the remaining oil was subject to the standard 9% duty.

If unlimited access is allowed, Liberian producers would save about $120,000 for 8,000 tons annually or $250,000 if 18,000 tons were exported annually. In addition to this benefit, the completion of the largest of the proposed plantation with a payroll of $300,000 per year for 750 Liberians would be assured. Without preferential access to the Common Market, the survival of more than one palm oil plantation in Liberia and the possibilities for exports is very doubtful.

Other New Exports Crops

Soils and climate are favourable to a number of other products, but progress has so far been small. The following products are being considered as good potential investments::

Copra

According to the Four Year Plan for economic and social development reconnaissance surveys suggest that the sandy dune areas of Liberia and other zones inappropriate for high yield oil palm or other cash crops are suitable for coconut production. A feasibility study of high yield coconut cultivation has been proposed.

Fruits

In 1967 the first peneapple exports from Liberia took place. The quantity was small but the quality satisfactory. However, transportation costs remain a problem. Growing conditions are also good for a number of other tropical fruits, especially citrus fruits.

Tobacco

Good quality cigar wrapper tobacco is now exported in small quantities by two private companies and progress is spawning new interest in this crop.

MINING EXPORTS

Iron Ore

The development of Liberia's extensive high-grade iron ore deposits is the backbone of the country's recent economic growth. It accounted for 72% of exports in 1967 and 26% of the gross domestic product, making it the most important economic activity in the country. While the enclave character of the iron ore industry severly limits its impact on other sectors of the economy and employment is limited to 10,000 persons (compared to the rubber industry's 40,000), the industry has contributed to the development of labour skills.

Production started in 1951 by one concession which produced about 3 million tons of iron ore per year until the 1960's when three more companies started operations. The four companies, which invested about $350 million by 1965, have a production capacity of about 25 million tons per year. In 1967, about 17 million tons, valued at $115 million were produced. The reserve at the present mining sites are estimated to be about 1 billion tons and there are other areas in Liberia that may also prove suitable for profitable production.

Europe buys about 66% of Liberia's iron ore exports, followed by the U.S. with 19%. Some of these exports are sold in captive markets, that is, to the companies that run the mining operations. Prices for Liberian ore have followed the downward trend of world prices but at a steeper rate. Seven developing countries had the value of their iron ore exports decline 4.4% per year from the period 1960-2 to 1965-7 but the value of Liberian ore declined 12.3%.

Table VI

QUANTITY AND VALUE OF LIBERIAN IRON ORE EXPORTS, 1950 - 1967

Year	Quantity (thonsand of long tons)	Value (millions of dollars)
1950	0	0
1955	1,716	6.7
1960	2,915	34.6
1965	15,100	96.0
1967	17,200	115.1

The question of local processing of iron ore is a complicated one. One study concluded that steel could be produced more cheaply in Liberia than elsewhere in Africa though another study reported that Liberian steel would cost 46% more than the current market prices. The main problem of course is the size of the local market which is too small for the minimum scale mill needed for economic production. Assuming that Nigeria produces enough steel for her own market and that of Niger, the remaining thirteen West African countries it is felt could not support a steel mill. The economic question also of where to place this mill is complicated by political issues which must be solved simultaneously. But the fact remains that unless these problems are solved, probably within the framework of the West African Economic Grouping, Liberia will be unable to process any of its large production of iron ore.

Diamonds

Diamond exports, which began in a significant amount about 1956. Between 1956 and 1965, exports increased from $1.4 million to $2.2 million. In 1966, exports increased substantially to $3.1 million and in 1967 a record high of $5 million was reached. The volume of diamond exports is sporadically stimulated by the discovery of new mining areas and the generally favourable tax treatment of this industry. It has been said that exports are valued at about 1/5 of their real value. Twelve diamond mining companies were active in Liberia in 1967.

IMPORTS

Liberia's pattern of imports changed significantly since World War II. It had grown from $42.9 million in 1959 to $69 million in 1960, and by 1967 the value had risen to $125 million increasing at approximately the same rate as exports.

The significant increases in the 1960's are a direct consequence of stepped up investment in iron ore development. Machinery and equipment import were very high during this boom period accounting for as much as $54 million in 1962 and since averaging around $35 million a year.

As a result of the rapid increase in capital equipment there was an adverse trade balance for merchandise items for the first time in 1961 which continued through 1963 but was reversed in 1964.

Imports of consumers items has also been rising quite rapidly. Imports of food products have doubled since 1960 to an annual level of over $20 million. Rice represents the largest item of food import, $6-8 million per year, followed by imports of meats, and diary products. Beverages and tobacco also represent significant items of imports.

The general trends have been an increase in imports from the common market, and a decrease in imports from the U.S. During the 1940's and 1950's, the U. S. was the leading exporter to Liberia, accounting for 65% of total imports in 1951 versus 10% for the Common Market. By 1955, the U. S. share was slightly down but the EEC doubled its share, mainly in capital imports. The trend continued so that in 1964 Liberia imported 40% from the U.S. and 30% from the EEC. The downward slope of U. S. exports to Liberia then leveled off and for the next three years there was a ratio of about 45% to 20%.

Liberia's intra-African trade is extremely small, as is the case for most other West African countries. Exports have never been over the $2½ million level in 1967 which is only 1.5% of total Liberian exports. The situation is similar for imports from other African countries which amounted to almost $2 million in 1967 or 1.5% of total Liberian imports.

Chapter II

ALTERNATIVE LIBERIA FACES

Introduction

Since the late 1950's Liberia has witnessed a downward trend in agricultural prices generally while the price of manufactured goods have followed an upward spiral. Rubber and iron ore are of such importance to the Liberian economy that in 1957 they generated 89% of total export earnings. Government revenues as a consequence depend on the products of the mining and rubber industries, the prices of which are a function of world prices.

Agricultural prices and in particular rubber and iron ore prices cannot be expected to rise in the near future because of the change in the structure of demand for natural rubber, which results from the pressure of synthetics and the increasing supply of iron ore on the world market.

Acting alone , Liberia cannot take any action that can meaningfully change the pattern of external prices and the shrinking volume of aid. The long-run interest requires that Liberia re-examine its outlook and prepare itself for the changing pattern and structure of international trade. The discussions in UNCTAD, GATT, the EEC and within sub-regional grouping in Africa suggest that the 1970's will result in a re-evaluation of commercial policies. The following sections examine the alternatives which could provide some basis for a new look at possible strategy for future international trade relations.

Trade with the European Common Market

In light of the significance of the European Economic Community (EEC) as a market for tropical exports and recent development in the Liberian economy and international trade, the Government of Liberia has considered it important to keep under review the pattern and trend of trade with the EEC countries and to assess the advantages or disadvantages of association status. Gradual changes in the structure of the economy, reflecting continued expansion in the range of export products in the agricultural and forestry sectors, the beginnings of a shift from primary products exports to semi-finished and finished products, and the increase in the flow of Liberia export to the EEC (from 6% in 1951 to 56%) suggest the importance of trade links with the EEC and the impact of tariff discrimination against Liberian exports in those markets. Preliminary studies have shown that while Liberia's principal exports, iron and rubber, are not now affected, the development of new products for exports such as processed timber, palm oil, palm kernel oil, citrus fruits, and tobacco and the expansion of present exports such as cocoa and coffee would be hindered by tariff discrimination in the Common Market. The development of these new exports is necessary to avoid over-dependence on iron and rubber whose prices, strongly declining in recent years, do not offer an optimistic outlook for the future.

Tariff discrimination against some Liberian products arises because of the special tariff concessions given by the EEC to members of the Yaounde Convention, which is made up of 18 former overseas territories of Common Market member states. The Convention basically provides that all products from the Yaounde Associates shall enter the Common Market duty free and that in return Common Market products enter each African member state duty free. There are also provisions for a large amount of financial aid and common institutions to implement the Convention. Liberia's products are therefore at a competitive disadvantage vis-a-vis the associated states.

Tariff discrimination also results from a second form of association, typified by the Lagos Agreement which associated Nigeria with the Common Market. Morocco, Tunisia, Algeria, and Ghana will use this form of association as model, if they become associated members. The Lagos Agreement provides duty free access for all Nigerian products, exluding some important Nigerian exports which are limited by quota, in return for a tariff concession in Nigeria on a specified list of Common Market products. No aid or other ties are involved. Both of these forms of association formally set up a free trade area between the Common Market and each African country, although there is some doubt whether the Nigerian Agreement really complies with the requirements for free trade areas. If Liberia wishes to gain a competitive position vis-a-vis these countries already linked with the EEC but avoid ties which are too binding economically and politically, association along these lines of the Nigerian Agreement would achieve this.

Although the six Common Market countries insisted on reducing the preferences granted to the Yaounde Associates during the renewal of that Convention, the measures taken were not sufficient to make some of Liberia's exports competitive with the products of the associated states. It would be no advantage for Liberia to remain (eventually) the only country in West Africa without preferential trade links with the principal markets of Europe since its products compete with exports of other West African countries.

The present indications are that much of Africa will have some form of trade ties with the EEC during the 1970's. At the present time, all the French-speaking West African countries, except Guinea, have become associated with the Common Market. Nigeria signed an association agreement (which was never ratified by all the EEC countries) but has rejected renewal of the agreement due to French suppoet for Biafra. Ghana is now discussing association with the EEC, as are Morocco, Tunisia, and Algeria. Sierra Leone has expressed interest, if Britain were to join the EEC. Britain's association, which is much more likely since the resignation of General De Gaulle, would probably cause the Commonwealth nations to seek some form of formal of trade ties with the EEC.

It is possible, however, that parellel efforts by the United Nations Conference on Trade and Development (UNCTAD) will result in a worldwide, non-discriminatory, non-reciprocal system for some of the products of all less developed countries but attempts in the past have been a failure. Liberia will benefit from any success by UNCTAD but cannot do any more than lend its support to UNCTAD's efforts. But if Liberia is to take advantage of association with the Common Market, immediate steps are called for to protect her position in the 1970's.

The Significance of Common Market Tariffs on Liberian Exports

Common Market tariffs present no obstacles for Liberia's major current exports, but will hinder the development of potential exports such as palm oil, processed timber, and citrus fruits.

The four important exports, iron ore, rubber, diamonds, and palm kernels, which accounted for 94% of Liberia's exports in 1967, have no duty in the Common Market. Neither the Yaounde Associates nor Nigeria enjoy a competitive advantage over Liberia in these products, but they do have an advantage in the remaining current exports, coffee and cocoa. Since most of Liberia's coffee exports go to the United States and in any case, are limited by quota by the International Coffee Agreement, there is no great value in association as far as coffee is concerned, except insofar as the EEC becomes an alternate market. Before the Common Market came into existence in 1958, the Netherlands bought about 80% of Liberia's coffee exports.

Cocoa faces a 5.4% tariff in the EEC but it is currently in such high demand that Liberia can easily sell over this barrier. If production catches up with demand in the 1970's as forecasted, association would be valuable for this commodity.

The EEC has indicated in negotiations for the renewal of the Yaounde Convention, that the duty on coffee should be reduced from 9.6% to 6% and on cocoa from 5.4% to 4%, which of course will favour non-associated countries.

Present development plans call for the export of palm oil and processed timber. Liberia will face a considerable barrier in the EEC on these products. Palm oil would have to overcome a 9% tariff barrier to compete with palm oil from the Congo, Ivory Coast, and Dahomey. It is possible that this tariff will be reduced to 6% in the near future but that is still sufficiently high to protect the palm oil industries of the associated states.

Plywood and veneer will be produced in Liberia for export in the next four years but will face a tariff barrier of 15% and 8% respectively. While the company that will process timber has a relatively secure market outlet in the United States, further development of Liberia's timber resources into finished or semi-finished products will be hindered if the EEC is not available as a market. Other products which will one day be developed for export also face tariff barriers: citrus fruits, palm kernel oil, rubber goods, and tobacco. If the EEC could be opened for these products, perhaps their development will be accelerated.

The Effect of Currency Devaluation

In addition to the fiscal charges the recent devaluation of the French Franc by 12.5% followed by the devaluations in CFA Franc countries of the associated members of the EEC and Mali will also affect Liberian exports to the EEC, and in particular France, in a long run. The immediate impact may be limited presently because France nor the CFA Franc area provide significant markets for Liberian exports. In addition Liberia's major exports - iron ore

TABLE VII

QUANTITY, VALUE AND PROJECTIONS OF LIBERIAN EXPORTS OF COCOA, COFFEE, PLYWOOD, VENEER AND PALM OIL TO THE EEC AND THE IMPACT OF EEC EXTERNAL DUTIES 1965-1975

Year	Commodity	Quantity (long tons for coffee & cocoa and metric tons for palm oil)	Value: $ (CIF, Europe)	Duty to be paid: $
1965	Cocoa	864	346,500	18,711
	Coffee	100	58,424	5,608
	Plywood	0	0	0
	Veneer	0	0	0
	Palm Oil	0	0	0
	Other	0	0	0
	Total			$24,319
1966	Cocoa	1,275	566,085	30,568
	Coffee	844	594,191	57,092
	Plywood	0	0	0
	Veneer	0	0	0
	Palm Oil	0	0	0
	Other	0	0	0
	Total			$87,610
1967	Cocoa	1,317	766,600	41,396
	Coffee	741	495,846	47,601
	Plywood	0	0	0
	Veneer	0	0	0
	Palm Oil	0	0	0
	Other	0	0	0
	Total			$88,997
1968	Cocoa	2,390	1,606,145	86,731
	Coffee	669	441,540	42,387
	Plywood	0	0	0
	Veneer	0	0	0
	Palm Oil	0	0	0
	Other	0	0	0
	Total			$129,118
1969	Cocoa	2,400	1,920,000	103,680
	Coffee	723	477,180	45,809
	Plywood	0	0	0
	Veneer	0	0	0
	Palm Oil	0	0	0
	Other	0	0	0
	Total			$149,489

Year	Commodity	Quantity	Value: $	Duty Reduction: $
1970	Cocoa: high*	2,500	1,875,000	101,250
	low*	1,660	1,245,000	67,230
	Coffee:high	777	512,820	49,230
	low	722	476,520	45,745
	Plywood	0	0	0
	Veneer	0	0	0
	Palm oil: high	0	0	0
	low	0	0	0
			Total:	high: $150,480
				low : $112,975
1971	Cocoa :high	3,000	2,100,000	113,400
	:low	1,749	1,224,300	66,112
	Coffee:high	831	548,460	52,562
	low	743	490,380	47,076
	Plywood	0	0	0
	Veneer	0	0	0
	Palm oil:high	0	0	0
	low	0	0	0
			Total:	high: $166,052
				low : $113,188
1972	Cocoa :high	3,500	2,100,000	113,400
	low	1,801	1,080,000	58,352
	Coffee :high	885	584,100	56,073
	:low	764	504,000	48,407
	Plywood	0	0	0
	Veneer	0	0	0
	Palm oil:high	0	0	0
	:low	0	0	0
			Total:	high: $169,473
				low : $106,759
1973	Cocoa :high	4,000	2,400,000	129,600
	:low	1,855	1,113,000	60,102
	Coffee :high	939	619,740	59,495
	:low	785	518,100	49,737
	Plywood	0	0	0
	Veneer	0	0	0
	Palm oil:high	0	0	0
	:low	0	0	0
			Total:	high: $194,855
				low : $109,899

Year	Commodity		Quantity	Value	Duty Reduction: $
1974	Cocoa	:high*	4,000	2,400,000	129,600
		:low*	1,910	1,140,000	61,560
	Coffee	:high	993	655,380	62,916
		:low	806	531,960	51,068
	Plywood				
	Veneer				
	Palm Oil	:high	2,080	332,800	29,952
		:low	0	0	0
				Total:	High:$222,468
					Low : 112,628

* "HIGH" denotes exports unlimited by EEC Quota, while "LOW" denotes exports limited by quota; for palm oil, "high" denotes maximum exports due to low local consumption while "low" denotes minimum exports due to high local consumption.

and rubber sell at world market prices that will not be affected by the devaluations.

There is cause however for concern for our agricultural exports which are the basis of any diversification programme in the immediate future. To diversify and develop agricultural exports in the European markets will depend upon the competitiveness of such exports. Timber, palm oil, pineapple, coffee, cocoa and other agricultural exports which competed with similar exports from the Ivory Coast, Gabon and the other associated states will suddenly be 12½% cheaper in markets of third countries. The problem could be all the more compounded if devaluation of the French Franc were followed by another devaluation of sterling in the near future. In that case, most of the sterling area countries of West Africa would also devalue their currencies thus further reducing the competitiveness of Liberian agricultural exports. Quick and decisive policy decisions are called for if future expansion of the agricultural based industries is to be realized and the upward movement of exports to Europe is not to be reversed.

Reasons for Continued "Wait and See" Policy

There are various reasons that action has not been taken on association with the Common Market. Past studies have taken a "wait and see" attitude on the grounds that an application would be premature because 94% of Liberian exports face no tariff barriers in the EEC. Projects for the exportation of palm oil and timber were hardly in the planning stages and actual production was not foreseen in the near future. There were also hopes for preferences on tropical products on a worldwide, non-reciprocal, non-discriminatory basis under UNCTAD. An agreement of this type would reduce the need for Liberia to join the EEC since her processed or semi-processed products would not have to overcome tariff preferences granted to Nigeria or the Yaounde Associates, nor would Liberia have to grant reciprocal preferences to European products.

There has been some concern over the preferences which Liberia would have to grant on imports from the EEC. Such preferences would imply discrimination against other trading partners and Liberia's traditional policy of an "open door" for free trade would be restricted for the first time. It has also been argued that an association agreement would not constitute a significant step in overcoming the difficulties of regional integration and in fact may present some legal obstacles. Although the Yaounde Convention approved customs unions or free trade areas between associated states, any such integration between an associated state and a non-associated state could not be "incompatible with the principles and provisions" of the Yaounde Convention. The Lagos Agreement contains a similar provision on compatibility and would give no advance blessing by the EEC to any customs union.

The expiration of the agreements of association with the EEC have presented an opportune time for reassessment of the problems outlined above. While most of Liberia's exports are not affected by present EEC tariffs, the development of future exports is hindered. Projects for palm oil and precessed timber are well underway and their success may depend upon the EEC market. UNCTAD has been unable to arrange a generalized system of preferences and, although there are still hopes for success, substitute courses of action.must be considered. The fear of impinging on Liberia's traditional free trade policy is balanced by the realization that none of the traditional trading partners of Liberia would be injured economically by Liberia's association because Liberia would offer preferences only on products whose trade is already directed by the EEC. Lastly, little opposition can be realistically expected from the EEC on African attempts at regional cooperation in spite of apparent legal difficulties.

Chapter III

Inter-African Trade and Regional Cooperation

Every case of economic regionalism has developed as a result of a need to accomplish certain specific objectives and to avert conditions that limit maximum use of economic potential among the cooperating states. The level of economic development, the size and magnitude of financial interest, extent of trade, political maturity, national aspirations, geographical proximity, economic infrastructure, industrial development, cultural and financial ties, etc. are some of the fundamental conditions that have influenced the form of cooperation appropriate to meeting the needs of the cooperating states.

The concept of free perhaps is practical for the more developed countries of Europe because European countries already have an integrated infrastructure. Beside European countries have always traded with each other. The main difficulty embodied in the European situation is obstacles of institutional framework conceived on a strictly national pattern. In their case once these official obstacles are removed a greater flow of trade can be expected.

The countries of West Africa on the other hand are underdeveloped economically. There is poor communication, imports are manufactured goods from developed countries and exports are mainly primary products. As a matter of fact less than 2% of total trade in West Africa is with countries in the region.

It would be unrealistic therefore to attribute the low level of trade between West African countries to official trade barriers or payment difficulties. The fact that some barriers exist between the countries is worthwhile mentioning, but the crux of the problem is that the countries of West Africa have no significant need for each other's major products in trade since these are produced by all of the countries in the region.

The problem we face in attempting to promote economic cooperation is not one of liberalization of trade but the creation of markets; not broadening the area of competition but achieving **coordination** of industrial development and diversification of production.

The theory of economic development which has been elaborated in institutions of learning, the U. N. and the ECA in the last decade and the efforts on the part of some individual states in their attempt to forge economic links provide ample information on the merits of sub-regional cooperation. It is difficult to criticise the principles of broadening the markets where they are too narrow in order to accommodate better economies of scale for optimum use of resources; and it is also somewhat convincing that a rational allocation of industrial opportunities will expand the base for industrial opportunities and lead us into a take-off stage of industrialization.

The history or record of results achieved suggest that even as the theory is acceptable it has produced disappointing result in the practical implementation that must be the basis of achievement. For Liberia in particular the main usefulness of these results is their documentary value.

Expansion of Liberia's external trade or for that matter diversification of exports can not be achieved through sub-regional economic cooperation. The non-compensatory nature of our economies in the West African sub-region makes this quite evident. To broaden the base of its economy Liberia will have to exploit its natural resources, develop and expand agricultural base industries by the introduction of new crops and the adding of more value to exports through processing of both agricultural and mineral exports into semi-finished or finished products where possible. The markets of West Africa certainly will not provide the opportunity to achieve this goal because of the non-compensatory nature of our principle items of production.

Development of a specific industry such as the iron and steel potential of West Africa, considered on a regional basis, has also encountered difficulties over the problem of location and allocation of such industries. The proposed West African Iron and Steel Authority which was the subject of several meetings few years ago never materialized because of these difficulties which are both political and economic. The economics involved, which stem mainly from the fact that some industries have greater multiplier effects than others in creating complimentary activities, further accentuates the problem of reconciling economic interests in the cooperating states.

While it is true that the Liberia, Guinea, Ivory Coast and Sierra Leone attempt at cooperation in the area of trade and development flaundered mainly as a result of political problems, it is doubtful that the absence of political difficulties would have resulted in any appreciable success. The theory of a free trade area in an expanded market arrangement involving two or more countries has considerable appeal but its practical application requires a number of prerequisites which the Liberian economy in particular does not have to make it of practical benefit. Where two or more countries are linked together in a common market arrangement the less developed in the group invariably becomes a market for the products of the more advanced among the cooperating countries. The conditions that exist among the countries of West Africa are so varied and disparties in currencies and fiscal structure are of such that it would be difficult to achieve an equitable arrangement which would be simple enough to administer.

For example, in the survey that was conducted by the Economic Intelligence Unit prior to the arrangements between the Ivory Coast, Sierra Leone and Guinea it was found that Liberia had fewer industries than the other three countries. The Liberian internal market both in terms of population size and effective demand was also smaller than the other countries. About 45% of Government's tax receipts were derived from customs duty which suggests that any trading arrangements on preferential basis would necessitate readjustment of the fiscal structure to compensate for revenue loses. In addition, the weak currency position of the Republic of Guinea provides an additional obstacle.

These are the real problems which must be matched against the real benefits that any trading arrangements must take into account. A meaningful trade policy for the 1970's which would promote a diversified agricultural base and expanded external trade would have to be rational enough to take these factors into account. What Liberia needs is access to a wider market than what is available in West Africa. Expansion of trade would require a programme involving maximum utilization of agricultural base industries in the second and tertiary stages which would eventually produce some finished products for the local market and external markets. Because of the size of the local market, an expanding international trade is the more logical basis on which we can expect to expand industrial activity.

While the principles of economic cooperation or the free trade area have considerable merits in terms of the ideals and goals that we seek for bringing more industrialization into the sub-region, these can find practical application only in the long run. It would be a mistake therefore to use long run objectives as a solution to short run benefits and individual interest. This is as good an illustration where individual interest conflicts with group interest.

The question then is can Liberia without preferential trade links with any of the principal markets in Europe afford the sacrifice and opportunity cost of a trade policy oriented and committed to regionalism. It is doubtful that national interest in this case can best be served by such a policy.

The suggestion here is not that we should abandon completely present ideals and goals of economic cooperation, nor is it a call for sacrificing the friendship and goodwill that have characterized diplomatic and political relations with other countries in the African sub-region. Rather it is intended to focus the distinctions between theory and practical results, between goals and ideals and objective possibilities.

The rationale envisaged does not call for a brand new trade policy nor is it intended to be a condemnation of present policies. It calls for an adjustment in our outlook to the more practical present day realities of import substitution on a regional basis, accepting the principle of economic cooperation as an ideal, but re-examining its practical implementation with a view to adopting it only to serving the future requirements and goal of the Liberian economy.