

# **CULTURE AND DIPLOMACY AS A TOOL FOR ECONOMIC INTEGRATION/GROWTH.**

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## **1 00. INTRODUCTION.**

According to Wikipedia, Africa is the world's second largest and second - most -populous continent. In size, it is about 30.2 square kilometer including adjacent Islands. According to SAYRE & APRIL PULLEY, in their book - AFRICA, published by 21st century books in 1999, it covers six per cent of the Earth's total surface area and about 20.4 per cent of total land area. Its population as at 2011, is put at 1.033billion people.

It is often considered to be the oldest inhabited territory on Earth. It has 54 fully recognized sovereign states (Countries), 9 territories and two de facto independent states with limited or no recognition. According to the 2013 edition of the World's data sheet, Africa accounts for about 15% of the world's human population. This paper therefore, shall look at the Culture of the people that has inhabited this continent, their mode of diplomacy - pre and post-Colonial era, their Economy/Trade, how they have been able to use these three concepts to drive growth as well as how it could be used for further economic integration.

In doing this, I shall use the Yoruba tribe ( which is one of the tribes inhabiting the South West region of Nigeria) as a reference point. Of course, Nigeria is one of the countries situated inside West Africa.

The West Africa's Economic block is known as Economic Commission For West Africa (ECOWAS). Nigeria is a member of the commission. ECOWAS has a population of 326.8 million people and it accounts for 5% of the world's population but less than 1% of the World GDP.

## **2.00. DEFINITION OF TERMS.**

### **CULTURE.**

According to Oxford Advance Learner's Dictionary, 7th Edition, page 357, Culture in its noun form, is a way of Life, it includes the peoples customs, beliefs, arts, music, literature, attitudes, training, etc.

### **DIPLOMACY.**

This is defined by Black's Law Dictionary, 8th edition, page 490, as the art and practice of conducting negotiations between national government. It could be open diplomacy, which is carried on with free access to interested observers and members of the press or parliamentary diplomacy, which involves negotiations and discussions carried out in international organisations according to their rules of procedure or shuttle diplomacy which is carried out with the assistance of emissaries who travel back and forth between negotiating parties.

This paper will examine the two concepts above vis West Africa's system of government and how they are propelled towards growth. In doing this, attention will be placed on West Africa's system of government, how it operates, its mechanism and shortcomings. There will be a brief analysis of the traditional economic system, which is largely dominated by operators in the informal sector. The paper will also attempt a scrutiny of how the African society has been able to use Culture and Diplomacy to achieve economic intergration and the Challenges.

In this context, the paper will be divided into three part- Pre - Colonial Era, Post - Colonial Era and future projections. An attempt will also be made at highlighting the role of Europe, through such organizations like EEC, OECD etc in partnering with Africa on the process of achieving Economic integration and growth. I shall use Tax as a sub set of the discuss.

## **3.00. THE YORUBAS (PRE – COLONIAL ERA).**

The Yoruba people are an ethnic group of the South West Nigeria and Southern Benin in West Africa. It has a population of over 35 Million people. They are one of the largest ethnic groups in Africa. 21% are in Nigeria. They speak the Yoruba language which is a tonal Niger – Congo Language. They can also be found in Togo and Sierra Leone.

## **CULTURE.**

The Yoruba culture was originally in Oral tradition. They are expressed in terms of folklores, religion, folktales, cultural philosophy/beliefs, attires, dance, music, festivals, foods, Marriages, etc.

## **DIPLOMACY.**

The Yorubas share borders with the Borgu in Benin, the Nupe & Epira in central Nigeria and the Edo, the Esan and the Afemai in Mid – Western Nigeria. Due to Diplomatic activities, the Yorubas has blended well with the Saro & Creole people of Sierra Leone. They also established diplomatic relationships with the Igallas in Central Nigeria, the Egun, Fon in Benin Republic as well as the Itsekiri's in the niger – Delta region.

These diplomatic relationships led to the assimilation of some Yoruba cultures by the aforementioned tribes. It also assisted greatly in increased trades amongst those tribes. Most of the objects of trade include Clothes, salt, Gold, wood carvings, mats, etc.

## **SYSTEM OF GOVERNMENT.**

Before Colonialism, the Yorubas are mostly organized into Cities, Towns and Villages. Most Towns and Cities are administered by a King, usually called Oba, while the villages are administered by administrative heads, called Baale. The Villages are in most cases, administrative units of the Town/Cities. The Baales are therefore subordinate and answerable to the Obas. To assist both the Obas and the Baales are a set of Palace Chiefs, known as Oloyes (similar to modern day Ministers). They have various titles with particular reference to their portfolios.

Diplomatic activities are usually conducted through these Chiefs. They are sent as emissaries of the Oba/Baale to another Oba/Baale in another Town/City/Village.

Another forum for diplomatic exchanges are the Markets. Each Town/City/Village is expected to have a market and in some cases more than one. There are usually designated dates to open and attend such markets when both sellers and buyers converge to transact. Attendance may either be from neighbouring towns or from far distance. Through this means goods are exchanged. Trading activities are conducted vis – a vis cultural exchanges. Diplomatic relationships are formed.

## **4.00. COLONIAL ERA.**

The advent of Colonialism created artificial boundaries amongst these groups. This is also typical of most ethnic groups in Africa. The Colonial masters separated most ethnic groups and in some instance dispersed them from their

homeland, relocated some and merged many with those they do not even have the slightest affinity. Many Obas were deposed and sent into exile. A clear example is the Oba of Benin. The pinnacle of this was the Berlin Conference of 1885.

The direct effect of these was that there was a considerable reduction in Diplomatic activities among the ethnic groups. The new elites, that emerged during this period will rather relate with their masters than to relate with their own kinsmen. The French's policy of assimilation completely annihilated anything African among their subject. The colonies assumed a new identity, culture and religion.

## **5. 00. POST COLONIAL ERA.**

During Colonialism, the Yorubas, like other ethnic group, were merged into the geographical entity known as Nigeria. Nigeria has a population of about 170m people. It is the 12<sup>th</sup> largest producer of petroleum in the world, the 8<sup>th</sup> largest exporter of crude oil and the 10<sup>th</sup> largest proven oil reserves of over 35 billion barrels. Like most post independent African countries, the Economic is monolithic. Initially, it was agriculture and later, Oil. Trading was principally with the Colonial masters, with little or no trading activity at all among African states. This amongst other reasons led to the establishment of several economic blocks within the continent. One of which is the Economic Community of West African states (ECOWAS).

ECOWAS consist of 16 Countries with a population which is more than half of 28 EU countries but a GDP less than that of Belgium alone. The combined GDP of the ECOWAS member state is 394.5. This is poor for an economic bloc whose land mass is 5,112,903 square miles, which is about the size of EU and US combined. The Objectives of ECOWAS can be found in Article 3 of its charter and which inter alia includes :-

- a. To promote co-operation and integration in economic, social and cultural activities:
- b. Establish an economic and monetary union through the total integration of the national economies of member states:
- c. Forster relations among member states.

In addressing the objectives highlighted above, I shall use Taxation and regional trading as a subset of this discuss.

## 6. 00. ECOWAS ECONOMIC INTERGRATION.

- ❑ Over the past two decades, REGIONAL trade among EU states has increased due to intense negotiation and cooperation.
- ❑ Deeper economic integration levels compelled the EU to harmonize tax system among member states, How?
- ❑ ECOWAS also is having a deeper economic integration in promoting trade & investment within and outside the region.
- ❑ With ECOWAS Trade liberalization Scheme (ETLS), Common External Tariff (CET) and the on going ECOWAS Common Investment Market (ECIM), tax competition is no longer acceptable; while Tax harmonization is inevitable. These two treaties were designed to accommodate the various cultural diversities of member states. In arriving at this point, there were numerous diplomatic shuttles.

### A. ECOWAS REGIONAL INTERGRATION VIDE TREATY AND COMMON MARKET.

Since the formation of ECOWAS in 1975, the region has been faced with many changes, ranging from political to structural and administrative. One of these changes, the Revised Treaty of 1993, was put in place at integrating the Community into a stronger and more cohesive body capable of combating the numerous challenges from globalization. In particular, the revision introduced the harmonization of economic policies towards transforming the region to a **common market**

The Revised Treaty provided an impressive organizational framework by stating that the Community shall, by stages (phases) ensure in **Article 2(a)** the harmonization and co-ordination of national policies and the promotion of integration programmes, projects and activities, particularly in:

- ❑ food, agriculture and natural resources,
- ❑ industry, transport and communications,
- ❑ energy, trade, money and finance,
- ❑ **taxation**, economic reform policies,
- ❑ human resources, education and health
- ❑ information, **culture**,
- ❑ Science and technology,
- ❑ Services and tourism, and
- ❑ legal matters.
- ❑ Furthermore, **Article2 (d)** provided that in the course of deeper economic integration, the Community shall establish a **common market** through:

*“the liberalization of trade by the abolition, among Member States, of customs duties levied on imports and exports(ETLS), and the abolition among Member States, of non-tariff barriers in order to establish a free trade area at the Community level;*

*the adoption of a common external tariff (CET) and a common trade policy vis-à-vis third countries; and the removal, between Member States, of obstacles to the free movement of persons, goods, service and capital, and to the right of residence and establishment(ECIM).”*

In addition, **Article 2(i)** of the Revised Treaty equally envisaged the harmonization of national investment codes leading to the adoption of a single **Community Investment Code (CIC)**. Under ECOWAS Common Investment Market (ECIM) therefore, the Commission is developing programmes of equal treatment for all Community nationals (corporates and individuals). Supplementary Acts on Investment and Competition Rules as well as that of Competition Authority were put in place. All these signaled the commencement of the common market with freedom of movement for the factors of production

## **B. Economic Justification for Integration using Tax Harmonization.**

With the Revised Treaty, the transformation of ECOWAS Secretariat into a Commission in 2007, as well as the need for deeper economic integration based on ECOWAS Vision 2020, tax harmonization merits careful consideration. As understood in economic integration theory, the concept of a common market involves the elimination of all obstacles to intra community trade in order to merge the national markets into a **single market** bringing about conditions as close as possible to those of a **genuine internal market** in an economy. Without tax harmonization, the free trade and the abolished customs barriers to trade under the ETLs and the CET respectively could be replaced by a different set internal taxes which would continue to discriminate against imports from other ECOWAS Member States. The logic is simple, if different taxes were levied on a different basis or at different rates across ECOWAS market, this would produce obstacles to the free movement of goods and services, capital and even human beings, and thus frustrate the ultimate goal of achieving the common market aspiration.

The Revised Treaty, recognized the movement from common market towards an economic union. The activities of the ECOWAS Commission were therefore to include, among other things, a common commercial policy where:

*“the Community internal market would be characterized by the abolition, between Member States, of obstacles to the free movement of goods, persons, services and capital, and where*

*there would be a system ensuring that competition in the internal market is not distorted; that is steps towards tax harmonization.”*

Undoubtedly, to sustain the common market towards economic union for the region, it is necessary to prohibit discrimination between imports and domestically produced goods and services. It has equally been argued that labor and capital should not be encouraged to migrate within the ECOWAS

internal market for purely fiscal reasons and therefore company and personal taxation should be harmonized as well. It should be possible for companies to run their business within the Region without having their decisions regarding location, form of investment or financing influenced by taxation regulations. Ultimately, tax harmonization will not only lead to the promotion of free trade and the single market, but it will also have the economic and political effect of

*“creating an ever closer union among the peoples of ECOWAS”.*

7.00. Under ECOWAS Common Investment Market (ECIM) therefore, the main thrust of the argument for tax harmonization has been cast in terms of free trade and a single market with the following reasons:

**i. Distortion of Competition.**

Differences in the overall tax burden of similar investors in the various ECOWAS Member States could result in different after-tax rates of return and different pay-back periods leading to a distortion of the conditions of competition and thus the frustration of the principles underpinning the common market as the national markets remain segregated.

**ii. Obstruction to the Free Movement of Capital.**

One of the principles underlying the concept of the common market is the principle of ‘*capital export neutrality*’. Discriminatory treatment of international investment activities as compared with purely domestic investment activities acts to frustrate the ideal of capital export neutrality by hindering the free movement of capital. Thus the creation of preferences for investment in some Member States rather than others prevents capital export neutrality, whilst the diversity of tax burdens affecting businesses wishing to invest in the same Member State means that ‘neutrality of capital imports is not achieved.

**iii. Distorted Allocation of Resources.**

With regards to the allocation of resources, another effects of fiscal disharmony among Member States is that an optimum allocation of resources within the Community cannot be achieved. This is because corporate location or capital investment strategies are not based on purely economic efficiency such as relative labor and production costs but are ultimately influenced by **tax considerations**. The principle of ‘**fiscal neutrality**’ which includes that of ‘locational neutrality’ and which harmonization seeks to uphold, prevents buyers and sellers in otherwise efficient markets to take different courses of action for tax reasons alone. It also ensures that differences in tax systems do not interfere with efficiency in production and consumer choice in the ECOWAS Region.

**iv. World Market Competitiveness of Community Industries.**

It may be validly argued that an optimal allocation of resources together with a reorganization of industry along Community rather than national lines would reduce production costs. As a result, community industries would enjoy **economies of scale** similar to those enjoyed by their

European and American counterparts who already enjoy the benefits of a large home market for their products. Thus, fiscal disharmony deprives such industries of these advantages so that they stand a lesser chance of proving competitive in the world market.

v. **Administrative cost factors.**

It is well known that a major expenditure of the corporate departments of both private and public companies consists of the administrative cost of catering for the different fiscal systems of the various Member States. Thus, companies, particularly small- and medium-sized enterprises that want to benefit from the ETLs, have to suffer the initial costs of tax planning and accounting advice, and leading to increased burden of such enterprises seeking expansion into the Regional market. It is belief of the Commission that harmonization of corporate income tax would greatly reduce the financial and practical price presently paid by companies attempting to adhere to various evolutionary and dynamic fiscal systems in the ECOWAS single market space.

vi. **Loss of Revenue.**

Increased opportunities for tax planning, tax avoidance and evasion arise where differences exist in the national tax systems of the various Member States. These activities tend to lead to considerable losses of revenue to the extent that revenue authorities have to make good the lost revenue by digging their hands deeper in the pockets of other taxpayers. Arguably, the harmonization of corporate income tax could diminish the incidence of such activities as the application of **non-arm's length transfer prices** within ECOWAS groups of companies. This might contribute to the tendency to lower the tax burden with the aim of enhancing the position of ECOWAS businesses in the world market, promote commercial activity as well as economic growth.

**8. 00. Concept and Objectives of Integration (Tax Harmonisation).**

The principle of the ECIM initiative means that factors of production are now free to move to their best alternative uses within and across national boundaries Member States. However, there remains a policy dilemma for Member States who have traditionally used tax and incentive policy within their borders to alter relative prices and to cause resources to flow to particular sectors or segments of society. Harmonization is a concerted effort to achieve effective similarity of economic policies. While the vast majority of the literature defines tax harmonization as an effort to achieve similar tax rates, the most practical concept is one that encompasses **tax harmony** among Member States with respect to the following elements:

**First**, to ensure that, like is compared with like, across borders of Member States, critical to such tax harmony are **tax administration and collection**, including rules, procedures, methodologies and definitions of concepts. If

taxes are not applied in similar ways across territories, further efforts at tax harmony become futile.

The **second** element of tax harmony is similar **tax structures**. It is difficult to see how a region with wide variance in tax structures could progress with any harmonization effort without first resolving this problem. For example, if some Member States are heavily reliant, as some are, on direct taxation while others are heavily reliant on indirect taxation, it would be extremely difficult to harmonize rates in this scenario.

*The first difficulty arises from the fact that some Member States may have a zero tax rate (no tax rate), making the area for negotiation extremely small or non-existent. The second difficulty arises in the disparity in the relative importance of certain taxes to particular governments, virtually ensuring that the harmonization game would result in a number of losers.*

The **third** and most debated element of tax harmony is **tax rates**. Any serious effort at tax harmonization within a single market, like ECOWAS must include some form of **uniformity of tax rate**. Uniformity of rates, however, can take a number of forms and does not necessarily imply that countries must define a single rate and pursue that target. Under tax rates, there are further elements, namely: (a) a uniform tax rate, (b) minimum tax rates, (c) maximum tax rates, (d) tax bands, and (e) tax competition.

- *It is important to note that minimum and maximum tax rates are where harmonization is achieved through the enactment of tax floors and ceilings below or above which national governments of Member States in an economic integration agreements cannot tax.*
- *Tax bands are simply a combination of the minimum and maximum tax rates.*
- *Three of these elements, minimum and maximum tax rates and tax bands, restrict the behavior of national governments to particular regional limits but, at the same time, allow for some discretion and variance in the rates across the countries involved.*
- *The first element, a uniform tax rate, is the most rigid constraint, allowing absolutely no discretion. In contrast, the last element, tax competition, allows governments to freely compete for tax bases and represents the exact opposite of a uniform tax rate because there is absolutely no constraint on national governments (total discretion).*

#### **9.00. Levels of Tax Harmonization.**

While harmonizing tax rates would mean making them more similar or aligned to other systems there is no agreement in the literature as to whether this means co-ordination at some level or making them completely identical. However, what is available is the classification of the levels of tax harmonization that

addresses the taxes being levied, the tax bases, the tax rates and the ways in which taxes are administered. The levels starts from complete harmonization (or standardization) of taxes to convergence of taxes (or non-harmonization).

- Between the two radical poles of absolute harmonization and ‘non-harmonization’, it is possible to identify three other levels of partial harmonization.

i. **Standardization**. This consists of having the same tax or, “in equalizing the tax burdens imposed on the same item, under equal circumstances”. It is the highest degree of harmonization, also known as customs union - the merging of several customs territories into a single customs territory in order to consolidate the free movement of goods). The key element in any true customs union is the adoption of a common external tariff (CET). This must be the same across the customs union’s whole external border, because otherwise trade deflection.

ii. **Compatibility**. This next step of harmonization involves “adjusting the tax structure in order to counteract or compensate for the distortionary effects caused by tax burden disparities upon the integration process. Adjusting those elements in the tax structure does not mean that they should be necessarily identical. That is, when internal tax distortions are detected they are just to be addressed. With compatibility, it is highly advisable to establish a **follow-up mechanism** to keep track of what each Member State does in this respect, so as to ensure that the goal of harmonization is not adversely affected.

iii. **Coordination**. The concept of tax coordination is far from being accurately defined in the literature. For some authors, coordination appears to be any action transcending typical harmonization mechanisms, which might be confined to the two categories above. Perhaps the best way to define this “in-between” category is everything that does not fit into any of the other four categories.

iv. **Cooperation**. This is the provision of mutual assistance, either for reasons of reciprocity (for instance, one country supplies tax information in the expectation that it will receive information from its counterpart at some other time) or out of mutual interest (such as when double taxation is detected and two countries undertake to cooperate). A distinction can also be drawn between practical cooperation (as in the previous example) and theoretical cooperation (for example, providing assistance or sharing best practices in taxation). **Cooperation is the most civilized form of harmonization**, since no policy rapprochement is involved. Sovereignty is respected, and cooperation only happens if there is a previously identified interest, be it reciprocal or mutual. The most typical example of this kind of harmonization is the exchange of information between tax administrations.

v. **Convergence**. This end of the harmonization scale is a spontaneous movement (sometimes inevitable, though unwanted) towards the same

type of solution, as a result of globalization and competition. Convergence is classified in the fifth and last step from the standpoint of voluntary political commitments because **no particular harmonization action has been taken** for reasons of political will, but because the country cannot escape from the trend or admits (probably unconsciously or against its own wishes) that this is the best approach to take. Hence, in spontaneous convergence, there is always an element of discomfort or, at least, passivity.

## 10.00. The EU and Lessons for ECOWAS.

In designing the European Union tax harmonization the following captured their attention:-

### □ **General Objectives.**

- ❖ Stabilizing the Member States tax revenues
- ❖ Smooth functioning of the regional internal market
  - i. Free movement of persons
  - ii. Free movement of goods
  - iii. Free movement of capital
  - iv. Freedom to provide services
  - v. Promoting Employment

### □ **Specific areas of tax to harmonize**

- ❖ Corporate Taxation
- ❖ Personal Income and Pension Taxation
- ❖ Value Added Taxation
- ❖ Excise Taxes
- ❖ Other Taxes

### □ **Instruments used to Achieve EU Tax Harmonization Objectives**

The overarching objective of EU regional tax policy is to ensure that the internal market operates as smoothly as possible, eliminating where possible the largest obstacles to consumers and firms benefiting from the internal market. The framework addresses the following questions:

- *What is critical for the smooth functioning of the internal market and, by extension, what is not?*
- *Which policy is feasible to implement, given the current circumstances?*
- *What is the best method for implementing and, in some cases, enforcing policy, or by what mechanism or tool can this best be done?*

The institutional structure of the European Union is fundamental to the implementation of a tax harmonization agenda. The roles of the institutions are clearly defined and, in addition, the institutions closely adhere in practice to their defined roles with frequent discussions and coordination of tax issues. It also

provides for proactive institutions, such as the EU Commission, to serve as guardians of the internal market and seek to promote the objectives of the internal market through the use of whatever means are available. The lessons that ECOWAS can draw from EU model may be summarized as follows:

- ❑ specific tax harmonization objectives are important;
- ❑ there should be clear guidelines for a tax harmonization programme;
- ❑ there should be supportive and proactive institutional arrangements;
- ❑ enforcement mechanisms through ECOWAS Commission are necessary;
- ❑ the motive for tax harmonization within a single market is efficiency;
- ❑ revenue stability of Member States should be a major objective;
- ❑ some degree of autonomy in setting regional fiscal policy will have to be forgone by Member States under appropriate harmonization levels as earlier described; and
- ❑ there should be implementation/institutional arrangements created by ECOWAS Institutions and structures that support Member States procedures for harmonization with some doing it more rapidly than others.

## CONCLUSIONS.

- ❑ Within the context ECIM, Member States governments tax competition is harmful to all since the result of such tax competition game is that all are losers
- ❑ Cooperative behavior them is analogous to the collusive behavior among oligopolistic firms, while the incentives to cheat may not be as strong.
- ❑ A harmonized tax structure under ECIM would persuade investors to seek alternative reasons – other than tax structures and/or frameworks - for choosing to invest or develop trade relations within Member States.
- ❑ Furthermore by the development of a tax harmonization framework, revenue stability would be ascertained due to the fact that similar environments are created from “which businesses and consumers can operate”.
- ❑ In addition, the stability in any economic atmosphere demonstrates an increased potential for growth, which is essential for entities seeking to invest (especially in the financial market) in a country.

Tax harmonization is therefore viewed as a **requirement for the smooth operation of a common market** ECOWAS economic integration agenda. It creates a similar fiscal environment across Member States under which businesses and consumers can operate. It also provides security to governments against potentially aggressive incentive strategies that could reduce tax revenues. This will make regional economic agents, be they investors or consumers, to make simple and accurate comparisons between Member States within the **ECOWAS Single Market**.