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African Monetary Unions - Dominated by the North?

On the relevance of rational economic reasoning under African conditions

1. Introduction

Monetary coordination is high on the agenda of different regional organisations in Africa, like the African Union (AU), the Economic Community of West African States (ECOWAS), the West African Monetary Zone (WAMZ), or between the East African Countries of Kenya, Tanzania and Uganda. Economic benefits of a common currency, like lower transaction cost, increased macroeconomic stability, or the shielding of central banks against political pressure from nationalist elites and their inclination for excessive spending are undoubtedly expected. But the most important underlying aim of monetary integration in Africa is derived from its history, particularly the legacy of the slave trade and colonialism, and the subsequent strive for pan-African ideals, which has become manifest in the promotion of African unity in a crisis prone continent.

However, whether it is feasible to achieve this ambitious political aim with economic means of regional economic and monetary cooperation, is open to question. Experts and the international donor community periodically caution about diverting attention from the most pressing needs of African countries by pursuing over-ambitious monetary policies. African governments should get the priorities right, i.e. they ought to implement first sustainable solutions to the problems of crisis resolution and prevention, the fight against corruption and rent-seeking elites, in order to promote good governance, transparency and accountability. The realities of African economies suggest that the grand new projects of monetary unions are unlikely to succeed (cf. Masson/Pattillo 2004).

In view of these prerequisites it is difficult to find a common denominator of the different views presented in the contributions of Jan Suchanek (2004) and Martina Metzger

(2004) to be discussed in the following, and to match it with the author's own convictions. In addition, it is questionable whether economic, result-orientated reasoning and the discussion of monetary concepts (e.g. that of the Optimum Currency Area or of the Original Sin), which might be duly applied to Western or Latin American societies, have the same relevance in the African context.

The underlying vision of rational economic reasoning as a remedy for the major ills of development planning is a fallacy, at least under the prevailing African cultural and political conditions, insofar as it covers only part of the truth. Some three centuries ago, Francisco Goya chastised a similar form of hubris in his famous Capricho "*The dream [sleep] of reason produces monsters*" [1]. On the one hand, the Cartesian ideal of rationalism is valid: if reason sleeps (is not vigilant), monsters like corruption, misappropriation of funds, politically instrumentalized xenophobia (witch-hunts against foreigners, like in the Côte d'Ivoire under the pretext of Ivorité), and other violent conflicts may arise. On the other hand, the dream of social, economic and political structures, based on the hubris of rational behavior, may result in grand development projects and other "white elephants", growing inequality and ensuing social and political conflicts. One only needs to point to the evils caused by the terrible excesses of ill-advised structural adjustment programs of multinational donors in the 1980s (cf. Barré/Shearer/Uvin 1999; Storey 1999:15; Uvin 1998), and to the double talk of propagated unlimited rule of free markets over developing economies without due regard to major industrialized countries (cf. OXFAM 2002; Cadot/Melo/Olarreaga 1999). The dangers incorporated in the hubris of rationalism in development planning go far beyond the age-old controversy about the validity of the concept of the *homo oeconomicus* or of culture-specific rationalities. The ongoing debate on brain research shows that rational behavior is influenced by deep-seated emotions at least as much as by empirical knowledge and rational reasoning. In fact, human beings cannot act rationally without moving emotions [2]. But even more importantly in this

[1] Francisco Goya; Capricho 43, 1797-98: "*El sueño de la razón produce monstruos*", in English, "The dream [sleep] of reason produces monsters", which derives its ambiguity from two antagonistic interpretations, arising from the fact that the Spanish word *sueño* means "sleep" as well as "dream". For the image cf. website: www.museum.cornell.edu/HFJ/handbook/hb128.html, 01.06.04. – For the risks involved in results-based management, demonstrated by the example of the new poverty agenda of multinational donors, cf. Maxwell 2003:12-20.

[2] In contrast to the Cartesian postulate on the fundamental separation of body and soul (*cogito, ergo sum*), human decision making, by its very biological structure, is never determined by rational reasoning alone, but guided by emotions grown on, and deeply embedded, in the respective culture of the actor (Damasio, 1994:325-328). One may go even one step further in discussing the relevance of Gerald Edelman's (1992:232-236) hypothesis that the biological self, at least vital parts of the human brain, have been conditioned and structured in the course of human genesis by basic values needed for survival; thus, the evolution of mankind provided for the acceptance of basic human value-systems guiding its actions; possibly

context, the neuro-biological linkage of ratio and emotions, born out of and developed within specific socio-cultural settings, is of immediate relevance for the resolution of pressing social needs and conflicts typically addressed by development cooperation (cf. Damasio, 1994:326-329, 344-352). And finally, if particular manners of reduction of complexity, based on culture-specific emotional structures, and not different rationalities are a major distinction between African and Western rational reasoning (cf. Kohnert 2004), then generations of social anthropologists since Evans-Pritchard are right in stressing (apparently without much effect) that Western-educated development experts and politicians should be particularly careful not to cultivate the hubris of rationality in their dialogue with stakeholders deeply rooted in foreign cultures.

Despite several, often competing projects of monetary cooperation in Africa there are only two functioning regional monetary zones: The Francophone CFA-, and the Anglophone CMA-Zone [3]. However, even in these zones the monetary arrangements are of questionable viability. In addition, the CFA- and CMA-Zones are vivid examples of the limited practical value of abstract economic models, like that of Optimum Currency Areas (OCAs), in the African context.

The major structural deficiencies within and between member states of each zone cannot be solved by monetary coordination. They require sustainable political and economic solutions, adapted to the specific needs of each of its members, and aimed at the ownership of the measures and instruments by each country and/or sub-zone concerned. Concentrating efforts and scarce means on over-ambitious plans for monetary integration, like that of the West African Monetary Zone (WAMZ), pushed by the Anglophone West African governments of Nigeria, Ghana, Sierra Leone, Gambia, Guinea, Liberia, in order to establish the *Eco* as a common virtual currency until July 2005, would divert attention from more important bottlenecks of development in the region and would lead to a sub optimal allocation of resources and the temptation for fiscal wastefulness through prospects of a bail-out, or costs that are diluted through the membership (cf.

Edelman´s thesis even sheds new light on the controversy concerning the existence of universal human rights. According to recent neuro-physiological theories on cognition, the perception of the world in the human brain is directed through the filter of positive and negative sentiments from birth. There is a close neuro-biological link between feeling and thinking, which makes the existence of emotions (based on the respective socio-cultural setting) a precondition for any rational action. This applies to all human beings, and hence to Africans and Europeans alike.

[3] For an overview on the Communauté Financière Africaine or CFA-Franc-Zone cf. Suchanek 2004; Fielding 2002; Kohnert 2005; Monga 1997; for the Common Monetary Area, or the former Rand-Zone, cf. Metzger 2004; Grandes 2004.

Debrun/Masson/Pattillo 2002; Doré/Massson 2002; Masson/Pattillo 2001; 2002; IMF 2003; Page/Bilal 2001). The same holds for rival efforts of Francophone circles to establish the F CFA as anchor currency of the future WAMZ.

2. Working hypotheses: On the primacy of external politics and informal economics

Monetary stability is not sufficient: Three decisive elements impacted on the zones performance. All three had little to do with endogenous economic requirements of member states, but very much with external politics and informal economics; i.e.:

- The colonial heritage and "Northern" interest in up-keeping its dominance as well as political stability in the region (cf. Monga 1997; Suchanek 2004).
- Hierarchical structures of dependency maintained by the major economic and political powers, France and South Africa (cf. Kohnert 2005; Metzger 2004).
- Rent-seeking elitist informal trans-national social networks, such as the *messieurs Afrique* (cf. Glaser/Smith 1992; Joly 2000; Verschave 1998; 2000; Yates 2000).

3. The CFA-Zone: ambiguous perspectives of monetary integration

The CFA-zone is basically composed of two sub-zones, characterized by significant structural economic and political differences within and between its member countries: the West African Economic and Monetary Union (WAEMU/UEMOA) and the Economic and Monetary Community of Central Africa (EMCCA/CEMAC) [4]. Neither of these sub-zones meets the classical criteria of the Optimum Currency Area (OCA). In contrast, they show a low degree of diversification of production and exports, low factor mobility (except of labour in some countries) and price and wage flexibility, different levels of infrastructure and of inflation, low intra-regional trade and a strong exposure to asymmetrical external shocks (e.g. different terms of trade development for oil- and agricultural exports). The growing structural divergences between UEMOA and CEMAC have been intensified by the recent development of world oil markets, booming production in Equatorial Guinea and the arrival of Chad in the club of oil producers. Nevertheless the CFA-zone in general, and the UEMOA in particular, have been considered as model case for economic and monetary integration in Africa.

[4] A third sub-zone of the Comoros will not be examined in this paper because of its minor importance.

The crucial common denominators of the CFA-Zone are:

- Common roots in African cultures;
- Its shared colonial heritage, including a social and economic infrastructure, orientated at the *mise en valeur* of African resources for the former colonial power, which entailed considerable loss of economic and political sovereignty on the part of African member states;
- An informal trans-national network of French and African political elites (*les messieurs Afrique*) with a vested interest in maintaining its inherited privileges (Yates 2000). Certainly, this trans-national lobby has lost much of its influence due to generational change. The several times postponed and belated decision on the CFA-devaluation, just four weeks after the death of Houphet-Boigny (07.12.03), may serve as just one example. However, the Balladur-doctrine of La Baule (1990), meant to initiate a radical shift in France's African policy, away from dependence of its African partners on aid, towards increasing self-reliance, private sector investment and closer regional integration, still does not apply, if vital interests of Paris are put into question (cf. the French Operation Turquoise in Rwanda, or the handling of the of the Congo crisis or the present unrest in Ivory Coast). And even the current pressure of the French Government within the EU to recognise the Eyadéma-Regime of Togo despite of its human rights violations in order to revitalize economic cooperation, shows that the old links are still very much alive.
- The rules of the informal sector (e.g. neo-patrimonialism, prebend-economy, rent-seeking etc.), which are more important in structuring the CFA-zone than the institutions and policies of the formal economic sector, including its monetary institutions. For decades, prices of French imports were overpriced (by 35% on average, compared with the world market, due to protection by tied aid and other political and cultural non-tariff barriers, cf. Yeats 1989). The cost of this rent-seeking was carried not only by the French Treasury, who guarantees the peg, but by the French and EU-taxpayers, who financed budgetary bail-outs and development aid, and finally by the poorer member countries and social strata (cf. also the free-rider thesis, cf. Fielding 2002: 64-71; Suchanek 2004).

Economies of both zones are heavily dependent (out of different reasons) on exports of primary commodities quoted and invoiced in US $. The high volatility to asymmetrical external shocks results, last but not least, from the peg to the FF/Euro, which does not allow to adjust the exchange rate to the divergent commodity terms of trade development in time. The majority of African countries, including the members of the CFA-zone, have been forced, among others by misguided Structural Adjustment Programs (SAPs) of the international donor community, into a trading structure that subjects them to secular terms-of-trade losses and volatile foreign exchange earnings, the "African commodity trap" (cf. UNCTAD 200). A typical result is the overvaluation of the real exchange rate of the F CFA *vis-à vis* the US $ and deflationary pressure [5]. An opportune devaluation of the F CFA has been prevented by prevailing fears concerning political destabilisation and its considerable social cost, notably for the poor, and probably not so much by the "original sin" which could have made the devaluation undesirable (cf. Suchanek 2004; Kohnert 2005).

The F CFA viability has been hurt by its dependency on the monetary policy of the Euro-zone, which does not necessarily correspond to the needs of African member countries. Ambitious convergence criteria had been introduced with the 1994 devaluation and the founding of the UEMOA and CEMAC respectively. However, its implementation had been hampered by the lack of political will and the aftermath of the Ivorian crisis since September 2002 (cf. Kohnert 2005).

In summary, the inherited F CFA-zone arrangement is sub-optimal for both sides, the EU and francophone African countries (cf. Suchanek 2004). To overcome the significant structural differences within and between these zones (cf. graph 2, annex), specific monetary regimes would be helpful. This holds even more, as the potential flexibility of the CFA-zone monetary arrangements has not been fully exploited in order to cope better with the wide discrepancies of economies. Thus, the regrouping of member countries either along economic lines, or according to size has been proposed: The first, to unite all members which are likely to experience similar external shocks; the second, to prevent large countries from hijacking the Operations Account, to the effect that smaller land

[5] cf. Devarajan, 1997. The Real exchange Rate (RER) is an index of relative prices of two goods: *RER* = price of tradable goods / price of non-tradable goods; it is an indicator of competitivity of domestic economy vs. foreign economy, relative to the base year. A currency is under devaluation pressure when the *RER* increases. Determinants of RER are factors that affect the supply of foreign exchange, i.e. exports earnings (price of exported goods or volume), foreign capital inflow (aid, debt, interest rate), and factors that affect the demand for foreign exchange: Import expenditures (import price or volume), capital flight and foreign capital outflow (debt service), trade policy (import tariff); Demand for imports is itself influenced by domestic inflation (government deficit, increase in wages, increase in money supply (credit). – Since 2000/01 the overvaluation of the $ vis à vis the F CFA was more than +35% since 2000/01; cf. graph 3 in the annex)

locked Sahel countries of the UEMOA financed the debt of their larger partners Senegal and Côte d'Ivoire (cf. Fielding 2002: 71, 190; for more detailed alternative proposals cf. Monga 1997; Hugon 1998).

If the CFA-Zone wants to perform efficiently in the future, it should no longer be based on its inherited colonial culture, but on the economic needs of the population in the respective member countries. Unfortunately, overriding concerns on the political stability of the region, and dependency on its traditional allies concerning crisis resolution, prevented any meaningful transformation of CFA-Zones structures. Violent conflicts in both regions (e.g. Ivory Coast since Sept. 2002, and civil war in Congo Brazzaville 1997/98) made a mockery of several regional convergence criteria and put the gains of the 50% CFA-devaluation in 1994 at risk. Nevertheless, international concern for political stability and the preservation of the *status quo* were mainly responsible for maintaining the CFA-Zone in its present form. These shared political interests will supersede national economic aims also in the foreseeable future, as neither sub-zone could currently defend its own currency without the link to the Euro and a sustainable solution to crisis–prevention, backed by the international community, under the prevailing political conditions.

4. Ambiguous Perspectives of the CMA

The CMA (Lesotho, Namibia and Swaziland; including Botswana as a *de facto* member) is, as the CFA-zone, characterised by severe structural divergences. These were inherited from its colonial past and the power politics of the Apartheid Regime, as well as by hierarchical monetary structures, still dominated by South Africa both economically and politically (cf. O'Meara 1996). This holds notably for Swaziland and Lesotho, both land locked countries, surrounded by South African territory (with the exception of the north-eastern parts of Swaziland which border with Mozambique). Similar to the former South African "homelands", Lesotho heavily depends on remittances by migrant workers in South Africa' s mining industry, as well as on exporting water to its main South African customers (cf. Metzger 2004:2). All countries are highly dependent on imports from South Africa, but the latter's major trading partners are outside the CMA, notably the EU, UK, and USA. Monetary integration has not boosted intra-zone trade. Nor has the countries adherence to the region' s leading economic integration organisation, the Southern African Development Community (SADC), as well as to the South African Customs Unions

(SACU), with common external tariffs, which provide a common revenue pool tending to make up for imbalances in tax revenues that arise from asymmetric trade patterns (cf. Grandes 2004:4).

The SADC is opposed to joining the CMA not just out of economic reasons, i.e. because SADC economies do not form an OCA, and because there are only minor chances of SADC as a whole to meet the necessary convergence criteria for a viable monetary union (cf. Jenkins/Thomas 1998:153-168). Decisive for the reluctance to join the CMA is the lack of political will to implement a common currency arrangement in view of its political and economic cost, notably the loss of sovereignty (cf. Sparks 2002). The threat of selfish South African dominance is pretty much alive, last but not least, in view of the painful past experience with the harsh destabilisation policy of the Apartheid regime *vis à vis* its neighbours (cf. O' Meara 1996). The *coup d'etat* in Lesotho, provoked in 1986 by South Africa, was just one example, although not CMA countries, but Mozambique and Angola were the major targets of the destabilisation policy.

CMA members may form an Optimal Currency Area (OCA), given the existence of common long-run trends in their bilateral real exchange rates (cf. Grandes 2004). But this has never been a serious criterion for influencing the aims or actions concerning the monetary or financial policies of the CMA. This holds the more, as an OCA does not provide for the autonomous sustainable development of its member states, and macroeconomic policies have been dominated by vested South African political and economic interests. Additional microeconomic efficiency gains might still be accrued if the CMA countries developed to a fully-fledged monetary union (cf. Grandes 2004:22). But reliance on monetary integration will probably lead to consolidating and deepening the dependency of the junior partners of the CMA, thereby endangering not only its economic, but also its political independence. Although formally a South-South coordination arrangement, the CMA is *de facto* – like the CFA-Zone - a North-South coordination project.

Although regional economic integration and monetary cooperation is fashionable, it is not necessarily the appropriate strategy to pursue (cf. Jenkins/Thomas 1998:145). The grave structural deficiencies of the junior partners of the CMA cannot be solved by monetary coordination arrangements, neither within the CMA, nor within the wider framework of the SADC. First and foremost, the member countries would have to get the priorities right.

Certainly, it is debatable whether it is against the interest of the populations concerned, if at least Swaziland and Lesotho were incorporated into the economic and political structures of South Africa on the long run. In fact, it sounds revealing that even the South African Exchange Control Regulations of 1998 state that “Namibia, Lesotho and Swaziland should be treated as part of the domestic territory and not as foreign” (cf. Metzger, 2004:8). But if the junior partners of South Africa want to preserve their political independence or to prevent an intolerable loss of sovereignty, and at least Namibia does demand more democratic monetary rules (cf. Metzger 2004:5), they have to go for political solutions that answer their most pressing problems. That is, they would have to create initially an enabling cultural and political framework for sustainable growth and development, including good governance, transparency, accountability, and elimination of corruption.

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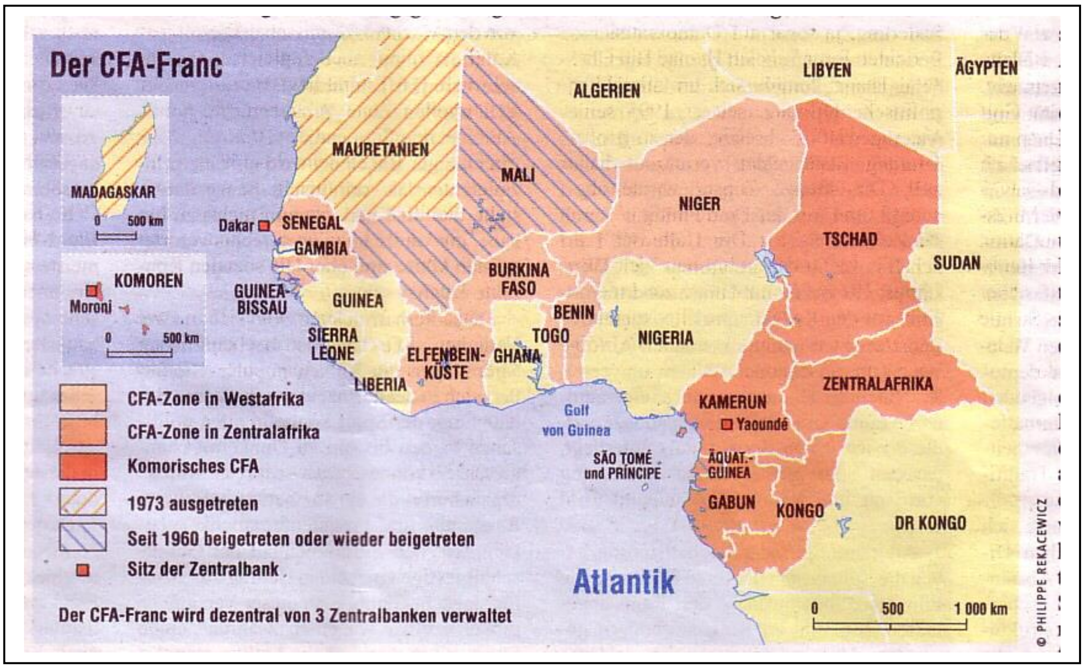
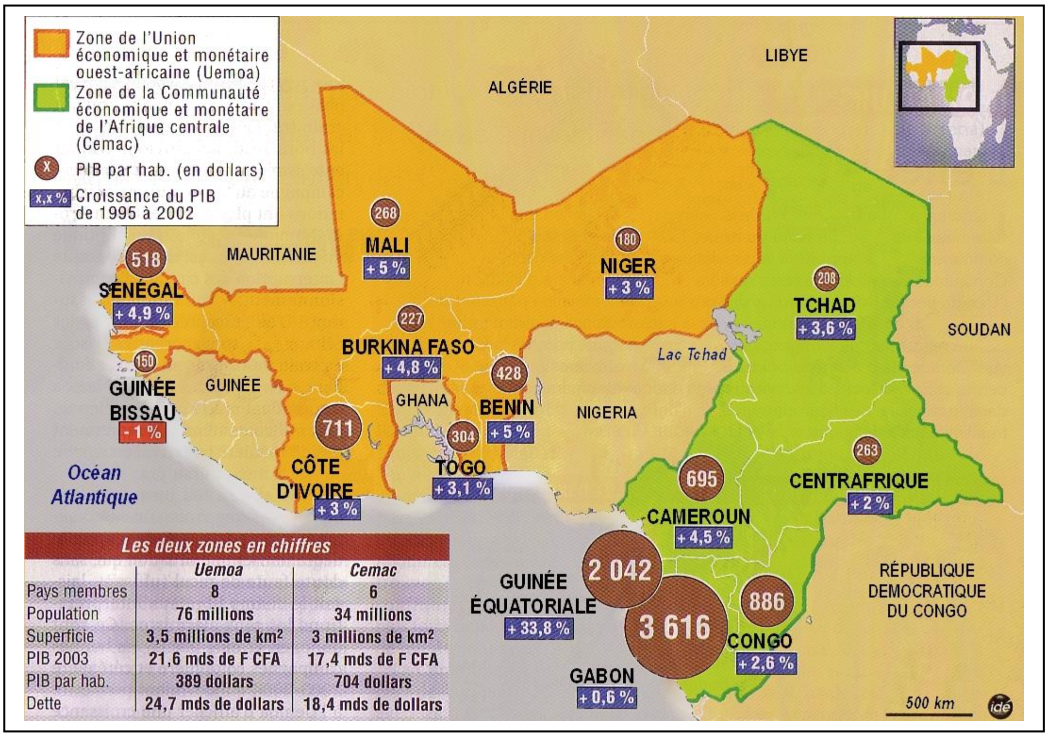
Annex:

(1) CFA-Zone: member countries and its geographical distribution



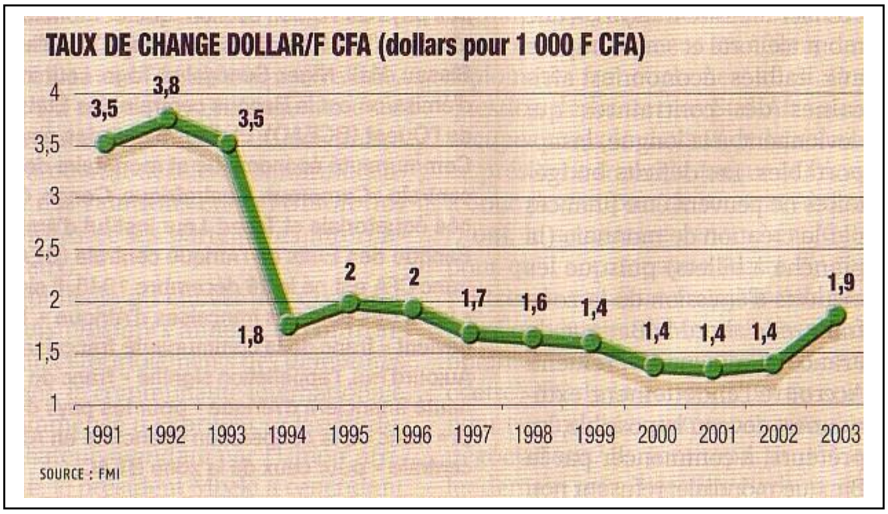
Source: Dembélé, Demba Moussa (2004): Abwertungsängste in Afrika.
Le Monde Diplomatique (German edition, taz), June 2004, p. 17

(2) CFA-Zone: UEMOA & CEMAC, basic economic indicators of structural divergence



Source: Jeune Afrique, No. 2267, 20 June 2004, p. 51

(3) Exchange rate US $ / F CFA: 1991-2003



Source: Jeune Afrique / L'Intelligent, No. 2243, 4 January 2004, p. 74