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# Economic integration and conflict management in Africa

## Woodrow Wilson International Centre for Scholars

## Partnership to Cut Hunger and Poverty in Africa

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**Distinguished speakers, guests, ladies and gentlemen**

Thank you for the invitation to address this forum.

Africa, with a GDP of just over $2 trillion[1] in 2006, is the poorest region in the world. This view is quite different to that held of the continent at the beginning of the 19th century. It was during this time that Africa's income amounted to roughly one-third of that of Europe and recorded growth that was more rapid than in Asia. However, in the last twenty years of the previous century, GDP per capita on the African continent remained remarkably flat while most other emerging regions enjoyed substantial increases in prosperity and welfare.

I want to give you a mixed message today. A major part of it is one of hope – looking at the economic data in recent years we can say that Africa is in the process of catching up to the rest of the world. Another major part of my message is one of concern – Africa remains vulnerable to economic, political, and environmental shocks like no other region of the world. And the final part of my message is of perspective – that addressing our vulnerabilities means that we must become constructive players in our long-term socio-economic trajectory.

Economic growth on the continent has been sustained and is more rapid than in decades. Since the turn of the century, growth has averaged 4.8 per cent, reaching 5.2 per cent in 2007, and is the only region in the world expected to grow more rapidly in 2008. Macroeconomic policy reforms and outcomes in terms of stability underlie the improving performance. Lower and more stable inflation, manageable debt levels, sound fiscal policies and improved public financial management provide a firm foundation for this accelerating economic growth.

The average inflation rate for Sub-Saharan Africa from 1995 to 2005 was 18 percent.[2] By 2005 this had fallen to 11 percent and to 8 percent in 2007. The

[1] Gross domestic product based on purchasing-power-parity (PPP) valuation. This compared to the World GDP ($65 trillion), US ($13 trillion), China ($10 trillion) and India ($4 trillion). Source: IMF WEO.
[2] Average inflation for the SSA region peaked at 61 percent in 1994. IMF, WEO 2006.

average budget balance in the region was in surplus in 2006 and was +1.4 percent of GDP in 2007.

Strong commodity prices, in particular oil, have supported growth in recent years. Africa's exports are expected to reach close to US$400 billion this year, with imports at about US$290 billion. Looking at China's role in African trade, we find that trade between the two increased to about US$55 billion in 2006 from only about US$10 billion in 2000.

Africa's FDI rose to $31 billion during 2005 up from $18 billion in 2004 and 2003. South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, the DRC, Algeria, Tunisia, and Chad were the main beneficiaries. Most FDI was in commodity producing sectors, including oil. Thirty-four other African countries received FDI inflows of below US$100 million (each).[3]

Alongside stronger capital inflows, Africa's overall balance of payments is improving and foreign exchange reserves rising, contributing to greater macroeconomic stability over time.

While this trend is encouraging, it does not yet provide a sustainable platform for the reduction of poverty and inequality. Africa needs two to three decades of rapid growth to make a substantial dent in the level of poverty.

Over the longer term, economic development will induce a much greater dispersion of investment into commodity and non-commodity producers alike, but to achieve that outcome we need to address the fundamental vulnerabilities of African states, their economies and communities.

Nancy Birdsall reminds us that in East Asia and the Pacific the proportion of the population living on or below $1 per day was 57% in 1981, falling to 9% by 2004. In Africa, that proportion has remained static – 42.4% in 1981 and 41% in 2004. South Asia fell from 49.6% to 31%. In 2004, 8.6% of the population in Latin America and the Caribbean subsisted on $1 a day. Half of the continent's

[3] David Hale comment on Africa for the 2007 Mining Indaba.

population is today regarded as poor, while in regions such as Asia, the number of people living in poverty has halved in the past three decades.

If we look at the Millennium Development Goals, we find similarly alarming outcomes.  On nearly any measure of human development, the outcomes are unsustainable.  Vulnerability breeds conflict and severely handicaps economic growth.  Vulnerability means that many African societies will find it nearly impossible to create the economic policies, institutions and international economic relationships needed to start the cycle of development needed to escape current conditions.

Africa is also highly vulnerable to economic shocks, be they a sudden drop in the price of an important export commodity, drought, or exchange rate devaluation. The frequency and severity of shocks has been growing. For example, a Commission for Africa background paper pointed out that 44 African countries have suffered natural disasters in the last 10 years. [4]

In addition, 28 African countries are judged to be potentially vulnerable to aid shocks, due to their high aid dependency ratios, and 24 countries are very vulnerable to export shocks, because they depend on only one product for more than 50 percent of their export revenues. And at least 13 African countries have suffered foreign private capital crises over the past 10 years.

For many African countries, financial pressures limit the range of public services available to help people to overcome the costs of supplying their labour to regional labour markets.  Transportation costs can be exceedingly high, in part because of under-developed private markets – few operators – and because of public inefficiency (and corruption).

As the Commission for Africa report pointed out, poor infrastructure remains a severe impediment to more rapid growth and poverty reduction:

[4] Martin and Bargawi (2004). *Protecting Africa against "Shocks"*, Africa Commission Background Paper.

*In some regions of Africa, farmers lose as much as half of what they produce for lack of adequate post-harvest storage. Across the region, women and girls currently walk an average of six kilometres to collect water. The life of those living in urban slums is made still worse by the lack of infrastructure – only seven percent have access to sewerage services for example, leading to economic costs in terms of health and lost work hours.*[5]

Some of the handicaps affecting African economies are a legacy of colonialism – railways and roads leading from the interior to the coasts but not between contiguous countries – and bad or weakly technocratic governance. "Today Africa's transport costs – local, national, or international – are around twice as high as those for a typical Asian country. Shipping a car from Japan to Abidjan costs US$1,500, whereas moving it from Abidjan to Addis Ababa costs US$5,000."[6]

Part of the vulnerability equation is access to resources, and as all of you know, access alone has been sufficient to generate civil conflict in many regions. And civil (and inter-state) conflict may well escalate. Resource identification and the infrastructure needed to access them are largely colonial legacies. The lack of investment in infrastructure alone in the intervening decades suggest the probability of increasing conflict over the control of what still remains.

The AU summit in Accra in 2007 debated how to drive change. Two polar positions emerged. Some argued for a swifter move to establish a united states of Africa, with constitution, constitutional institutions, and public power to match. The alternative view was to move more concertedly to strengthen Africa's regional economic communities, as envisaged in the Abuja Declaration. This latter position appears to have garnered greater support by African heads of state. However, what is not in dispute is that the 53 countries that define our

[5] *Commission for Africa Report*, page 233.
[6] *Commission for Africa Report*, page 27.

continent, and are bound by the agreements struck in Berlin in 1885. These do not provide a sufficient basis for economic development today. Populations and market size are vastly different as is the role of the sovereign state in the economy. We must, as a matter of exigency, enlarge both the market size and market structure. In the short term, at least, we must raise the level of intra-African trade from its abysmally low 10.4%. There has to be new investment in infrastructure that will unlock the potential, for agriculture and trade across Africa. We must commit to changing the infrastructure design, which was originally designed to transfer primary commodities to Europe rather than fostering regional trade.

So it seems in the medium term at least, Africa's vulnerabilities and economic challenges will be addressed through the more decentralised, regional approach. But defining this approach also needs work. Africa's regional economic communities suffer from overlapping memberships (COMESA, SADC, SACU) and a multiplicity of regional institutions. Graphically, the picture presented by all of these institutions, is scary. (See Annexure entitled "The Spaghetti Bowl") In substance, the complexities increase exponentially when the detail of a myriad of bilateral arrangements with outside agencies, such as the current situation arising from the European Union economic partnership agreements (EPA's) are taken into account. Sadly, it appears that too often the question of boundaries and relations are driven by donors rather than by the exigencies of Africa's development. Greater rationality is needed, between the communities and how they are geographically applied. Common tariffs are difficult to apply when countries seek to join overlapping communities both claiming to have their own tariff structure.

Discussion of monetary arrangements is weakened by similar sorts of discontinuities. In the long-run common monetary areas make sense, perhaps even going as far as a single currency for Africa, but in the medium-term, there needs to be some sort of shared understanding of the mandates of regional communities that can be applied to all of them.

Part of the difficulty of all this is that in presenting regional communities to the outside world, the leap of faith required to envisage coherent monetary arrangements is too far for the time being, and this tends to undermine the broader logic of economic integration. In short, basic rules for the development of regional communities need to be set out to instil greater confidence and prevent unnecessary competition between communities.

The East Africa region perhaps shows us most clearly how weak regional economic relationships undermine political stability. The East African Community (EAC) comprises Tanzania, Kenya and Uganda and is sufficiently highly integrated for the issue of a common currency to have been raised. A complicating factor is, of course, that Tanzania is a member of SADC and that Kenya and Uganda are members of COMESA. If we assume that those arrangements can be easily overcome, we must then move to a discussion of the arrangements for all of geographic East Africa. Where exactly should the countries in the Great Lakes region, especially Rwanda and Burundi be accommodated? Is what excludes them from the EAC some of the events arising from the turmoil which gave rise to the toppling of Mobuto Seso Seko and the creation of the Democratic Republic of the Congo? How should the issues of economic development and conflict resolution be prioritised? We should also pause to consider the extension of the EAC in a northerly direction – what really should happen to the IGAD countries in the horn of Africa? Should we propose an advance that could include Ethiopia, Eritrea, Djibouti, Somalia and even the Sudan? Or would such a proposal be considered heresy? I accept that the East African conundrum might be the most difficult of regional proposals – but we must raise it, to change the ratios of what is possible. Moreover, as Africans we must be able to announce that the regional boundaries arise from considerations that we have given in the interests of both peace and economic development.

Multiple arrangements in Southern Africa are at least as complex.

Regionally strong economies need to provide the basis for economic agreements and institutions covering trade, investment, tax treatment, the environment, and public infrastructure, among others, that facilitates the broadening and deepening of economic activity across borders. South Africa in my own region must play the role of economic partner with its neighbours, eschewing short-term protection in favour of long-term growth and job creation. Efforts to deliberately develop Southern Africa as a real common market should be our main regional priority.

Creating platforms for states to jointly invest in modern cross-border public infrastructure, from telecommunications to rail links to roads, should be a critical goal of these communities. Economic diversification remains critical to long-term economic development and growth.

Let me conclude by noting that the work required by African governments and societies and roughly sketched out in this talk is necessary but probably not sufficient. The international community – from donors to multilateral institutions and to trade representatives of advanced economies – need to reflect more faithfully the commitments made in the Monterrey Consensus only a few years ago. The Consensus focused on the idea of partnership, between developing country governments and societies and between advanced and developing countries. It distresses me to say that by far the greatest strides have been made in the developing world. My earlier review of Africa's macroeconomic performance is just some evidence of the new spirit of accountability and good governance in by far the largest proportion of African countries. I regret that so little has been achieved by our developed partners, whether it is measured by progress in the Doha Round or by development assistance commitments. Greater urgency in the actions of Africa's partners would help to support greater urgency in action by Africa's leaders.

Thank you for your time