Revenue and the Fiscal Impact of Trade Liberalisation the Case of Niger

(Abstract)

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Using data collected during several missions, Zafar finds that the principal reasons for low revenue mobilization are (1) the adverse fiscal impact of trade liberalization, (2) the defisc~lization of agriculture in the 1970s, (3) the collapse of the uranium boom in the 1980s, and (4) the poor record of the VAT in mobilizing revenue. The large reduction in tariffs during the 1980s and 1990s in the context of structural adjustment programs and West African regional integration initiatives had adverse effects on trade tax revenue during the period 1980-2003. But higher import levels after 1994 succeeded in partially mitigating the revenue losses. The experience of Niger shows that without accompanying macroeconomic policies, parallel improvements in tax and customs administration, and success in mobilizing domestic taxes, most notably the VAT, trade reform can have adverse fiscal consequences.

Using a SMART model partial equilibrium analysis developed by UNCTAD for researchers and negotiators at multilateral trade rounds, the author simulated three different tariff shocks to test the fiscal and trade implications of additional trade liberalization in Niger.

First, the preferred tariff regime in terms of overall fiscal and job creation impact was the harmonized Swiss formula in contrast to a 10 and 15 percent uniform tariff. Second, a possible Regional Economic Partnership Agreement (REPA) between the European Union and l'Union Économique et Monétaire Ouest-Africaine (UEMOA) by 2015 that would abolish duties on EU imports to the UEMOA countries would have negative fiscal effects on Niger of more than 1 percent of GDP, positive effects on trade creation of about 1.5 percent of GDP, and ambiguous effects on local industry. While there will be some welfare gains for consumers and importers from lower import tariffs and the possibility of trade creation, the fiscal losses and adjustment costs would be significant, particularly in the machinery and transport sectors. Third, there are asymmetric gains and losses from regional integration and tariff changes, and a 10 percent uniform tariff would have the greatest impact on Benin and Senegal and some impact on Niger and Togo. In sum, further trade liberalization in Niger will have significant fiscal costs, partially offset by trade creation through increased imports.

Descriptors: Niger, Trade liberalization, UEMOA

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