

Issues Paper for African Union Symposium

THE ECONOMIC DIMENSION TO THE AFRICAN UNION

This Issues Paper is intended to identify some of the principal issues surrounding African regional economic integration and the African Union. Economic integration in Africa is an imperative if the continent is to achieve its potential, and to participate on equal terms in the global economy.

This paper is concerned with a broad range of issues relevant to regional economic integration, which could be the foundation for the African Economic and Monetary Union. The 1980 Lagos Plan of Action announced a pan-African programme of economic cooperation and integration. It was followed by the 1991 Abuja Treaty which established the African Economic Community. Many of the economic provisions for the African Union are already in place, and in fact African governments have been legally bound to implement a range of steps. It is important to ask, why this process has not matured, and why the same issues are being addressed again at the foundation of the African Union.

The paper seeks to ask, what have been the political and economic factors that have propelled or hindered integration processes around the world? It looks both at the experience of other regions, including Europe, Asia and the Americas, and the history of attempts at economic integration and political unification in Africa. The final section focuses on the challenges of implementing the African Union.

What has Propelled or Hindered Economic Integration Worldwide?

The European Experience

The European Union is an important model for regional integration. From its modest beginnings as the European Coal and Steel Community in 1951, it has evolved to become the European Union of today, achieving economic and monetary union across the greater part of the continent. This has been an immensely complicated political process.

The politics of the European union can be divided into three major impulses. First was Germany's search for respectability in the aftermath of World War II, which was made possible by its full participation in a wider, democratic and cooperative European project. Subsequently with German re-unification after 1989, fears of German domination could also be muted through continued participation in the EU. Second, for Germany's smaller neighbours, and in particular France, the EU was a means of containing the threat of German hegemony. (The EU and Germany is a case of 'contained hegemony.') Lastly, as the EU has expanded and deepened, and its member states have achieved a degree of prosperity undreamed of, more and more smaller European countries have sought to join, in order to gain better access to markets, and access to the EU's social and agricultural funds. This may be called 'economic bandwagoning'.

The European Union has never had an effective defence or foreign policy, although there are moves to establish these. Its success in the early decades was due in part to the military umbrella provided by the U.S.-dominated NATO. The collective fear of the Soviet Union helped drive the western European countries together.

The EU is a unique case of 'north-north' integration of developed capitalist economies. It is hard to draw wider lessons from this experience for 'north-south' or 'south-south' integration. However, the political institutions engaged in the EU process, including the Commission, Council of Ministers and Parliament, are worthy of study. For example, the functions of the integrative political institutions can be identified as providing (a) strategic direction, (b) coordination of tactical processes, that is organizing specific steps, and (c) a forum for the continuous negotiation of the first two. A high level of institutional capacity and investment of human resources in research, negotiation and monitoring has been important to the success of the EU.

The American Experience

A second important experience of regional economic integration is NAFTA. At first sight this appears to be a more purely economic pact, with much lighter political baggage. The threat of inter-state conflict in the region has been much less, for example. However, closer analysis shows that political motivations were the key.

Economic integration in the Americas is marked by the undisputed hegemony of the United States. The domestic politics of U.S. have been central to the development of economic integration in the Americas. There are several main themes. One is keeping isolationism at bay domestically (an important agenda for the U.S. major companies). The second is a response to regional problems such as the illegal drugs trade, migration etc. Thirdly it is a way of utilising regional economic integration (NAFTA and Pan-American integration) as a means of responding to the perceived economic threat of 'Fortress Europe' and Japan's supposedly impenetrable domestic market. For the U.S., therefore, regionalization is a step towards globalization.

However, the question remains whether the U.S. is truly committed to accepting multilateral constraints on its economic policies, or whether U.S. regional hegemony may in fact allow the country to dictate the terms of economic integration throughout the hemisphere.

Among the U.S.'s neighbours, we can see a changing pattern of attempts to accommodate living alongside the world's economic super-power. The cases of Canada, Mexico, Central and Southern American countries are all somewhat different depending on their internal politics. However, we can see a general pattern of response with three main stages. At first, there were attempts to diversify relationships and build national economies, to counter-balance U.S. power. This was followed in the 1980s, when the non-socialist countries in South America aligned themselves with the U.S. chiefly for political reasons, against the fear of leftist insurrections. The current situation is economic bandwagoning with Washington: joining the emergent hemispheric free trade area in the hope of benefiting from access to the U.S. market. All hope that this will be institutionalized bandwagoning, and fear that the integration will be at the whim of U.S. interests.

Central America, the Caribbean and the southern cone countries have also attempted their subregional organizations and pacts. These have had modest success, always overshadowed by the economic hegemony of the U.S. However, intra-regional trade in Latin America has grown under the umbrella of subregional integration arrangements, notably MERCOSUR.

The Asia-Pacific Experience

A third case of regional economic integration is the East Asia and Pacific countries, including ASEAN and APEC. This has elements in common with each of the above cases. It is akin to the European experience, in that the impulse towards integration was provided by capitalist countries threatened by Communism, under a U.S. military umbrella. However, from this point on, East Asian experience is sharply divergent, in two major respects:

Politically, the integration has not marked by institutional simplicity and a continuing respect for national sovereignty and non-interference in the internal affairs of member states. Economically, it has been 'open integration', powered by multi-national companies seeking global markets.

The East Asian case is the clearest example of a general pattern for regional integration: it spreads out from a more developed core that plays a hegemonic political and economic role. This has been called the 'flying geese' theory of economic development. In this case the 'lead goose' is Japan, at the cutting edge of technological development. As it develops, the less advanced sectors are passed to the following geese (countries such as Thailand and Malaysia), where labour costs are lower, which in turn pass on their less developed sectors to the geese following them (e.g. Indonesia).

Regionalization and Globalization

In theory, globalization makes regionalization redundant. The two should be opposed: regionalization is founded on the preferential treatment of a number of countries, not equal openness for all. But in practice the two are largely complementary. The WTO does not prohibit any regional or subregional arrangements. (Wisely, because these trading blocs are a reality.) Provided that the overall trend is towards the *lowering* of tariff barriers and restrictions on investment, the WTO is less concerned by the preferential treatment of some countries. However, if regional blocs either maintain tariff walls at existing levels or even increase them, then regionalisation is incompatible with the development of global markets.

The relationship between globalization and regionalization depends upon the nature of the economies in question and the political choices made by the dominant power in the region concerned. In Europe, regionalization has been driven in part by an impulse to protect European countries' economic and social systems from the pressures of globalization. The American and East Asian experience, which are both 'north-south', represent two different means of promoting globalization through regionalization. 'South-south' integration will be successful if it is part of a process of adapting to a wider regionalisation or globalization.

The History of Integration and Unification in Africa

Africa has a rich history of political projects for the unity of the continent. The most famous and influential of these was the Pan-Africanism of President Kwame Nkrumah of Ghana. Nkrumah insisted that Africa must unite, and that the independence of Ghana was meaningless without the liberation and unification of the entire continent. Many other African leaders from the independence generation shared these views, though some of them took a more incrementalist approach to unification, for example Julius Nyerere. At that time, there was remarkable coherence of political vision across the continent and a strong sense of idealism.

Africa's unity was a casualty of Cold War politics. The Pan Africanist 'Casablanca Group' brought together the radical, leftist nationalist leaders. Meanwhile the more

conservative and pro-Western Monrovia Group advocated independence within existing boundaries. The Ethiopian Emperor Haile Selassie was one of the most influential leaders of the latter group. His conservatism was moderated by his strong commitment to multilateralism and collective security (he had been a victim of the abrogation of these principles by the League of Nations in 1935), and his active support to national liberation movements across the continent. The outcome was the OAU, which was a compromise that managed to maintain the diplomatic unity of the continent and prevent Africa splitting into two rival camps. This was a considerable achievement at the height of the Cold War. Meanwhile, the Africa Liberation Committee was set up by the OAU in Dar es Salaam to promote Pan-African cooperation in the liberation of countries still under colonial or racist domination.

The existence of a common external political threat was a powerful impulse towards regionalism in both Europe and East Asia. In Southern Africa, the common threat of Apartheid South Africa in the 1970s and '80s pushed the independent countries towards economic and political cooperation, notably in the creation of SADCC. But with the advent of democracy in South Africa, no such threat exists. Threats to the security and stability of the African continent come largely from within. Moreover threats are often associated with poor governance rather than attempts to destabilize effective governments.

Contemporary Pan Africanism is seeking a clear political vision. There is a high level of political demoralization across the continent and a clear lack of confidence in political institutions and political leaders. On the other hand, there is a strong sense of common identity across Africa. The OAU is one of the few regional organizations in the world that manages to hold annual summits and regular meetings; ambassadors to the OAU are kept busy; there is a growing body of African charters and conventions, and a small but increasingly confident African Commission on Human and People's Rights. African leaders like to meet together. The idea of Africa and African common interest still resonates strongly.

The African Union is a state-led process. To date it has had relatively little input from either civil society or from the private sector. The Constitutive Act of the African Union contains a number of provisions that can ensure much greater participation by these stakeholders.

In summary, there is everything to play for in the African Union. There are formidable obstacles and many reasons for caution, but also tremendous opportunities.

Economic Integration

At independence, many African states were financially and economically integrated, and some shared subregional political institutions. This was particularly so for the Franc Zone in west Africa, the East African Community and the Central African Federation. However these associations rapidly fell apart, or, in the case of the Franc Zone, failed to develop. Following the adoption of the 1980 Lagos Plan of Action that announced a pan-African programme of economic cooperation and integration, a new start seemed to have been made.

Africa has multiple regional cooperation and integration initiatives and programmes. They vary from customs unions to more ambitious monetary unions, and the deepening East African Cooperation that also entails a subregional parliament and other institutions. Many of these organizations and associations overlap in manner that demands greater coordination. West Africa in particular has been marked by the proliferation of overlapping subregional economic integration organizations. COMESA is Africa's widest economic integration project, which has marked both successes and disappointments in promoting intra-regional trade, lowering tariff barriers and harmonising customs regimes.

Africa has also engaged in extra-regional economic cooperation projects. Most former French colonies have had preferential trade relationships with France, which for some time retained a hegemonic role in ensuring monetary stability. African countries are members of the Commonwealth and the League of Arab States, and some have special relationships with the EU. However, these mostly count as special aid relationships or economic cooperation arrangements rather than economic integration as such.

In contrast to the EU, NAFTA and APEC, Africa's attempts at regional economic integration have so far failed to realize substantial increases in intra-regional trade. African countries started off with lower levels of intra-regional trade and the situation has largely failed to improve. This is probably related to (a) the very low income of the African region, and (b) the high proportion of GDP represented by agriculture and the low level of industrialization. Other problems will also be mentioned below.

Sub-Regionalism and the Question of Diversity

Most of Africa's functioning inter-state organizations are sub-regional rather than regional. These have evolved since the formation of the OAU in response to specific needs and requirements of member states. There has not however been any attempt to establish formal liaison mechanism among them and between them and the continental organisations. Nor has there been any systematic analysis of how subregional organisations could themselves evolve into a regional association or organisation.

The East African Cooperation is a promising model for subregionalism in Africa. It is an incremental process that involves gradually deepening economic and institutional ties, with parliamentary structures to help it command popular legitimacy. Increased subregional trade and improved economic growth have been the fundamental aims of the cooperation agreements. Ultimately, the new EAC will stand or fall on the success of economic cooperation in delivering tangible benefits.

The question of hegemony arises with respect to all regional and subregional organisations. Historically, dominance by one state has been either the key factor in ensuring the success of a regional organisation, or has had the opposite effect of undermining it. This depends on how the dominant state and its neighbours handle their political interests and actions.

We can schematize different responses to hegemony:

1. First, smaller states may seek to contain the hegemon within a wider system, thus diluting its power and obliging it to act according to a set of wider rules. The dominant power thus becomes the core of regional system. An example is the EU with respect to Germany.
2. Second, smaller states may align with a dominant power in order to obtain some of the benefits of its hegemonic status, including security protection and/or economic bandwagoning.
3. Third, the dominant power may itself see a wider coalition as a means of sharing the burden of its role, distributing the economic, military and diplomatic costs among other members of the community.
4. Finally, smaller states may mobilise an alliance to provide a counter-force to the hegemonic threat. In this case the dominant power is outside the regional organization. Such a strategy also requires a long-term strategy for defusing that threat.

In Africa's subregions, the way in which smaller states respond to the subregional dominance of South Africa, Nigeria and Egypt, and the strategies adopted by these relatively powerful states, have major implications for the way in which subregional and regional organizations can be constructed.

Where no dominant power exists, the creation of regional associations is more problematic. In the case of both Europe and East Asia, the Cold War was a crucial context: U.S. strategic interest in the two regions meant that the security communities could be nurtured against the backdrop of the U.S. as an outside protector. But where no such strategic superpower interest exists, it may be necessary to fall back upon the old European idea of the 'balance of power.' This operated effectively in Europe for much of the 19th century, when the European monarchies decided it would be more effective to use their military capacities mostly for internal repression rather than inter-state warfare. Over the whole of the African continent, this is the general pattern.

The African Union has adopted the historically unprecedented approach, of incorporating all the states on the continent at one time, rather than basing its regionalism on a core or hegemonic state or states.

The African Union

The Constitutive Act of the African Union, adopted on 11 July 2000, includes provisions for economic and monetary union, and specifies that the Union shall have the African Central Bank, the African Monetary Fund and the African Investment Bank (Art. 19). However the specific protocols relating to these have not been drawn up. In the light of the modest progress made in implementing the Lagos Plan of Action and the Abuja Treaty, it is important to analyse carefully the factors in favour of economic integration and opposing it.

Factors in Favour of Economic Integration

There is an Africa-wide consensus that regionalization is desirable. Africans are drawn together and instinctively distrust the boundaries that separate them. Continental institutions such as the OAU, ECA and ADB have a strong legitimacy.

There is universal recognition of the prospective benefits of regional economic integration. These include lowering transaction costs to business, lowering risks to investment, expanding markets, enabling pooling of regional resources in research and development, better utilization of natural resources, utilization of economies of scale in production, more efficient allocation of resources, etc.

Africa has functioning subregional organisations of various kinds. There is an incrementalism already at work. These organisations and associations range from the East African Cooperation to various riverine associations to deal with shared natural resources. These are specific responses to specific situations, and as such are well adapted and are likely to survive and grow. However, there is as yet no forum in which Africa's subregional organisations can come together, to meet themselves and with the regional organisations. Filling this gap is an important challenge.

Many African countries share similar institutional and legal histories. They tend to use the same languages. The qualifications awarded by their educational systems are broadly compatible. There are relatively few social and cultural barriers to migration, intermarriage and socialization. Africans enjoy the same music. There is a real cultural unity, together with a genuine appreciation of the cultural diversity of the continent.

There is a real economic integration going on at an informal level. It has been recognized for many years that many countries' 'real' economies have been mostly informal, and much larger, more dynamic and more regionally integrated than their official economies.

The challenge of responding to common problems, including marginalization in the processes of the WTO and the pandemic of HIV/AIDS, also bring African countries closer together. Pooling of capacities and developing common approaches increases the influence of Africa in international fora and its likelihood of making substantial gains. The joint African-led NEPAD initiative is a fine example in this respect.

The political process of creating the African Union therefore represents a high-level reflection of a much deeper social, economic and cultural unification across Africa. The real processes of integration may be invisible to political scientists and diplomats, but they should not be underestimated.

Problems with Economic Integration

However a number of powerful factors militate against effective economic integration. The most significant of these is the lack of a dominant political-economic power on the continent that can form the core of a regionalization process. Most African countries are exporters of raw materials, especially agricultural and mineral products, and compete with one another for markets. Industrial production is concentrated in a relatively small number of countries, and is not significant on a global scale.

Throughout Africa, there is fear of the development of hegemonic subregional states. Whenever one of the continent's more powerful countries (South Africa, Nigeria, Egypt) appears to be taking an active interest in subregional affairs, many of its smaller neighbours will try to combine to counterbalance what they see as its excessive power. In contrast to the U.S. or Japan, these larger states are not so economically powerful that their neighbours want to bandwagon with them. The question of whether or not to embrace and support the leading role of the largest regional economy should be seriously discussed.

Integration between neighbouring African states is usually the integration of unequal partners, and the benefits of the arrangement are often polarized towards one partner. For example South Africa is the major beneficiary of the Southern Africa Customs Union, and has therefore allowed compensatory mechanisms to be built in that benefit the other smaller members. Similarly, the disproportionate benefits accruing to Kenya in the EAC created antagonism in Uganda and Tanzania. Although integration is (overall) a sum-sum exercise, the disproportionate allocation of benefits may create friction between countries.

Currently, there are substantial benefits that accrue to certain influential groups because of the existence of borders, and the maintenance of states with sovereign status. The rents that can be extracted from artificially-imposed borders may be declining, but they have not disappeared.

The securitization of many states makes governments suspicious of any measures that involve lessening control. While states are fearful of external or internal subversion, they are likely to try to retain as much power as possible in the hands of their security apparatuses. Allowing free movement would be resisted by governments that are fearful of the infiltration of religious or political extremists.

A very low level of international trade is conducted between African countries. In the Southern Africa subregion (excepting South Africa), for example, no more than 5% of international trade is between member states, and most of this is accounted for by Zimbabwe. This level did not change despite the efforts of SADCC in the 1980s. Moreover, few developing countries have experienced rapid economic growth on the basis of intra-regional trade, as opposed to exporting to world markets.

Most trade between neighbouring states is informal or illegal. Lowering tariff barriers does not address the constraints on this trade. It also does not address the main transaction costs of formal trade, which consist of informal duties and tolls exacted by underpaid officials and soldiers.

Integration faces severe external constraints. African economic union is a case of 'South-South' integration. In history there have been few successful cases of economic cooperation between countries that are poor and economically dependent. African countries suffer from the blights of poverty and dependence in excess: absolute levels of poverty are growing, countries are reliant on exporting primary commodities and labour, levels of domestic and inward investment are low, and recent world trade agreements are not bringing any appreciable benefits to the continent. Until African economies are able to achieve respectable rates of growth and poverty reduction, the prospects for integration will remain dim.

The governance constraints on successful integration are considerable. Increasingly, the governance requirements for economic growth are demanding attention from policymakers and planners. Good governance aims at the creation of a capable and effective state, that is, a state in which the public service, the legislature, the judiciary and statutory bodies are empowered to provide an enabling environment for the private sector and civil society to play their respective roles in a mutually reinforcing manner. For such an enabling environment for investment by the private sector, both national and international, to exist, it is essential to have good legislation, the rule of law, effective regulatory institutions, sound fiscal management and a range of other governance tasks.

Economic integration is a demanding task. The current poor levels of implementation of treaty obligations in Africa are a reflection of the lack of institutional capacity for taking on the onerous tasks of drafting the required legislation and rules necessary for turning commitments into realities. The governance requirements for integration, at both national and regional level, will be considerably more substantial than existing capacities. Currently, Africa displays a low level of implementation of treaty obligations. This is due to (a) unwillingness to sacrifice sovereignty, leading to (b) unwillingness to incorporate international treaties into domestic law and give powers to supranational bodies and (c) a low level of institutional development, so that the hard bureaucratic work of implementing obligations is rarely actually carried out. This problem is not unique to economic integration treaties: African governments often sign up to regional and international commitments without first scrutinizing in detail the requirements of fulfilling their obligations. Problems of weak institutional capacity are exacerbated by brain drain, prevailing under-resourcing of educational institutions, and the HIV/AIDS pandemic.

Some of the requirements of preferential trade areas are contradicted by the demands of structural adjustment programmes required by donors and creditors, whose priorities are more usually to promote competitive exports to the global market.

As a result of the above, the outcomes of attempts at creating common markets and developing subregional economic integration have been disappointing. More modest functional cooperation on specific projects and in particular sectors has had a better record. Infrastructural projects (building or rehabilitating road and rail links, power grids) have often been more successful. These have often been donor-funded. These are a necessary foundation for regional economic integration, but should not be taken to represent economic integration itself.

Economic Integration and Regional Peace and Security

The peace and stability function of economic integration is important for various reasons. First, it provides an important political impulse towards economic integration. Second, economic integration will be successful if it generates economic growth, and that in turn is facilitated by peace and security.

Economic integration should help limit inter-state conflict, because there are strong countervailing interests against a break in relations between economically-integrated neighbours. Similarly it should militate against internal conflict, as there are economic interests vested in maintaining a well-functioning internal market. Most of the time regional integration does function in this manner. It creates commonalities of interest among different groups including governments across the region. It raises the costs of violent conflict. It helps to create 'security communities' in which the resolution of disputes by resort to conflict is literally unthinkable.

However, economic integration is a process that involves friction and there are losers as well as winners. Successful integration requires strong institutional mechanisms for containing friction and resolving disputes. In addition, some business interests can profit from conflict.

There are arguments for single regional organizations dealing with both economic issues and peace and security. There are also arguments for separating these functions. A detailed discussion of this question and related issues would require extensive discussion of how regional and subregional organizations can facilitate peace and security, which is beyond the scope of this paper.

The Significance of NEPAD

The New Partnership for Africa's Development (NEPAD) is the most significant continent-wide economic initiative to emerge in contemporary Africa. The basis of NEPAD is a commitment by African governments to put in place the good governance preconditions for economic growth, including strengthening democracy and the rule of law, achieving peace and security, and reducing corruption. These measures, in and of themselves, will help create an enabling environment for development. In response, the international community is expected to provide fairer market access for African products, debt relief and increased high quality aid flows, to enable Africa to meet the International Development Goals.

NEPAD has several components, including governance, peace and security, and economic development. It is a sovereign process, driven by African governments, that brings together pre-existing initiatives including the Millennium Partnership for Africa's Recovery, led by South Africa, Nigeria and Algeria, and the OMEGA Plan of Senegal. In some respects, NEPAD is in fact an exercise in bringing together existing best practices of development partnership such as participatory PRSPs. The criticism that there is 'nothing new' in NEPAD therefore misses the point. There is no revolutionary blueprint for solving Africa's problems, but instead increased effort put into what already works, and greater persistence in reducing or removing known obstacles to development, such as unsustainable debt overhang. The emphasis on regional cooperation is also not new, but is given new urgency. What makes NEPAD different is the African political commitment behind it, and the fact that it has been greeted very positively among major aid donors including the G-8. The U.K. Chancellor of the Exchequer, Gordon Brown, recently called for a doubling in existing aid flows to the developing world, from \$53 billion to \$100 billion, by 2015. A major increase in Britain's aid commitment to Africa is likely to be part of Prime Minister Tony Blair's programme for the coming year. Other major donors are envisaging similar actions, not merely in increasing financial assistance, but also transforming the modalities of aid provision so that it is pooled and guaranteed for a longer period, reducing transaction costs and increasing effectiveness. In

this context, NEPAD is the initiative that western leaders have seized upon as the modality for assisting Africa.

NEPAD is therefore a synthesis of what is known to work and what is believed to work, packaged in a manner that can gain the confidence and support of African and international partner governments.

Although NEPAD is not integrally linked to the African Union, it shares many of the same principles and aims. It is likely that the two will succeed together, or not at all. Because NEPAD is an pan-African initiative, the prospects for success depend upon all governments cooperating, and ensuring that the weakest performers are enabled to overcome their problems. Governments that are clearly failing the governance test, for example, are not merely harming themselves but are damaging the prospects for the whole continent. The old argument of non-interference in the internal affairs of African countries, already largely discarded, must be abandoned altogether. Every African country is its brother's keeper.

The major challenges facing NEPAD are similar to those facing the AU itself: how to make the process more inclusive and participatory, so that it is underpinned by effective consultation and participation from the widest range of stakeholders.

Major Issues to be Addressed

This issues paper has identified some elements of the global and African experience with regional integration and its prospects. Much needs careful consideration. Preliminary conclusions include the following:

1. Regionalization in Africa must take on a different character to in Europe, the Americas and East Asia. It is 'south-south' regionalization of economies with weak industrial bases.
2. The roles of Africa's more powerful countries must be analysed with care. Relations between Africa's leading national economies and their smaller neighbours will be a critical factor in the success or otherwise of regionalization.
3. Africa already has extensive experience of regional integration initiatives, that must be thoroughly evaluated as the continent embarks upon another, even more ambitious, integration plan. How does the AU relate to the 1980 Lagos Plan of Action and the 1991 Abuja Treaty and other economic initiatives at regional and subregional levels?
4. The private sector will be the key to successful regional integration. How will the AU relate to the private sector, both African and international?
5. What is the relevance of economic integration to key civil society concerns such as democracy, citizenship and human rights?
6. Africa's regionalization must be seen as step towards globalization, as a means of better enabling Africa to meet the challenges of competing in the global economy.
7. There are losers as well as winners in the regional integration process. Institutions and processes to contain the problems that will arise from these losers need to be developed.
8. The institutional and procedural demands on governments of regional economic integration are considerable. What investments in human resources and institution building will be required?