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Ethical Considerations of an East African Community Monetary Union

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Abstract: An East African Community Monetary Union would see six nations form an advanced economic integration unit in an increasingly divided world. This paper explores the history behind economic integration in East Africa and weighs the ethical implications of a regional monetary union, including the effects of asymmetric shocks and the prevalence of corruption.

Introduction

Despite Brexit, the push towards regional economic integration across the world continues to gather momentum. Increasingly, countries look towards working with neighbors to promote economic growth in a competitive world. The formation of a monetary union among members of the East African Community has long been discussed. At the end of 2013, the signing of the East African Monetary Union Protocol called for a monetary union to be established within ten years. Years of cooperation stretching back to colonial times have led to this union among nations. This paper considers the worrying ethical implications from the formation of an East African Community Monetary Union.

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What are Monetary Unions?

Economic and monetary unions, where nations unite to share a single market and currency, are a way to achieve collective growth in an interconnected world. The unions represent advanced stages of economic integration that stop short of a political union where countries unite to form a single entity with a parliament that represents all countries within the union. The Eurozone is a prime example of how a monetary union among 19 of the 28 European Union members has had successes including maintaining low inflation and interest rates to promote investment. Admittedly, the Greek debt crisis is a pointedly obvious disappointment. Yet the Eurozone endures and countries such as Poland are keen to join the monetary union.

East African Community

History of the East African Community

The East African Community consists of six member states namely Kenya, Tanzania, Uganda, Rwanda, Burundi and most recently South Sudan, which was granted membership earlier this year. The beginnings of collaboration among East African nations dates back to the customs union established in 1917 between

Kenya and Uganda with Tanganyika joining 10 years later (Oluoch). The establishment of the East African High Commission followed from 1948 to 1961. The Commission built on the foundations of the customs unions by cementing a common external tariff on goods and services and extending the union to common social services including education and healthcare (Oluoch). As Kenya, Tanzania and Uganda gained independence, the East African Common Services Organization replaced the High Commission in 1961. Many assumed this would lead to a political union between the nations. The union did not transpire due to a lack of economic and political policy planning between the nations. Leaders sought to install legacies rather than work with their neighbors. In 1967, there was renewed effort among the nations to work together and a monetary union was established among the nations. As a consequence, each country retained its respective currency (the Kenyan, Tanzanian and Ugandan shillings) but with a provision for currency parity. However, the East African Currency Board in charge of establishing the monetary union collapsed just a year later and each nation established its own central bank. In 1977, collaboration among the three nations came to an end. Ideological differences between the nations were pivotal in the breakdown. Tanzania embraced the socialist ideas of its President Julius Nyerere in the form of ujamaa, and Jomo Kenyatta went about molding Kenya into a capitalist state (Oluoch). Meanwhile, the destructive rule of Idi Amin in Uganda was fiercely opposed by Tanzania as it granted asylum to overthrown leader Milton Obote (Oluoch). It was not until 1993 that the new heads of state reconvened to begin cooperation efforts once more.

Efforts towards collaboration in East Africa

The reason for high level of cooperation between East African countries (particularly Kenya, Tanzania and Uganda) traces back to the Scramble for Africa at the end of the 19th century. European imperial powers were in the process of industrializing and looked to the 'dark continent' for raw materials to fuel their production and for markets to dump excess goods. The competition among the likes of Britain, Germany, France, and Belgium for African territory resulted in the continent being split up among these powers with little consideration given to the make-up of African tribes and communities. Many of these tribes were nomadic and the emergence of borders was outlandish in their eyes. Suddenly they were no longer able to freely roam their lands as they had done for centuries and were instead subject to strict laws imposed upon them by white colonialists. The drawing of borders divided tribes and in East Africa, a clear example of this can be seen with the Luo people. The Luo ethnic group before colonization was a community engaged in agriculture and pastoral herding across modern-day Kenya, Uganda, Tanzania, Sudan and Ethiopia. The group was split as a result of

the imperialist division of Africa, yet today the feeling of belonging to an ethnic community runs deep among populations in East Africa. The cultural similarity of people across borders is a key factor in efforts at uniting these countries.

Asymmetric shocks

The first concern about a monetary union for the East African Community is the effect of asymmetric shocks. The term 'asymmetric shock' refers to an uneven effect of economic developments on one or more economies. An example of this phenomenon on a monetary union is in the Eurozone where the magnitude of the Greek Debt Crisis forced the European Central Bank (ECB) to issue several bailout packages to Greece. The ECB reacted this way despite the possibility the action would impede the growth of countries such as Germany, which did not feel the effect of the debt crisis as severely as Greece. The ECB had to react to the effects of the Greek debt crisis, but the resulting outcome was not ideal for either Greece or Germany. Greek officials felt the measures were not generous enough, while some in Germany have called for Greece to leave the Eurozone, as the crisis prevents the monetary union from flourishing (Eddy). On the flip side, the reduction in interest rates by the ECB in an attempt to promote investment in Greece promoted increased investment in Germany as investors viewed the country as a safer haven for their money compared to volatile Greece. Asymmetric shocks within a monetary union can be a cause of frustration given the uneven effects of the shock.

In the case of the East African Community, the tension that developed in early 2014 among its members in reference to negotiations towards an EU-EAC Economic Partnership Agreement, indicate the divided interests of its members. The floral industry is prominent in the economies of the East African Community and the export of flowers to Europe is a crucial part of these economies. The European Union as of October 1st, 2014 was to impose import duties on flowers from countries that were not Least Developed Countries (LDCs) in accordance with the Everything But Arms Initiative (Technical Centre for Agricultural and Rural Cooperation). Kenya was keen on negotiating a deal with the European Union that would lessen the extent of the import duty. However, Tanzania, Uganda, Burundi and Rwanda in their status as LDCs would be unaffected by the import duty and in fact stood to gain should Kenya's export of flowers to Europe falter. The export-heavy nature of individual economies within the East African Community could have implications for a monetary union because of competition among the countries. Unsurprisingly, these countries were less keen on signing the agreement. Once more, an asymmetric shock from the impact of an import duty has greater repercussions on one economy – in this case, the Kenyan

economy – as opposed to the negligible effect on other economies. The question arises about which way decisions ought to go and what is the 'right' and ethical decision.

Corruption

The second cause for concern is the level of corruption that plagues member nations of the East African Community. A level of trust is important for a monetary union to work because all member nations need to be sure they are not at risk of being cheated by another member. Corruption erases trust and instead instills suspicion. In both the public and private sectors of economies within the East African Community, the unethical practice of seeking personal gain at the expense of communal gain is rife. The Corruption Perceptions Index published by Transparency International in 2015 ranks Rwanda as the least corrupt of the East African Community nations with a score of 54 out of 100. South Sudan has a score of just 15 and the mean of the East African Community is 28. The dismal scores display the level of corruption in the East African Community and the question arises of whether any quantum of trust can be present while corruption pervades the region. In an interview with Alex Owino, PBS explored how $999 million is unaccounted for by the Kenyan government. Owino, who used to work at the Kenyan National Treasury, blew the whistle, explaining the unaccounted money arrived through the issuing of a bond on the Irish Stock Exchange (PBS). President Uhuru Kenyatta claimed the issuing of the bond would promote economic growth and employment opportunities (PBS). More recently, he has threatened those who level accusations of corruption against him with the effect that few like Owino stand up to corruption for fear of the consequences (PBS). Corruption is certainly a barrier that needs to be overcome for a monetary union to function effectively.

Influence

The third ethical issue is the level of influence afforded to each member of the East African Community when it comes to decision-making on behalf of the monetary union. The suspicion that builds as a result of corruption is likely to intensify demands by member nations to have as many seats as they can in order to influence decisions that the union makes. Herein lies part of the problem, which caused the monetary union, formed in 1967, to break down. Kenya was then and is now the largest of the economies in the region and was keen to take a leadership role in conducting affairs. The leading role of Kenya led to decision-making that favored the Kenyan economy, in terms of the exports of coffee and gold, at the expense of both Tanzania and Uganda (Oluoch). On behalf of the

current customs union, it is Kenya that plays the instrumental role in conducting negotiations between the East African Community and outside parties (Technical Centre for Agricultural and Rural Cooperation). Ethical leadership and decision-making were lacking from the first East African Monetary Union and it is imperative a successful monetary union does not fall in the same trap. However, the issue is difficult to address given the level of corruption present. Where does the East African Community look for ethical leadership that is not seen to be favoring any one party?

One option could be to look for leadership without ties to any East African nation. But, it may be difficult for an outsider to understand the unique context that is the East African economy. An equitable distribution of decision-making is an alternative that would see each member of the monetary union earn a portion of voting rights based on their respective economies. With such a system, there is a responsibility on all members to contribute to decision-making while giving a higher degree of influence to the larger economies. The Eurozone has had to grapple with a similar problem and has a governor of each national bank present within the Governing Council which stands as the main decision-making body of the Eurozone. The level of influence allocated to members of a potential monetary union is a matter without a clear answer.

Conclusion

The prospect of the East African Community forming a monetary union is one that needs to be well considered in regards to the ethical implications the union could have on decision making within the union. The possibility of asymmetric shocks occurring is a real one and it is important for ethical considerations to inform any decisions made when these shocks occur. An effective strategy to tackle corruption present in East African economies is crucial to build a level of trust among members of the community that will lend faith to the decision-making of the body. Finally, it is crucial that the influence of Kenya, as the biggest of the East African economies, does not drown out concerns of smaller members of the union in deciding how the monetary union conducts operations. Three years from the signing of the East African Monetary Union Protocol, there has been little movement towards establishing a monetary union. In a highly competitive world, economic integration can be a key to unlocking growth and development, but it is important for the circumstances to be right for integration to be successful.

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