Hogan Lovells

Liberia: A Modern Frontier

Pluralist democracy, bloody civil war, peace, economic growth, mass emigration, mass immigration, investment, corruption, debt forgiveness, and oil – 21st Century Liberia has seen it all. This is one of the most fluid places on earth; a true frontier market. Images of boy soldiers wielding machine guns have been replaced by images of large machines trawling Liberia for its considerable mineral riches. Capital is coming back. Business is beginning to trust Liberia again.

In nominal dollar terms the economy has probably grown by about 500% since Charles Taylor was ousted in 2003. A lot of this growth, of course, is catch-up after the destruction of much of what passed for productive activity during the civil war. Liberia's economy is still well below its structural potential, which is a long term positive for business interests in the country provided Liberia's peace dividend lasts. It is possible (the socio-political climate permitting) that the economy will grow by another 200-300% in the coming decade to somewhere around $8 billion from the current ±$2.5 billion.

Part of Liberia's big economic comeback trail is the return of its old glory sector, iron ore and steel. Two major global mining principals, BHP Billiton and ArcelorMittal, have recently reaffirmed their investment commitment to Liberia.

But it is oil that lurks as the big wildcard.

Oil exploration has kicked off in earnest off the Liberian coast with large global firms taking early stakes in the game.

The discovery of a potentially very significant oil resource raises a host of challenges around political stability and civil conflict risk. Oil regions have a penchant for becoming conflict regions if poorly managed. Liberia's historical channels of patronage no doubt will aim to become well entrenched around the oil sector, and it will be a litmus test of Johnson-Sirleaf's government as to how well she can steer mineral wealth in a fair and equitable way through the veins of the Liberian economy.

She needs to do this while maintaining peace and consolidating the democratic gains of recent years. With help from her Western sympathisers this may just be possible, but there are no guarantees.

Liberia therefore finds itself at an incredibly dynamic crossroads in its development. But with dynamism comes no shortage of risk. Weak state institutions and factionalised elites are a systemic conflict risk flag, at least until the 2017 polls have past. The ability of President Johnson-Sirleaf's liberalising, business-friendly agenda to outlive those elections must not be viewed as a certainty. The lack of state law enforcement capacity remains a further risk to Liberian stability. This inability to project power within the country's borders means that the state remains entirely dependent on the UN peacekeeping deployment to prevent the renewed emergence of rebel forces.

Liberia, like many African countries, suffers from poor institutional design that has failed to foster the kind of socio political development seen in other parts of the world. It has a reform-minded government, but de jure intention and de facto reality are all too often at odds with each other. Reform of the property rights and business regulations regime has been frustratingly slow and the anti-corruption drive of President Johnson-Sirleaf has hit up against resistance in the well-established channels of patronage, retarding further progress in this area for the past few years. Property registration, licencing and permits, and other administrative hassles are still far too onerous in Liberia for the country to be considered even remotely 'business friendly'.

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MAKING SENSE OF IT ALL

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Investor protections are relatively weak, largely because the foreign investment space is poorly defined in a regulatory sense and lacking clarity and certainty. This makes investment vulnerable to arbitrary state dictates. These problems notwithstanding, Liberia has one of the most liberalised capital regimes in the world, operating a managed exchange rate float against the dollar with no official exchange rate distortion, and implementing only 1 out of 5 capital controls pertaining to trade in goods and services monitored by the IMF, and an even more impressive 1 out of 13 controls pertaining to capital account and investment transactions.

This encouraging lack of restriction on money capital flows and rising investment demand may be hampered by a lack of financial sector sophistication, but this implies the scope for increasing banking services and credit intermediation in Liberia is significant. It will require a huge improvement in Liberia's grossly undercapitalised information and communications infrastructure, another opportunity waiting for committed foreign capital.

Risk management in Liberia entails managing a very fluid regulatory environment administered by elites that will tend to resist further encroachment on channels of patronage. Investors have to walk the tightrope of demonstrating clear benefits to elites while avoiding corrupt deals. Companies should be prepared to forge policy with the state and in many instances must be willing and able to provide capacity to state institution-building. Liberia truly is a modern frontier.