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Summary record of a half-day workshop at Chatham House

The Economics of Conflict and Integration in the Horn of Africa

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The Africa Programme at Chatham House is developing a programme to investigate the economic dimensions of regional conflict and co-operation in the Horn of Africa. The programme will seek to explore whether and how the economic structure of the region might contribute to conflict or collaboration among the states of the IGAD region – Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda. In particular, the programme plans to support targeted research and analysis into the proposition that economic rather than institutional drivers could help to transform endemic conflict in the region.

The first workshop in the new programme was held on 20 March and focused principally on the core countries of the Horn of Africa: Ethiopia, Eritrea, Djibouti and Somalia. Taking a multi-disciplinary approach, it brought together an invited group of leading specialists in the field, including academics and policy makers. The agenda of the workshop is attached (Annex A). This is a summary record of the meeting designed to bring a valuable debate to a wider audience.

Part One: The Economics of Conflict

Christopher Cramer, (Professor of the Political Economy of Development, SOAS, London University) provided an overview of current theories surrounding the economics of war as a springboard to a wider discussion of how such theories connect with familiar patterns of war and peace in the Horn of Africa.

Professor Cramer outlined some of the different approaches that development economists have taken to the study of violent conflict, focusing variously on the human and development costs of war, the economic causes of conflict, the resource dynamics of war economies and the economic impact of post-conflict reconstruction as a basis for stabilizing peace. A powerful underlying assumption in most economic approaches to conflict (stretching back to Adam Smith, among others) has been that more economic activity means less conflict. This working assumption was not necessarily proven but was nonetheless widely employed by policy makers. It provided the basis for donor strategies to enhance economic development as a means of conflict prevention or to buttress peace agreements.

Mention was made of Jack Hirshleifer's controversial thesis that linked war to poverty on the grounds that the poor enjoyed a comparative advantage (low opportunity cost) in resorting to conflict. This theoretical work had been developed more recently in Professor Paul Collier's well-known empirical work on 'greed or grievance' as conflict drivers and on post-conflict dynamics. The Hirshleifer thesis had ignited much scholarly reaction among development economists and had stimulated a range of alternative interpretations and explanations. One important example of this was the research by Professor Frances Stewart into horizontal inequalities (aligned with group identity) as a significant variable in the incidence of conflict. Other economic work on conflict includes a body of work on the "resource curse" and political economy analysis on the fiscal viability of states.

Again, some underlying assumptions were highlighted. The liberal theory of war holds that wars are exclusively bad in all their effects and that people are essentially peaceable but are prevented from exercising this characteristic by the influence of political and economic 'distortions'. It follows that policy makers customarily look to liberalization (economic opportunity) and good governance (freedom) as the antidotes to conflict. Much development policy has turned on the proposition that economic growth and development will reduce conflict: that 'war retards development and development retards war' as the World Bank put it in 2003.

Another strong and largely unquestioned thread was the proposition that interdependence supports peace, not least by creating a division of labour for mutual benefit. According to this model, economic "interests" in continuing cooperation can help to tame whatever political "passions" come into play. An elaboration of this idea, on an international scale, was the long standing philosophy that free trade and the interdependence that it fostered among nations was the right foundation for world peace.

Professor Cramer concluded by noting the relative paucity of theoretical literature or case studies about the relationship between regional integration and conflict outside the context of Europe. The foundations for regional economic integration as a mechanism for ending conflict could not be said to be proven. He drew attention to an IDRC study[1] that highlighted the gap between the aspirations of regional integration and the evidence for its efficacy as a conflict resolution mechanism. Regional integration was expected to raise the opportunity cost of going to war, provide more efficient

[1] "Regional Trade Integration and Conflict" Shaheen R Khan, (ed) Routledge 2008

means of accumulation (lawful business instead of primitive looting), improve contact and communication and thereby create the capacity for states to troubleshoot and take preventative action. However the study noted that regional integration had a poor track record on handling inter-country inequalities and regional agreements could often, on the contrary, stoke resentments. It also concluded that trade and conflict were not necessarily incompatible and might indeed go together.

Discussion

Ensuing discussion revolved in part around whether the level of economic integration was a useful variable in seeking to account for conflict in the Horn of Africa. In the case of the Ethiopia-Eritrea conflict, it was indisputable that the economies of the two countries were very highly integrated at the point when they went to war in 1998. However, an alternative suggestion was to characterize the events of 1998 as “one state disintegrating” (as a result of the ending of monetary union between Ethiopia and Eritrea) rather than a breakdown between “two states that were integrated.”

The poverty thesis was also challenged with reference to the Ethiopia-Eritrea conflict. It was argued that at grassroots level, trade integration between Ethiopia (Tigray) and Eritrea was very high up to 1998. Contrary to the Collier thesis, the ‘opportunity cost’ of war had been extremely high for the poorest and they continued to carry the burden. It was argued that the beneficiaries of conflict were not the poor but the elite for whom it had created opportunities for plunder. (In this case their “passions” had not been tempered by the “interests” of the poor and their own interests were themselves markedly passionate.) Institutional shortcomings on the part of IGAD were another factor. IGAD had failed to regulate, harmonise or integrate the overlapping and competing economic developments that contributed to the break down in relations between Ethiopia and Eritrea.

Arguments were also advanced for the economic benefits of war. These seemed especially persuasive in historical perspective, taking into account Ethiopia’s imperial conquests of the late 19th century that had equipped the Empire with assets and territory that enabled it to resist European colonisation. But some doubted the utility of economic theories of conflict, arguing that economic activity had been largely undermined by warfare in the Horn of Africa and much of the theory was too Eurocentric to be useful in this particular region.

Part Two: Regional integration in the Horn of Africa

Dr David Styan, Lecturer in Politics (Birkbeck), set out the rationale for economic integration among countries of the Horn, highlighting various structural impediments to its attainment. He also identified contradictory strands of economic activity, within countries and beyond the region, that were suggestive of disintegration as well as integration. Overall the face of economic integration in the Horn was in a process of flux and evolution, adding up to a highly complex picture.

Dr Styan set out the classical development case for economic integration revolving around tariff reduction to increase trade and create larger markets to attract investment with the overall goal of speeding economic growth and reducing poverty. Several regional economic bodies overlap in the region: Kenya and Uganda are both members of IGAD and the revived East Africa Community; all IGAD states bar Somalia are also members of COMESA; all reflect competing yet ineffectual economic integration blueprints. IGAD's revived emphasis on economic integration also risks being perceived as largely donor driven.

It was notable that the Horn of Africa lacked several of the components required for integration: the regional institutions were ineffective, the private sector was mostly weak and political will seemed to be lacking. In addition, the units of integration within the core countries of the Horn (Ethiopia, Eritrea, Somalia, Djibouti) were extremely unequal (with Ethiopia dominant) and trade integration among them was very low. (Ethiopia's major trading partners are OECD countries; Somalia's are in the Gulf.) It was unlikely that conventional policy tools such as tariff reductions would have much impact in these circumstances.

Looking at recent economic trends there seemed to be as much economic disintegration as integration, producing a mixed picture of economic reconfiguration occurring in different parts of the region. One of the most significant features of economic integration was that taking place within Ethiopia where new infrastructure, notably extensive road construction, is altering the economic geography of the country. On the other hand the war between Ethiopia and Eritrea had resulted in economic disintegration, creating a total separation between the economies of Eritrea and Tigray that had never existed before. This separation seriously restricted the potential for regional infrastructure development.

Other factors of regional economic integration included the sharing of the Nile basin, cross border co-operation and a host of trans-border interactions ranging from cross-border pastoral activity to the regional trade in khat. Transnational capital flows looked very limited within the Horn proper, but if the horizon was extended to Yemen and the Gulf states a different picture emerged with growing economic networks extending into the Middle East. It was reasonable to assume that investments flows would have been greater if political stability had been achieved.

Discussion

Discussion focused largely on donor policy towards IGAD designed to foster and promote greater regional integration. Regional economic integration has become a priority for Africa and donors supported efforts to foster reinforced cooperation among the various Regional Economic Communities in Africa and to develop synergies between them. The linkage between development and security was considered very relevant for the Horn region. IGAD nations wanted to develop infrastructure but donors considered that this had to go hand in hand with efforts of the 7 Horn countries to improve peace and security. The political fracturing of IGAD – occasioned by Eritrea's non participation - constituted a further impediment to donor support for regional integration and co-operation. Energy trading was emerging as a key area for cross-border co-operation, including hydropower exports from Ethiopia to Kenya and Sudan.

It was noted that although Kenya has the biggest economy in IGAD to date it has paid much less attention to IGAD than to the East African Community. Questions were raised about the prospects for economic integration within and beyond Sudan, particularly in light of the potential division of the country in 2011. For the core countries of the Horn it was suggested that regional economic integration could usefully be viewed as a potential mechanism for dealing with Ethiopia's dominance as a hegemonic regional power.

Part Three: The economics of pastoralism in the Eastern Horn

Professor David Leonard (IDS, University of Sussex) introduced the final session of the workshop on transhumant regions of the Horn, focusing principally on the Somali regions (including Djibouti, Ethiopia and Kenya). These are areas of livestock production and have been involved in long distance trade for a long time. Professor Leonard drew attention to some important shifts in the patterns of trade in livestock out of this region. The traditional trade to the Gulf, the most profitable of which was the export of sheep and goats during the Haj, had been conducted out of the Somali ports of Berbera and Bossaso. These ports are the closest to the Ogaden grazing lands. Professor Leonard suggested that Ethiopia would like to divert this trade and take the animals from their dryland grazing to Addis Ababa for export through Djibouti or by air to the Middle East.

Further South, the trade in Somali cattle had historically taken place out of northern Kenya and southern Somalia, through the Somali ports of Mogadishu and Kismayu and onward to the Gulf states. This export market had been badly affected by conflict in Somalia and new outlets had been found. Cattle raised in these areas are now being sold and consumed in Kenya but Somali traders remain in firm control of the livestock business. In general, economic integration could be seen as a competitive process. In economic terms Kenya could be regarded as the major economic power in the region.

Professor Leonard suggested that the collapse of Somalia had not necessarily been an economic disaster for Somali traders. It had resulted in all the Somali regions of the Eastern Horn becoming a massive free trade zone. This had become a source of aggravation to the government of Ethiopia. The government wanted to secure its share of revenue from the exports and did not want to miss out on import duties on the goods that the traders brought back with them from the ports. [2]

However, non-tariff barriers presented the biggest obstacle to free trade in the region. All the meat-exporting companies based in Addis are said to be owned by members of the ruling party (EPRDF). An additional problem had been the Saudi ban on direct exports of Somali animals on the grounds that they were not properly certified against disease. The closure of the Eritrean ports had made Djibouti the main exit point for Ethiopian goods. But getting to Djibouti takes much longer than Somali ports for animals coming from the Ogaden. The climate and lack of fodder for animals made it difficult to keep animals in good health in Djibouti also. In short, it was much more expensive to export Somali livestock through Djibouti.

Professor Leonard mentioned two separate IGAD initiatives that had relevance for the transhumant regions of the Horn. The Conflict Early Warning and Response Mechanism (CEWARN) was one of IGAD's

[2] Reuters reported on 20 March that Ethiopia intends to double its livestock exports to 429,000 animals in 2009

successes and had helped to monitor traditional pastoral conflict over access to water points and cattle raiding in some areas. The second was IGAD's livestock policy initiative. Although still new, this was a valuable area for co-operation with potential to achieve a system of certification by vets to maximise exports. There was a good case for thinking of veterinary services as a regional good, but to finance it would require an export tax at Somali ports. There would be major economic value in such a scheme but Professor Leonard saw difficulties in its materialising. The main obstacle was the refusal to recognize the principle of regional sharing of livestock tax revenues and the vested interests upheld by non-tariff barriers.

Discussion

There was further discussion of what some saw as Kenya's (and Uganda's) relative lack of interest in IGAD. The discussion also included consideration of whether and how the dependence of the Somali economy on the trade in livestock might be diversified and the importance (and appropriateness) of traditional land use in the arid lands. There was debate over whether Ethiopia would argue for or accept Somaliland independence in order to secure its own economic stake in the livestock industry. It was argued that Ethiopia's insistence on control of the Ogaden region, against the likely wishes of the inhabitants to go their own way, was a recipe for endemic conflict. More generally, the region showed a consistent pattern of sedentary governments getting support for predation against pastoralists.

Part Four: Towards a Research Agenda

In concluding the workshop, Sally Healy (Chatham House) thanked the speakers and participants for stimulating such a valuable opening discussion on the economic dimensions of conflict. It was clear from this overview that there was much potential for deeper enquiry into the economic dynamics of the many interlocking conflicts that afflict the Horn of Africa region.

As the project unfolds over the coming two years, the plan is to commission a series of policy-relevant research papers on topics that would deepen understanding of the economic dimensions of conflict in the Horn. The resulting papers would provide the focus of policy-orientated seminars with the expectation that they would be published as Chatham House briefing papers. The papers would later form components of a major conference on the theme of economic integration in the Horn of Africa planned by Chatham House for 2010.

ANNEX A

CHATHAM HOUSE

The Economics of Conflict and Integration in the Horn of Africa: A half-day workshop on topics for a research agenda

Friday 20 March from 13.15 to 17.15

PROGRAMME

13.15 Opening and welcome – Sally Healy

13.30 – 14.30 Current Debates on the Economics of Conflict: a theoretical overview (related to the Horn of Africa) - Christopher Cramer, Professor of the Political Economy of Development, School of Oriental and African Studies, London University

Theme: An overview of the current theories surrounding the economics of war (eg war economies, Collier and his critics etc) and how these theories connect with the existing patterns of war and peace in the Horn of Africa.

14.30 – 14.45 Tea & Biscuits

14.45 - 15.45 Regional integration in the Horn of Africa: Rationale, Reality and *Realpolitik* - Dr David Styan, Lecturer in Politics, Birkbeck, London University

Theme: the rationale for promoting economic integration, investment in joint infrastructure, development of regional energy security etc and its potential to reduce conflict within and between states in the Horn of Africa.

15.45 – 16.45 Micro level: interdependence and the economics of pastoralism in Ethiopia's Eastern periphery - David Leonard, Professorial Fellow in Governance, Institute of Development Studies, University of Sussex

Theme: the impact of conflict upon the pastoral economies of the Eastern Horn and whether interdependence at the local level can help to mitigate regional level conflict.

16.45 – 17.15 Wrap up and future research themes

An opportunity to identify topics for further research on the theme of economics and conflict over the next two years