



# Equality and Unity in Diversity for Development

5<sup>th</sup> INTERNATIONAL CONFERENCE ON FEDERALISM  
**Volume 3: The Impacts of Regionalization  
and Globalization on Federations**

Editor: Nico Steytler



# Equality and Unity in Diversity for Development

5<sup>TH</sup> INTERNATIONAL CONFERENCE ON FEDERALISM  
Addis Ababa, Ethiopia, 2010

**VOLUME 3** | The Impacts of  
Regionalization  
and Globalization  
on Federations

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Edited by  
Nico Steytler

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Series Editors: Alem Habtu and Shawn Houlihan

**Equality and Unity  
in  
Diversity for Development**

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*Dedication*

*This six-volume series of the  
5th International Conference on Federalism  
is warmly dedicated to the memory of*

*Meles Zenawi*

*Prime Minister of Ethiopia  
1995-2012*



# FOREWORD

H.E. Meles Zenawi

Prime Minister of the Federal  
Democratic Republic of Ethiopia

The 5th International Conference on Federalism (ICF), held in Addis Ababa in December 2010, was a national landmark for Ethiopia's ongoing transition to a mature federal democracy. Hosting senior leaders and other federal governance practitioners from across the globe was a celebration of our membership in the community of nations that has chosen and successfully implemented federalism to meet their political, social and economic needs and aspirations. Ethiopia is proud to have joined the list of other countries that co-hosted previous International Conferences on Federalism with the Forum of Federations: Canada (1999), Switzerland (2002), Belgium (2005), and India (2007).

It was also important that the 5th ICF was the first to take place in Africa. We chose the conference theme, "Equality and Unity in Diversity for Development", as one that captures the challenges and opportunities of federal governance from Ethiopia's perspective, but which we share with many of our fellow African countries.

Poverty and conflict promise to be no less challenging in the coming decades, as we struggle with the impacts of climate change, technology and other forces of globalization, forces which call for strong global and regional cooperation among governments that reflect the will of their peoples in all their diversities. Federalism – in its varied applications globally – holds much potential for building an underlying foundation of stability and for releasing the many untapped sources of capacity for development on our continent. In Ethiopia we have come to understand that federalism is required for

us to meet these challenges and opportunities, and, indeed, that the alternative – any return to centrist, unitary governance of the past, with all its cultural and economic tenants that entrench inequality – would be nothing less than a disaster.

We are witnessing the flourishing of federal or federal-like experiments across the entire continent of Africa. Kenya's new constitution – passed by popular referendum a few months before the Conference – has significant elements of devolution which are at the core of their reforms. Just a few weeks after the Conference, in South Sudan a referendum paved the way for a newly-independent Republic of South Sudan. It is no accident that the Intergovernmental Authority on Development (IGAD)-brokered Comprehensive Peace Agreement centered largely on federal arrangements for power-sharing and wealth-sharing. While federalism is no panacea, in both of the now two separate countries, issues of federalism and the federal idea generally will continue to be at the centre of discourse and negotiations for governance arrangements needed to find their particular path to stability and a durable peace. Even in Somalia federalism is at the core of their constitutional debates to end that intractable conflict and put their nation onto a path of durable peace and development.

Of course, Nigeria is the birthplace of federalism in post-colonial Africa; South Africa's post-Apartheid constitution sets out significant devolution with many federal or federal-like characteristics; and Congo's 2005 constitution has many federal elements. We very much appreciate that representatives from these countries joined us at the Conference and shared their experience and their questions. In the coming years they will continue to adapt and innovate as practical experience with federal governance inter-weaves with what promise to be intense challenges of political, social, economic and institutional development.

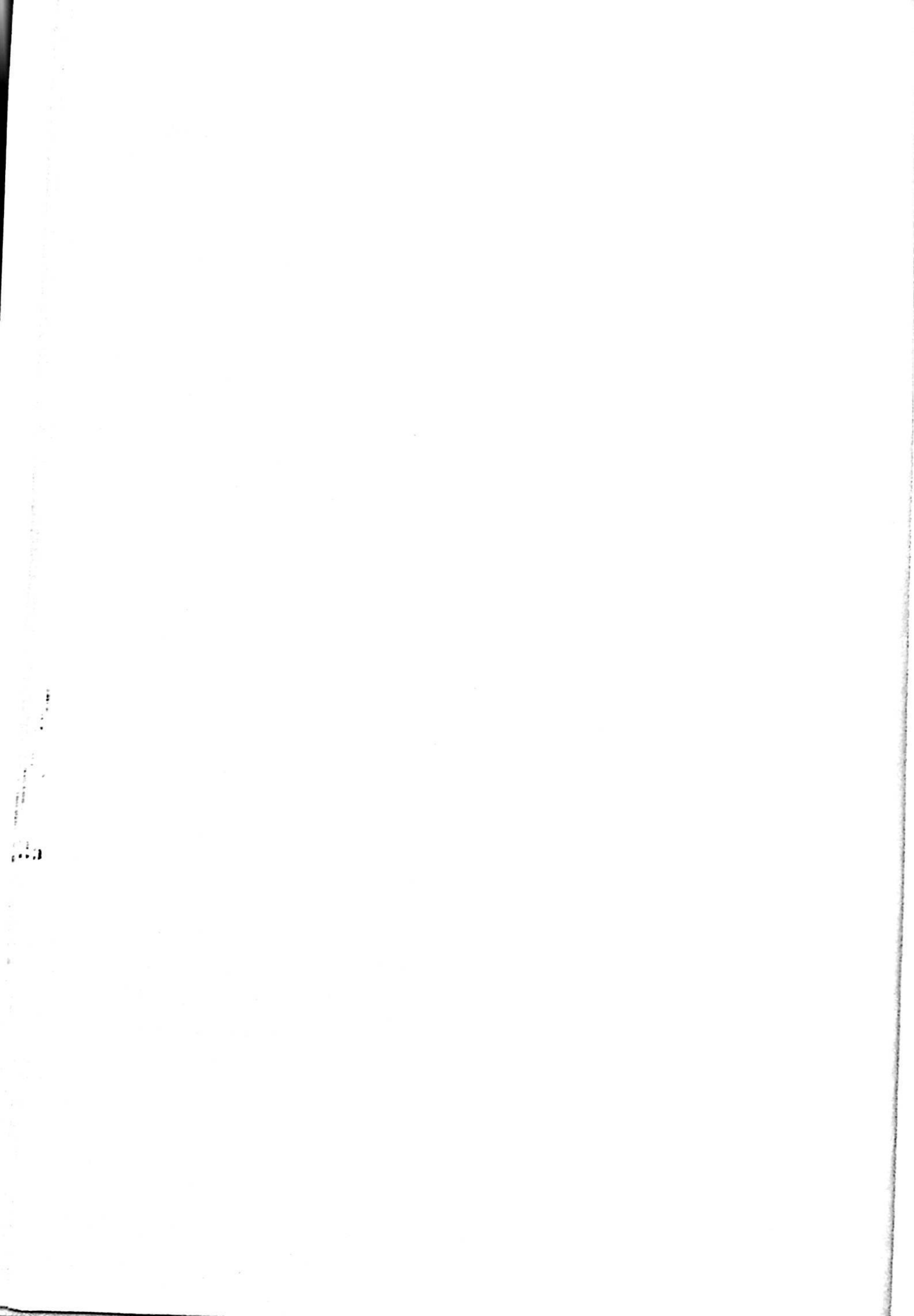
## FOREWORD • MELES ZENAWI

It is common to say that federal governance is always a work in progress as nations adjust to the constant forces of change – domestic, regional and global. This is certainly true in Ethiopia. We are also a stark example of the need to constantly innovate and learn – yes, from the rest of the world but also from ourselves in the context of momentous, multidimensional challenges we faced when we started the process of federalization in 1995.

Thus, one of the primary legacies of the 5th ICF – and indeed of this series of post-conference books – promises to be the special focus in our conference of the innovative experiments that are emerging to deal with the types of challenges being faced today by Africa and other parts of the world recovering from long-standing conflict or political crisis. In this sense, federalism and the federal idea itself must continue to be a work in progress as we in Africa, by necessity, discover and nurture new ideas and values that build on and enrich those that evolved mainly from the more established federations like Canada and Switzerland. We look forward to the future ICFs continuing to explore and reflect on these processes of innovation.

The Government of Ethiopia has been pleased to be a partner of the Forum of Federations since 2006. We look forward to a long continuation of that partnership and to further strengthening the global network that came to Addis Ababa in 2010.

I take this opportunity to thank the Conference Secretariat (headed by Solomon Tadesse), the Forum of Federations, the dozens of contributors who wrote papers and practical case studies, and of course all who participated and thereby contributed to the content of these volumes.



# PREFACE

Rupak

Chattopadhyay

President and CEO,  
Forum of Federations

This six volume series captures the learning from the 5th International Conference on Federalism. The International Conferences on Federalism (ICF) are the Forum of Federations' flagship event, organized approximately every three years in partnership with a host government. During the 4th ICF in New Delhi in 2007, H.E. Prime Minister Meles Zenawi invited the 5th International Conference to Addis Ababa. The other ICFs took place in Canada (1999), Switzerland (2002) and Belgium (2005).

These triennial conferences provide a unique forum where practitioners of federalism and similar forms of multi-tiered governance, along with academics and non-governmental organization (NGO) representatives from across the globe, are able to interact and learn from one another. The thematic work sessions are the core events of these conferences. Unlike academic conferences, no theoretical papers are either presented or discussed at the work sessions. Instead, state-of-the-art academic papers commissioned prior to the conference are expected to provide the background and framework for policy relevant discussions. These papers influence the selection of issues and case studies which inform discussions at the conference work sessions. Also, unlike intergovernmental conferences, senior officials and ministers are not provided an opportunity to present existing government positions from prepared texts. Rather, senior practitioners are expected to actively participate in the interactive work sessions, where colleagues from around the world are exposed to diverse points of view and new insights resulting from dialogue. Such a format allows for maximum active participation, while providing an opportunity for peers to draw inspiration from each others' experiences.

The 5th International Conference on Federalism was significant for three important reasons. First, this was the first ICF held on the African continent. Second, it was the first time that an emerging federation hosted the conference. Third, this was the first ICF to focus on how the federal idea could promote economic and social development. Situating the conference in Addis Ababa underscored the important role played by federalism in Ethiopia's ongoing political and economic transformation. The adoption of a federal constitution in late 1994 has arguably played an important role in holding centrifugal tendencies in check and providing various ethnicities with a stake in the country's economic success. Since becoming federal Ethiopia has emerged as a vibrant economy and polity in a region which is increasingly beset by conflict and deprivation.

Federalism is often confused as being an ideology, when in fact it is a system of government organization, one which allows for at least two orders of constitutionally autonomous and recognized government. As global experience demonstrates, each federal country has adapted general federal principles to meet its own unique social, economic and historical circumstances. Even within Africa there is considerable variation between the Nigerian and Ethiopian practice of federalism and South Africa's quasi-federal model.

The focus of the conference on unity, equality and development is one that resonates throughout Africa and much of the developing world. In his opening address, Prime Minister Meles correctly identified democratic federalism as the glue that binds together countries which are diverse. It does so by providing diverse sections of the population with the equality of opportunity to participate in the political and economic life of the country. As more societies in Africa and elsewhere emerge from decades of conflict, there appears to be increasing interest in federal and devolved forms of government, as countries search for political institutions that are more responsive to their populations and better reflective of their diversity. It is not surprising, therefore, that

the constitution of the Democratic Republic of Congo is federal in form or that devolution is the centerpiece of Kenya's new constitution. Further away, countries such as Nepal and Indonesia have adopted either federal or devolved forms of governance in recent times.

Indeed, the Conference took place a few short weeks before the referendum in South Sudan, providing a poignant backdrop to the whole proceedings. We all know the result was an overwhelming vote for independence. We now watch anxiously and with great interest to see how these two newly configured separate countries deal with questions of federal governance to manage their diversity, and indeed deal with all the challenges that were topics of this conference.

Adopting a federal or devolved constitution is only the first step for a country embarking on a path of democratization. It is significant therefore that the topics chosen for the 5th ICF included a focus on the operational and process aspects of managing federations. Democratic federalism is meaningless without the active participation of citizens in the political process at multiple levels, whether as individuals or as part of social movements. By the same token federal structures and institutions that don't respond to the needs of citizens undermine the process of both democratization and federalization. Indeed the resilience of a federal system is measured by its ability to adapt to the changing needs of society over time.

Federal systems do not emerge or operate in a vacuum. On the one hand, in a world that is increasingly globalized, the emergence of post-conflict constitutional arrangements are often influenced by the role played by international organizations, NGOs and sometimes even members of diasporas. It is important to understand the extent to which external factors may influence the choice of institutional arrangements, to understand how these arrangements may be grafted onto the local socio-economic context and indeed to assess the durability of such institutions. On the other hand, as Africa moves

toward greater regional integration through the African Union (AU) and subregional bodies such as the Southern African Development Community (SADC), the Economic Commission of West African States (ECOWAS), and the Common Market of Eastern and Southern Africa (COMESA), it is important to consider the lessons from both successful process of regional integration such as the European Union (EU) as well as failed integrations attempts across the globe.

The success of regional integration has often been a function of not just getting the structure right but of deep political commitment from key actors in the process. The German bailout of Greece during the 2011 Euro crisis is a particularly poignant example of such commitment to regional solidarity. The same sense of commitment is required at the national level such that federalism is as much about solidarity as it is about subsidiarity. Solidarity amongst constituent units expressed through well designed mechanisms for equalization is an important determinant of the long term viability and economic health of federations, particularly emerging ones. In much of the developing world, control of resources has historically been a source of conflict. Getting issues around ownership, exploitation and mechanisms for equitable revenue sharing sorted out can often mean the difference between a vibrant national economy and perpetual conflict. Federal arrangements offer the possibility to achieve the former.

As noted above, federal systems are often well suited to promote unity in countries which may be ethnically, culturally, linguistically or religiously diverse. But it can only work if there is a commitment across the board and at all levels to work together in building a shared political and economic community. To this extent, federalism is not a panacea. Indeed, as the Addis Declaration notes, federalism, and its implementation, must be judged by its effectiveness in building nation states that meet the needs of ordinary people and in providing an inclusive vision of national unity. Nowhere does this ring truer than in the two halves of Sudan, where there was no convergence on



## PREFACE • RUPAK CHATTOPADHYAY

a shared vision of unity between the north and south. To this end, the peculiar human geography of Africa, resulting from arbitrary borders imposed by colonial powers, can present formidable challenges to the establishment of viable federal states.

The 5th ICF's unique focus on Africa and the developing world highlighted the issue of human resource constraints as being a major impediment to the rapid federalization of African countries. Since federal and devolved structures require multiple orders of administration, low levels of education and technical proficiency across much of the developing world, particularly at the sub-national level, make the task of establishing institutions of administration and governance all the more difficult. So even though there appears to be an increasing interest in federal and devolved forms of government related to the push for more democracy and viable nation building, human resource constraints will continue to act as a brake in many countries.

In the tradition of past conferences, the 5th ICF was designed to address the needs of those involved in the practice of federalism at all levels. The conference provided a safe space for free discussion and fostered a sense of community among participants. Most importantly, the International Conference provided an opportunity not only for practitioners of federalism to learn from each other, but it also provided guests with an opportunity to learn about the host country. I would be remiss if I didn't acknowledge that the 5th International Conference on Federalism provided a rare opportunity for experts from all over the world to experience Ethiopia's successful experiment and continuing challenges with federalism, and to see firsthand how federalization has transformed the social, political and economic life of the country. Ethiopia's experience is living proof that federalism can promote peaceful coexistence and harmony in settings of diversity, while promoting economic prosperity.

It is fitting that the 5th ICF opened on the day that Ethiopia celebrates the Day of Nations and Nationalities. For those of us who witnessed the colorful cultural program on the opening evening, this was not just any cultural spectacle. Indeed it was a dramatic and thoroughly enjoyable demonstration of unity in diversity that is the essence of federalism. In that spirit I take this opportunity to express, on behalf of the Forum of Federation, our partners and all the participants, our deep gratitude to Prime Minister Meles Zenawi for his leadership and vision in agreeing to host the 5th ICF and to the people of Ethiopia for their warm hospitality in providing such a rich learning experience.

This six-volume series captures the state of the art in the practice of federalism, particularly as it relates to public policy around the management of diversity and economic development. It is also a significant addition to the literature on the practice of federalism and will in time be seen as significant reference materials.

# INTRODUCTION

Alem Habtu &  
Shawn Houlihan

This volume is one of a six-volume book series on the 5th International Conference on Federalism (5th ICF) that took place December 14-16 2010 in Addis Ababa – the first ICF on African soil. It was attended by over a thousand participants from forty different countries, including heads of government, ministers, parliamentarians, academics and other practitioners of federal governance from across six continents.

The theme of the 5th ICF was “Equality and Unity in Diversity for Development”, which captures the challenges and aspirations that are particularly relevant to the African continent. This theme was selected in part because the host country, Ethiopia, gives primacy to the achievement of development while reducing inequality under the federal system. This conception of the inter-relationship of equality, development and federalism is broadly applicable to African and other developing countries with diverse cultural communities and identities. The Conference was further broken down into five major topics:

- Federalism and the Democratization Process
- The Impacts of Regionalization and Globalization on Federations
- Unity in Diversity through Federalism
- Federalism and Conflict Prevention, Management and Resolution Mechanisms
- Fiscal Federalism and Equitable Development.

Under each of the five topics, a different subtopic or question was addressed on each of the three days of the Conference. Thus, a total of fifteen questions were posed by the conference organizers, questions which are explained and discussed in the "Background Issues Paper" that is replicated in Volume One. The content of the Conference deliberations was built on three case studies written and presented for each of these fifteen questions: one from the host country (Ethiopia), one from another African country or subregion, and a third from the rest of the world – for a total of 45 case studies presented over three days. These case studies were intended to benefit practitioners and were largely authored by such. In other words, like the previous ICFs, the 5th ICF in Addis Ababa was not a traditional academic conference, but rather an exercise in mutual learning among practitioners.

Volumes two through six in this series deal with each of the above topics respectively. The main body of each of these volumes is organized as follows: there are three main sections: one for each of the three days of the Conference that deals with a different question under that topic; each section starts with an overview by the volume editor of the three case studies delivered on that day, followed by the three cases themselves and ending with a brief report of the main findings of the working sessions of the Conference that discussed these cases and other relevant experiences.

The organizers of the 5th International Conference on Federalism – the Government of Ethiopia in partnership with the Forum of Federations – are pleased to present this important compilation of case studies that deal with how federal governance relates to conflict in different dimensions and international perspectives. The richness of the case studies in all these volumes is found in no small measure in the fact that, while they are informed by comparative federal theory, the cases themselves are based largely on the authors' personal, firsthand experience, thus making them unique contributions to mutual learning about the *actual practice* of federal governance in a very complex and conflict-prone world.

# CASE STUDIES DAY 1

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What is the impact of sub-regionalization, regionalization, and globalization on federations?

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Q 1

What is the impact of sub-regionalization, regionalization, and globalization on federations?

Introduction | Nico Steytler

The strongest manifestation of globalization is probably in respect to the integration of the marketplace. International trade and financial systems are integrating the economies of countries to ever increasing levels of interdependency. An economic or financial crisis that emerges in one country reverberates quickly across the globe. When the financial crisis, which was sparked off by the sub-prime home loan debacle, hit the US in August 2008, the impact was felt worldwide, sending many developed and developing countries into economic recession. The questions that then emerged were: How did federal systems experience this economic crisis? How did they respond to it? To what extent were sub-national governments exposed to the recession and how did the recession impact their duty to provide public goods and services?

For one, the decline in economic output and resultant national revenue has had an inevitable knock-on effect on the levels of intergovernmental transfers. In some instances, the federal system buffered the sub-national units from the impact, while in others, the latter were left exposed. The central question is whether the federal system fostered or hindered an effective response to the crisis. The case of Brazil is instructive, illustrating the various channels of the transmission of the crisis to sub-national governments (both state and local) and their responses to it.

The positive side of market integration has been the formation of the economic trading blocs, stimulating economic growth through the development of common markets. The emergence of economic integration in one region inevitably sparked off the development

of similar structures in other regions around the world. Economic integration in Europe, North America, and South America has been followed by similar endeavours in Asia and Africa. COMESA (Common Market of East and Southern Africa), ECOWAS (Economic Community of West African States), SADC (Southern African Development Community), and IGAD (Intergovernmental Authority on Development) have emerged as sub-regional organizations aimed at promoting development in their respective regions. These sub-regional institutions, again, are engaging with other regional structures in mutual trade. The Economic Partnership Agreement (EPA) between the EU and the African sub-regional organizations, such as ECOWAS, provides an example of such cooperation.

Regional integration is not only focused on economic integration, but also on development as a whole. This is apparent in the case of the Horn of Africa region, where IGAD, comprising Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, and Uganda, first came together in 1986 to deal with drought and desertification in the region. Its mandate expanded in 1996, however, to include development more generally and conflict resolution specifically.

International cooperation and regional integration do not necessarily take the federal or decentralized character or aspirations of countries into account. This is often because the traditional partners of the international community are federal or national governments. Treaties generally are concluded at the national level. International aid is negotiated with central governments. Multi-lateral decisions are typically made with national governments' participation only. This may impact negatively on the federal nature of a federal country in that it may lead to the diminution of power of constituent units. It has thus been claimed that as the world gets more globalized, countries may become less federalized.

When the federal government of Australia concludes a treaty, it also assumes the power to legislate its implementation, regardless

of whether the subject matter falls within the jurisdiction of the states. When the Union Government of India signed the World Trade Organisation (WTO) agreement, many states complained that it usurped the states' power over agricultural policy and some took the matter to court to reinstate the constitutional division of powers between the Union and the states. In the United States similar complaints were heard: trade liberalization may eventually inhibit states from exercising their constitutional powers in any manner that may be construed as restricting or distorting trade and investment activity. For some Canadian provinces, the implementation of the Kyoto Protocol, concluded by the federal government, fell in the provinces' jurisdiction on the environment.

Given that international treaties often intrude on the jurisdictional domain of sub-national governments, they play an increasing role in the formulation of such treaties through their participation in the domestic intergovernmental relations system. In a number of countries, including Australia, Canada, and Spain, there are consultation requirements, often conducted in formal structures, in terms of which constituent units participate in the formulation of foreign policy affecting them. Constituent units in Germany, Austria, and Switzerland play a significant role in their countries' international relations, particularly insofar as European integration is concerned (which is dealt with in the next section). South African provinces, on the other hand, come formally into the picture only at the ratification stage of treaties through their participation in the National Council of Provinces, the second house of the national parliament. In Canada, provinces have been included in their national delegations to ensure that their interests were adequately represented in negotiations. A further example is the recent meeting in Cancun, Mexico, on global and climate change: there was a special meeting of federated states in order to deal specifically with the federal dynamics of those countries. Although the inclusion of sub-national governments may complicate the conduct of foreign relations and regional integration, such an inclusive approach strengthens, in the end, the federal system.



# ETHIOPIA

Irving Leonard Markovitz

Ethiopian Federalism and the Regional States in the Creation of International Networks and the Meeting of International Standards: Education Policy, Objectives, and Achievements

## Introduction

Ethiopia has welcomed “globalization,” but on its own terms, mediated through the institutions of federalism and backed by a strong federal state and national policies. Economic globalization specialists like Joseph Stiglitz have hailed certain policies of the Ethiopian federal government as being more sensible and conducive to raising the living standards of the entire population as compared to policy recommendations made by leading experts of the International Monetary Fund (IMF) and other international agencies. This paper seeks to understand the nature and consequences of some of Ethiopia’s policies, in particular those pertaining to education. Education is a public good which, as will be argued, is crucial for globalization, democratization, and national unity.

The following propositions will guide our understanding:

- Federal states are not weaker than unitary states. Ethiopia’s experience parallels in crucial ways that of Germany’s adoption of a federal system in the 19<sup>th</sup> century – in contrast to the far weaker Piedmont state, which insisted at great cost on centralizing government in Italy.
- Open access societies – not all of them “democratic” – can better “embed” potentially violent factions in complex systems that leave great areas of autonomy to divergent political and economic interests. Greater democratization

does not necessarily produce greater economic equality. The logic of the market system is inherently not equalitarian; political policies can make a difference, but not necessarily.

- Advanced technology, harnessed by modern capitalism, continues to produce even greater wonders than those so admired by Marx - the potential for even higher mass standards of living, and even greater inequality.
- Globalization provides “benefits” to developing countries that meet universal standards set by the developed world, as well as disadvantages that can, to some extent, be off-set by strong states.
- The provision of “public goods,” such as education, is crucial in determining if a poor country will develop, and how it will develop in all respects; whether it will be inward looking like the Latin American states in the 1960s, or if it will become a global player like the Asian states in the same period; whether it will be autarchic or an open society; whether it will incorporate dissident factions and elites; and whether it will enable as large a portion of its population as possible to share in the fruits of its development.

The government of Ethiopia has invoked the institutions, structures, and interests of its federal system to establish standards in education that will enable it to be a player in the unfolding processes of globalization. Educational development, at every level — from kindergarten and pre-school to university and technical school — is meant to provide powerful tools both for the advancement of the population and for national progress. The regional states are intended to play a crucial role in the achievement of global standards of educational attainment. The regions are expected to exercise their powers with respect to education, bound by these international standards, and to form a crucial element in the multiple unities that are the foundation of a

successful state.

Education is a most useful tool for these purposes since it is not an end, but a process. What the process of education holds out is not a guarantee that everybody will get a wonderful high-paying job and high standard of living, but that more individuals will have the opportunity to gain the tools with which to compete more successfully in the market, the bureaucracy, the private sector, and the state. Ultimately, the promises of education are limited and cheap because education is not an end in itself, but a tool, viewed in terms of nation-building and globalization, that enables individuals to achieve new powers for self-advancement. Education policies and processes therefore help create networks of multiple unities that can operate to unite Ethiopia internally and connect her to the world. The options chosen for the role of the State on both the national and regional levels will determine if these ties and standards will work more or less strongly in the national interest.

### Federal government's educational policy

The federal Ministry of Education of Ethiopia has sought to not only achieve universal primary education and a vast expansion of post-secondary educational institutions, but also to do so in a way that furthers the goals of development, equality, unity, and diversity. A primary tool for these efforts is a federal arrangement that seeks to embed these goals in the institutions and in the interests of the regional states and districts (*woreda*). Education policy brings together the interests of the nationalities and the regions, of diverse peoples, and those who speak multiple languages. Not only does it respect diversity, it also harnesses all of the various interests of diversity through the mechanisms of federalism to promote common and national goals of development, equality, unity, and stability.

Inequality is and will continue to be a paramount problem of the 21<sup>st</sup> century. Unmanaged globalization creates and amplifies those

inequalities. Globalization is not merely the deepened flow and increased volume of trade among nations. The "globalization" with which this paper is concerned with derives its essential characteristics from a new stage of capitalist development and cannot be understood without an appreciation of the unprecedented productivity of global enterprise, as well as the inherent tendency towards intensified inequality.

Increased productivity that makes possible a higher standard of living for newly educated workers, depending on state policy, can also result in greater inequality because the benefits of the new growth may go disproportionately to the top 20, 10 or 1 per cent of the population. Even as labour becomes more educated and productive, workers themselves will not be the only or the greatest beneficiaries of their labour. This is an old story, but one that gains greater cogency as globalization enables those privileged elites ever wider world-wide choices.

Globalization, in the last analysis, means being able to choose among labour markets on a global basis, with final decision-making by major corporations located in those core areas that have the most advanced systems of technological and communicative control. It is within this context that we will examine Ethiopia's federal system of educational policy and development.

Globalization encompasses multiple processes of concentration, centralization, communication, and control. New institutions and political forms like "global cities" incorporate enormous concentrations of capital, new social classes, and new inventions like financial instruments such as "derivatives." Ultimately, transistors, computers, websites, internets, Google, Microsoft, IBM and Goldman-Sachs, outsourcing, in-sourcing, personal remote assistants, and radio frequency identity microchips will reach into Ethiopia to track and control cheaper labour trained to meet the standards of global commerce and

production.

In developed countries, private education spending generally correlates *negatively* with democracy because as states democratize — or appear to democratize — they seem, as in England, to turn their public spending from higher education to mass primary education. However in Ethiopia this might not be the case. Allowing private education at all levels can serve as a safety valve. It can buy the support of the wealthy and elites who can provide well for their children and provide them with a superior education, assure those elites of their continued advantageous position, and become another of the multiple unities that hold the country together and offer support to the system.

Although the logic of globalization would seem to be that the developed states would concentrate on higher education, and the developing states would focus on primary education, this is not necessarily the case. Because “higher education” can be purchased so much more cheaply in developing countries where costs and the standard of living are so much lower than in developed countries, the returns to capital can indeed be greater than those from a work force that has only a primary education. At the least, we would have to distinguish among different types of higher education. The developed world might indeed still retain a strong hold on the most innovative and creative types of higher education. However, vast curriculums and degree programmes could easily be replicated at much lower costs in countries like Ethiopia.

In developing countries, the best bargains might be found in higher-educated trained workers. An engineer might be paid US\$5,000 a year in Ethiopia, which would put him or her in the country’s highest decennial, while his or her counterpart in the United States would demand a salary of well over \$50,000. If the increased wealth of the elites depends on an expanded presence in the global system, then it will be to their advantage to support educational expenditures, always

keeping in mind the possibility – probably, the inevitability – of both a higher standard of living for the newly educated work force *and* growing inequality, both domestically and internationally.

Data from 115 countries, from 1960 to 2000, demonstrate that democracies spend more on higher public education than autocracies, less on private education, and prefer primary education rather than higher education. States that gear their economies to the global market spend more on education, and this is especially stronger in autocracies and in developing states. We would not expect that authoritarian Malaysia would be, as it is, a world leader in education spending. We are surprised that India as a democracy spends relatively little on education - 50 per cent of India's population is illiterate. But these paradoxes are resolved when we take into account Malaysia's early turn to export-oriented development and India's first reliance on import-substitution production.

In Ethiopia, after 17 years of civil war that ended in 1991, education has expanded remarkably rapidly. From 3 million pupils in primary school in 1994-95, enrollment had risen to 15.5 million in 2008-09, an increase of over 500 per cent. During this period, secondary enrollment also more than quintupled. Public spending on education has soared from 10 per cent of total spending in the 1980s to 23.6 per cent of total expenditure in 2008-09. At 5.5 per cent of gross domestic product (GDP), Ethiopian spends on education at one of the highest rates on the continent. According to the UNESCO Global Monitoring Report, Ethiopia now has 94 per cent primary education coverage. Primary education, equally amazingly, has approached gender equity; 48 per cent of these students are girls, so there is now almost close to gender parity index of 1:1.

Ethiopia now has 22 universities with 9 more under construction, for a total of 31 within a few years. Addis Ababa Science and Technology University is under construction at Akaki and is planned for 30,000

students. The goal is a total of 300,000 higher education students. Lest these figures appear utopian, in July 2009, there were 59,000 university graduates, 16 per cent of them being women. In 2009, 79,000 new entrants gained admission to tertiary education, 41 per cent of them being women. There are currently 18 million students in the total education sector and 320,000 teachers. At tertiary level, 70 per cent of all students go into science and technology.

To what extent are the regions, in exercising their powers with respect to education, bound by international standards? The federal government administers all the public universities. Students also come from all parts of the country. The regional states have responsibility for administering primary and secondary schools. The states delegate responsibility for administering primary schools to the districts (*woreda*). Twenty-four languages are used as language of instruction in primary schools. English is the language of instruction at secondary and tertiary levels, while Amharic and a second Ethiopian language are taught as subjects in high schools. In the new curriculum, gender, environment, health, and culture are integrated and included at all levels of education. According to the Overseas Development Institute, increased regional and local autonomy and community participation have also had a key role in expanding access to education across the country. In addition to the vast increase in expenditures on school construction and maintenance, and hiring and training thousands of new teachers and administrators, the government has abolished school fees, and instituted a shift to “mother tongue instruction.”

The gradual decentralization of the education system to progressively lower administrative levels has dramatically increased school enrolment in all the regional states – even though some regions still lag behind. Attempts to narrow the glaring gender gap have also been remarkably successful. These accomplishments must be seen as the result, in large measure, of federalism and of Ethiopia’s commitment to global integration. Since 1991, power has continued to devolve

and the increased autonomy of regional and local governments seems to have both given more self-sufficiency to at least some Ethiopian ethnic groups and bound them more closely to the national enterprise. A key factor was the substantial flexibility granted to regions in determining the language of instruction and the curriculum content. Giving power to regions and districts to run their own schools and shifting the language of instruction to local languages seem to have been very effective. A recent study declared that the mother tongue policy was "one of the best on the continent." While block grants to *woredas* increased community involvement, the efforts of parent-teacher associations, and local education and training boards have further improved the education system.

### Concluding remarks

Why has federalism been so important in this process? Daniel Ziblatt, in his *Structuring the State: The Formation of Italy and Germany and the Puzzle of Federalism*, raises the puzzle: "Why did Prussia, a great military power make concessions to southern Germany to establish a federal state, while the much weaker Piedmont conquered southern Italy to establish a unitary state?" (Ziblatt 2006). In significant ways, we can compare what happened in Prussia in the 19<sup>th</sup> century with the situation faced by Ethiopia at the conclusion of overt hostilities with Eritrea, when civil war threatened to continue and to expand. Federalism, as Alem Habtu has argued, *preceded* democratization, and was a necessity for peace and a precursor of unity. Ethiopia's federal education policy provides a cheap and effective way of bringing local, regional, ethnic, and religious elites into unifying formations that help meet global standards. This policy also finds support in new theories that challenge the "common sense" perception that civil conflict is the result primarily of ethnic or religious divisions and that demonstrate that increased spending on education can have a major impact on mitigating violence.

Education policy clearly has a large impact on the processes of



democratization. Again, recent contributions to theories of democratic transitions and formations challenge the conventional ideas that see increased popular participation as a result of confrontations with established interests that force dominant elites or classes to retrench and concede. North, Wallis, and Weingast challenge the idea that democratization is the result of the politics of redistribution. Rather, they contend that open societies come about because of dominant elite's major interest in the subordination of violence. To this end, those elites never conceded any fundamental position of power, but rather willingly – again as opposed to popular belief – agreed to the expansion of the franchise, the creation of the welfare state, and the integration of new elites into governing structures. Education policy in Ethiopia again seems to follow this logic of what would appear to be a win-win strategy of enhanced future opportunities for all – maybe not more equality, but, the promise of upward mobility, greater productivity, meeting global standards, more democratization, stronger national unity, and a more powerful federal system.

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## SUDAN

Atta El-Hassan El-Battahani

The Role of Intergovernmental Authority on Development (IGAD) in Sudan's Post-Conflict Federal Arrangements

### Introduction

Sudan, the largest country in Africa with diverse ethnic, cultural, and religious groups, attained its current political and territorial shape<sup>1</sup> during the 19<sup>th</sup> century under Turko-Egyptian rulers. At the turn of the 20<sup>th</sup> century, British forces moved in, decimating the Mahdist, religious army, conquering Darfur in 1916, pacifying the South in the 1920s, and thus consolidating their power over the whole country. However, for a number of considerations, among which geo-politics ranked high, the British opted to keep the various parts of the country together under a centralized form of rule, which, nonetheless, accommodated local and traditional governance systems in an "indirect" rule — a multi-tiered system. Under the rubric of "southern policy," the "closed districts" - regions like the South and some areas in the Nuba Mountains were administered separately from the rest of the country. At another level, religious, sectarian, and tribal leaders were integrated into emerging administrative-economic structures and were left to rule over rural people in peripheral regions in the West and East. In the northern region, where educated elites were emerging, a "flexible" system of administration was adopted and some development schemes were implemented to undermine growing national radicalism. This situation laid the foundation for regional disparities and ethnic domination by Northerners over other regions.

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<sup>1</sup>The scheduled referendum on the secession of South Sudan from the North was held in January 2011, just a few weeks after the Conference took place. An overwhelming majority voted in favor of secession and the South became independent in July 2011 - Editor.

Taking advantage of the relative development in their areas, and emerging as the leaders of the nationalist movements, northern elites took over the mantle of the state apparatus once independence from the British was achieved in early 1950s. Non-northern elites, in particular the educated in the South, perceived the northern elites as neo-colonial forces bent on excluding them from participating on equal footing in national power structures. Consequently, civil war broke out in the mid-1950s and resumed in the 1980s, following a brief lull in 1970s.

The wars between the government and southern armed groups (1955-72 and 1983-2005) have received the most attention internationally, but a sense of marginalization has not just been a southern phenomenon. Elements of the Beja in the East, the Fur in Darfur, the Nuba in Kordofan, among many others, have been drawn into armed conflict with the Sudanese government or government-backed militias. Sudan's complex armed conflict has been characterized as a civil war of "interlocking civil wars." Equally, its causes are interwoven: economic, resource-based, ethnic, cultural, religious, and international dimensions all play a role, some being more important in some parts of the country than others. All are underpinned politically by the state's crisis of legitimacy and its utility as a vehicle for economic exploitation, which drives political elites to compete to control its institutions (El-Battahani 2006).

Successive regimes have manipulated administrative structures to undermine the control of local people and authorities over resources. Identity and ideology, particularly Arab nationalism and political Islamism, have been used to mobilize support to compensate for the governance and development failings of state policies. Elites have mastered the divide-and-rule tactics inherited from the colonial era through their territorial organization of the modern Sudanese state. The result has been underdevelopment, exclusion, and violent conflict (El-Battahani 2006).

Efforts by post-independence governments to deal with grievances of peripheries took the form of self-government for the South in 1962, various versions of decentralization in 1970s, regional rule in the North in 1980, and federal arrangements for the whole country (North and South) in 1990s. Yet, post-independence governments did little to ameliorate uneven development and cultural domination of northern groups over other regions. In all these efforts by the government of Sudan, the Organization of African Unity (OAU) took the side of the Khartoum government in stressing the need to resolve centrifugal-centripetal pressures within the confines of inherited political boundaries and to maintain territorial integrity of the post-independence state.

Since 1970s, a series of environmental, economic, and social upheavals plunged sub-Saharan African states - the Horn of Africa and Sudan in particular - into a series of instability, rebellion, and civil wars. In Sudan the humanitarian crisis worsened with the advent of an Islamic government in June 1989. Consequently, the continual failure of the government of Sudan to deal with conflicts within its boundaries and the deteriorating situation called for intervention from both regional and international actors. These actors were drawn into Sudan's civil war, first as providers of humanitarian and rehabilitation assistance to refugees and internally displaced persons (IDPs). Later, however, with the cost of war resulting in more than two million casualties and an increased number of refugees and IDPs, regional actors like the Intergovernmental Authority on Development (IGAD) and international actors represented in the United Nations and western governments decided to intervene to put an end to Sudan's civil war.

### IGAD stepping in

The formation of the Intergovernmental Authority on Drought and Development (IGADD), the fore-runner to IGAD, was largely due to pressure from aid agencies and international donors, while its

subsequent assumption of responsibilities in the fields of peace and security followed new thinking on the role of regionalism and regional co-operation in safeguarding the international order (Abdelwahab 2001). Thus, in the wake of the failed Nigerian efforts (the “Abuja talks”), IGADD launched a peace initiative at its Addis Ababa summit of September 7, 1993 and a Peace Committee made up of the heads of state of Ethiopia, Eritrea, Uganda, and Kenya was established with the then President, Daniel Arap Moi serving as chairman. The mediation process was handled by a Standing Committee made up of the foreign ministers from the same countries and chaired by Kenya. In addition, the Friends of IGADD was formed by leading western countries and to fund and support IGADD’s peace making role.

IGAD’s engagement in the Sudan peace process began on September 7, 1993 when it established the Standing Committee on Peace to assist negotiations and end Sudan’s civil war. A Declaration of Principles (DoP) was proposed and quickly accepted by the Sudan People’s Liberation Movement/Army (SPLM/A) as a basis for negotiations, but was not endorsed by the Government of Sudan (GoS) until 1998. By this time, the peace process was floundering and in an effort to re-activate it the mandate was renewed by the IGAD Sub-Ministerial Committee on the Conflict in Sudan (IGAD, Nairobi, July 23, 1999). This Committee established a “Secretariat for the IGAD Peace Process on the Sudan” based in Nairobi with the mandate “to carry out continuous and sustained mediation efforts with a view to arriving at a peaceful resolution of the conflict.” This phase of the peace process, led by Special Envoy Ambassador Daniel Mboya, also floundered. The next and final phase – which is the subject of this case study - began under Special Envoy Lt. General Lazaro Sumbeiywo in May 2002. On July 20, 2002 the GoS and the SPLM/A signed the Machakos Protocol as a framework for the conduct of the negotiations and after two and a half years of negotiations, endorsed the Comprehensive Peace Agreement, CPA (Young 2007).

Sudan has suffered war for most of its existence as an independent state and many hoped that the CPA of January 9, 2005 would not only end the long-running southern civil war, but provide the momentum and serve as a model for resolving other conflicts in the country, and also emerge as a model for countries with similar complex conflict situations. However, the CPA excluded other political forces in both the North and South.

The two parties (NCP and SPLM) to the CPA addressed conflict-related issues such as religion, politics, and economic backwardness. Recognizing these factors, the peace agreement paved the way for a compromise: Northern Sudan remains under Islamic law, while the South uses secular state institutions. The peace agreement also stipulated a transition period of six years, with the institutions of federal governance working to make the unity of the country attractive.

IGAD's Sudan mediation was widely appreciated for its effective management of the process and financial accountability, particularly when measured against earlier weaknesses of the IGAD mediation. The mediation was also applauded for its impartiality, success in maintaining the integrity of the process, the generally positive role of the advisors, resource people and ambassador envoys from the region, achieving good relations with the donors, and the steady production of protocols. The mediation also linked together the parties to the conflict, IGAD as the regional organisation, and elements in the international community into an innovative structure.

### IGAD's performance

How is IGAD's performance in Sudan peace process to be assessed? Should the reconciliation between the people of North and South Sudan and "making unity attractive" be the benchmark or should the holding of a referendum in South Sudan and its breaking away be used as the yardstick to assess the performance of IGAD? How should one

judge the CPA's delivery of democratic transformation? While this is not a comprehensive evaluation of IGAD's role in the Sudanese peace process, the jury, nonetheless, must have an answer as to whether or not the CPA has delivered on its promises.

True, the CPA has put an end to violent conflict between North and South Sudan, but the peace process never developed trust and understanding between the NCP and the SPLM. There was a failure to commit to wide-ranging reconciliation, and the mediation followed western practices that emphasized legal requirements and time-tables. But the great number of bodies and commissions formed to regulate, monitor, and adjudicate disputes did not manage to overcome the lack of trust between the SPLM and the GoS, and as a result, the implementation of the agreement fell far behind schedule.

However, the Sudan peace process fell into a state of crisis which was not simply due to failures in implementation of the agreement, but was a result of its narrow approach and short-sighted vision. By assuming a limited definition of peace, focusing solely on the North-South dimension of the conflict, refusing to involve other political parties and civil society, treating the media as a threat to the process, and leaving the fate of the process to SPLM/A leader Dr. John Garang and First Vice-President Ali Osman Taha, it was successful in reaching an agreement based on an acceptance of the lowest common denominators of the parties. But this approach largely precluded the realization of its own stated objectives, which included a sustainable peace, Sudan's democratic transformation, and making unity attractive (Young 2007).

Inherent defects in the CPA and IGAD's weakness *vis-à-vis* other international actors contributed to a stalled transition in Sudan during 2005-11. Therefore, the failure of IGAD, as a regional organization, in playing a pivotal role in the design and implementation of a federal solution in Sudan will once again put IGAD face-to-face with new

dilemmas/problems spilling over from Sudan. The failure of federal pacts to solve these problems has serious implications, not only for the territorial integrity of African states, but also for regional security and emerging governance structures in Africa.

The lack of inclusivity of the peace process meant that the Sudanese people could only pass judgment on the CPA through national elections, but the elections have been delayed and the difficulties in demarcating the North-South border and in ending the conflict in Darfur resulted in further postponement. In addition, the development of a democratic culture conducive for the holding of fair elections had not been permitted to emerge in either North or South Sudan where security regimes dominate. Lastly, the National Assembly has passed legislation that prohibits parties participating in the national election unless they endorse the CPA, thus precluding a negative assessment of the agreement (Young 2007).

The narrow focus of the mediation and the emphasis on reaching an agreement has meant its implications were not fully appreciated. Thus, the agreement to dissolve other armed groups (OAGs) threatened to unleash a war between the SPLA and the South Sudan Defence Force, while the power sharing arrangement which gave the SPLM and the NCP the lion's share of state power undermined efforts to reach a settlement in Darfur and have encouraged other secessionist sentiments in the country.

While international engagement in the peace process is necessary, the mediation failed to appreciate that this engagement posed a threat to the sovereignty of Sudan and the IGAD region. The conclusion of the US and its allies that their security and the "war on terror" necessitated heightened military and diplomatic involvement in the Horn raised fears that the region could again — as it was during the Cold War — become a focus of competition and conflict for external interests (Young 2007).



Although never stated, the mediation was carried out on the basis of a narrow model which focused on ending the violence (many respondents referred to it as an extended cease-fire), instead of laying the basis for a sustainable and comprehensive peace in the South and the country at large.

### Lessons for the Future

The lessons to be learned from the weaknesses of the IGAD peace process include the need for a strong commitment to democratic change as the cement upon which any peace agreement should be built, which in turn necessitates a comprehensive conception of peace. It requires a much wider involvement in the process, robust reconciliation, and respect for the media. This approach also recognizes that endemic conflict, such as that suffered in Sudan, is the result of deep seated problems which necessitate structural change. The lessons to be learned also include the need for the mediation to weigh the effect of its endeavours on other conflicts. As one observer stated, although the Sudan peace process needed the financing, expertise, and legitimacy provided by the international community, the injection of external foreign policy concerns into the process posed a threat to national and regional sovereignty which IGAD needs to be aware of and respond to appropriately. Lastly, the experience of the IGAD peace process makes clear that peace processes do not end with the signing of a peace agreement, but that they must continue into the post-conflict period (Young 2007).

IGAD's performance in Sudan's peace process and mediation of conflicts in the Horn of Africa more generally make clear that different approaches must be considered. This entails looking into ways to bring people back into the political process, search for new viable "nation-state" governance constructs, and keep an eye on evolving North-South relations in Sudan as a paradigm setting case for new federal/confederal constructs within an African setting.

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# ARGENTINA BRAZIL & MEXICO

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and  
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The Impact of the Global  
Financial Crisis on Sub-National  
Governments: An Illustration from  
Argentina, Brazil, and Mexico<sup>2</sup>

## Introduction

The recent global financial crisis has highlighted the vulnerability of sub-national finances to sharp cyclical fluctuations and other macro-economic shocks. Around the world, the crisis has led to pronounced declines in both own and shared revenues of sub-national governments (SNGs), while at the same time increasing pressures for social assistance. The severity of these impacts has varied both across and within countries, reflecting in particular the depth of the economic downturn, various features of existing intergovernmental arrangements, and national and sub-national policy responses. In many countries, however, despite significant support measures by the central government, SNGs have been forced to cut back spending and in some cases reduce public employment, thus aggravating the downturn.

These developments call for a reflection on reforms in intergovernmental arrangements that could increase the resilience of subnational finances to cyclical fluctuations and other macro-economic shocks, an objective made more compelling by the increasing role of SNGs worldwide in the provision of essential and socially sensitive public goods and services.

This paper focuses on the experiences of SNGs in three major Latin American countries (Argentina, Brazil, and Mexico), in which macro-economic volatility had substantially affected sub-national finances

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<sup>2</sup>Thanks are due to Andrea Podestá and Karen Martinez for assistance and suggestions.

in the past. Intergovernmental arrangements differ significantly in the three countries, especially as regards the degree of sub-national revenue autonomy, the level and composition of intergovernmental transfers, the effectiveness of borrowing constraints on SNGs, and the state of the sub-national finances prior to the crisis. Also, the support of the central government to SNGs during the crisis has taken different forms in the three countries. Thus, the three case studies can provide useful lessons for intergovernmental reforms.

### Impact of the global crisis on sub-national finances

Like most of the Latin America region, Argentina, Brazil and Mexico's economies exhibited substantial macro-economic volatility in recent decades. Fiscal policies both contributed to such volatility with mostly pro-cyclical stances, and were affected by it, as reflected in rising public debt ratios (ECLAC 2009). Fiscal positions improved, however, significantly from 2002 to 2008, largely reflecting the favourable impact on fiscal revenues of the commodity price boom and the strength of external and domestic demand (IMF 2010). As a result, all three countries were better positioned to withstand the impact of the 2008-09 global financial crisis than had been the case in the past.

The crisis affected the three countries through different channels and with different intensity. Mexico's close trade and financial linkages with the US, along with domestic factors, contributed to a more severe and protracted downturn than in the other two countries which benefited, *inter alia*, from the relatively rapid recovery of commodity prices and strong growth in demand for commodity exports by emerging Asian countries. As a result, GDP fell only marginally in Brazil (by 0.2 per cent) and is officially estimated to have risen by nearly 1 per cent in Argentina in 2009. Moreover, both countries are expected to grow strongly in 2010 (by around 7.5 per cent). In contrast, GDP fell in Mexico by 6.5 per cent in 2009 and is expected to grow by about 5 per cent in 2010 (IMF 2010).

The crisis took a significant toll on the public finances of the three countries. Following the above-mentioned improvement in the preceding years, the general government's primary and overall balances deteriorated substantially in 2009, and are expected to improve only modestly in 2010. In fact, on a cyclically adjusted basis, the deterioration is projected to continue in 2010, suggesting a return to a pro-cyclical fiscal stance.

The deterioration in the general government finances reflected both the operation of automatic stabilizers (mainly on the revenue side) and discretionary fiscal stimulus measures (see ECLAC, 2009 for a review of such measures). In addition, primary spending rose substantially in all three countries as a result of measures already in the pipeline or not directly related to the crisis (such as increases in public sector wages or pensions).

The crisis affected the sub-national finances as well. Available preliminary data suggest that the un-weighted average of the primary balances of SNGs in Argentina, Brazil, and Mexico deteriorated from a surplus equivalent to about 0.5 per cent of GDP in 2007 to 0.4 per cent in 2008, and further to under 0.1 per cent of GDP in 2009.

The evolution of SNG's revenues was shaped primarily by developments in central government transfers to them (including revenue sharing), given the weight of such transfers, especially in countries like Argentina and Mexico. The absence of smoothing or counter-cyclical mechanisms in the existing revenue-sharing arrangements resulted in a rapid propagation of the crisis-induced decline in central governments' revenues to the sub-national budgets. Central government transfers in Brazil and Mexico broadly mirrored the development of central government revenues with a one-quarter lag, beginning to decline in the second quarter of 2009, and only recovering in the first quarter of 2010. However, central governments took a variety of steps to mitigate the impact of the downturn in

revenues on sub-national spending in all the three countries. In Argentina and Brazil, sub-national budgetary targets for 2009 set by existing fiscal rules were eased, and/or additional financing was arranged for SNGs through public banks. Argentina also devolved to the provinces 30 per cent of the tax on export of soybeans (*Fondo Federal Solidario*), thereby helping avoid a decline in transfers to the provinces (transfers actually increased by 2.6 per cent in real terms on average in 2009).

In Brazil, the consolidated primary surplus of the states declined by about 0.3 per cent of GDP to 0.6 per cent, and the consolidated primary surplus of the municipalities was nearly unchanged from the previous year, at around 0.1 per cent of GDP. Moreover, for the first time in many years, SNGs recorded a small (about 0.1 per cent of GDP) overall surplus in 2009. This reflected, in addition to the improvement in the primary balance, a substantial decline in interest payments, largely due to the basis of calculation of SNGs' interest payments to the federal government on their restructured debt. In contrast to the federal debt, the SNGs' net debt continued its declining trend in 2009, to just under 13 per cent of GDP by year-end. The stronger fiscal performance of the SNGs, compared with the federal government, mainly reflected the combined impact of the debt-service requirements enshrined in the existing debt restructuring agreements of states and municipalities with the federal government, restrictions on new borrowing, and the ceilings on sub-national indebtedness and personnel spending mandated by the Fiscal Responsibility Law.

Developments in state and municipal finances in 2009 showed, however, a substantial variance within each level of government. While overall state revenues fell by nearly 3 per cent, some states (e.g. Sao Paulo, Pará and Pernambuco) actually managed to slightly increase their net revenues. In others, in particular Rio de Janeiro, revenues declined sharply. Given that federal transfers to SNGs declined significantly in 2009, the different revenue performances across states

likely reflected a combination of different economic developments and tax enforcement efforts in each state. On the expenditure side, available data suggest significantly greater moderation than at the federal level, especially as regards public wages and employment (that rose on average by less than 4 per cent in real terms in 2009, compared with 10.5 per cent at the federal level).<sup>3</sup> Investment efforts also varied substantially across the states.

Available data on major municipalities suggest that their revenues were in general less affected by the crisis, rising on average slightly in real terms. This likely mainly reflected the smaller cyclical sensitivity of their revenue bases (services and real estate). Their personnel spending declined modestly in real terms on average in 2009 (albeit with significant differences across municipalities).<sup>4</sup> Investment fell more sharply – about 20 per cent on average, but again with considerable variance). This is mainly attributable to the fact that 2009 represented the first year of most mayors' term, which provided a political incentive to save, with a view to building a financial cushion for the latter part of their mandates.

Available below-the-line data for the first 10 months of 2010 indicate that the primary surplus of the SNGs deteriorated slightly in relation to GDP, compared to the same period of 2009, despite the pronounced recovery in activity. This suggests that also at the sub-national level, fiscal policy has returned to a pro-cyclical stance in Brazil during the upturn phase of the current cycle.

In Argentina, the primary deficit of the provinces rose by the equivalent of 0.8 per cent of GDP between 2007 and 2009, and the overall balance registered a deficit of around 1 per cent of GDP in

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<sup>3</sup> Increases in personnel expenditure were especially moderate in the two large states of Sao Paulo (1.4%) and Minas Gerais (2.1%). In most other states they ranged between 5 and 7% (all in real terms).

<sup>4</sup> Changes in personnel spending ranged from an increase of nearly 10% in Cuiabá to a decline of 8% in the city of Rio de Janeiro

2009. The deterioration of the provincial finances was fully accounted for by substantial increases in expenditures, especially on wages and salaries. Provincial own revenues increased slightly in relation to GDP, probably reflecting higher than recorded inflation, and, as mentioned above, transfers from the central government were boosted by the change in the revenue sharing arrangements. The provinces' debt continued its declining trend in 2009, to around 9 per cent of GDP (compared with the previous peak of 22 per cent of GDP in 2002).<sup>5</sup>

Provincial accounts are expected to register a significant improvement in 2010, with the overall balance reverting to a small surplus (0.2 per cent of GDP) and the primary surplus rising to 0.5 per cent of GDP. The provinces' debt is projected to fall further to under 8 per cent of GDP.<sup>6</sup> The improvement reflects both a strong recovery of own revenues, boosted by the acceleration of demand and prices, and continued growth of transfers from the central government.

In Mexico, the primary surplus of state governments declined from 0.57 per cent of GDP in 2008 to less than 0.1 per cent of GDP in 2009. The overall balance also deteriorated from a surplus of 0.45 per cent of GDP in 2008 to a small deficit in 2009, leading to an increase in sub-national debt to a still relatively modest 2.4 per cent of GDP. The deterioration reflected a significant increase in primary expenditures, from 8.9 per cent of GDP in 2008 to 10.1 per cent of GDP in 2009, especially marked in current expenditures (salaries, subsidies, and transfers). On the other hand, state revenues rose from

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<sup>5</sup> Provinces that did not have sufficient financial means to meet the maturities of their debts received loans from the National Government during 2009 through the implementation of the Financial Assistance Program, which benefited 13 jurisdictions for a total amount equivalent to 69 % of their capital repayments.

<sup>6</sup> During 2010 the *Programa Federal de Desendeudamiento* became relevant. This programme made it possible to reduce the provincial debt stock through the application of the Contributions Fund of the National Treasury (ATN), which totaled US\$9 643.7 million. The amounts to be allocated to each province were determined based on the respective share in the debt stock.



9.3 per cent of GDP in 2008 to 10.0 per cent in 2009, as a result of higher transfers from the federal government. In 2010, transfers are projected to accelerate further (rising by 12 per cent in real terms), reflecting the impact of tax measures (increases in the VAT, PIT, and other taxes) that strengthened the base of the revenue sharing arrangement *Recaudación Federal Participable* (RFP).

## Conclusions

The analysis in the previous sections highlight in particular the following points: for the first time in recent decades, the three major Latin American countries were able to avoid a pro-cyclical fiscal response to a major external shock. In fact, all three were able not only to accommodate the cyclical declines in revenue, but also to expand spending, including on the social safety net and public investment. This was due in large part to the margins for maneuver accumulated in the preceding five or so years and reflected in significant primary surpluses, reduced levels and improved structures of public debt, and development of non-inflationary domestic financing sources.

The crisis affected the sub-national finances, but significantly less than in previous crises. On average, SNGs accounted for less than 20 per cent of the deterioration in the general government primary balance between 2008 and 2009, a significantly smaller proportion than in previous crises. This, however, reflected mainly a more active role of the central governments in supporting their SNGs. Especially in Argentina and Mexico, given the high dependence of SNGs on transfers from the central government, their ability to sustain spending during the crisis largely depended on the federal support, either through a temporary modification of the revenue sharing arrangements or through discretionary transfers, frequently linked to public investment programs.

In Brazil, the SNGs' greater reliance on own sources of revenues (which, especially for the municipalities, are less cyclically sensitive)

allowed many of them to largely offset the decline in shared revenues, with the result that the deterioration in primary balances remained modest, and there were no substantial cutbacks in spending.

There are, however, indications that national, as well as sub-national, fiscal policies have turned again pro-cyclical in recent months, and there are as yet few concrete indications of a counter-cyclical tightening for 2011. This reflects the lack of focus in fiscal policy frameworks at all levels of government on cyclically adjusted fiscal positions in the three countries, as well as the lack of mechanisms in intergovernmental arrangements (in particular revenue-sharing) to promote adequate savings for “rainy days” at the sub-national level.

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# SYNTHESIS & COMMENTS | Day 1

Nico Steytler

When discussing the first question - what is the impact of sub-regionalization, regionalization, and globalization on federations? – there was agreement that globalization is a reality. It is a phenomenon that cannot be wished away or avoided. It has to be faced squarely to enhance its benefits and mitigate its drawbacks. Globalization has manifested itself in a number of mega-trends: the integration of financial and commodity markets; the communication and information revolution; the emergence of global civil society networks; and in global warming and climate change.

A central concern was that globalization does not affect the global North in the same manner as it does the global South; it is the global South that often is at the receiving end of globalization's negative impact. An example given was that the global financial system has led to the exploitation of natural resources of the South, with limited benefits accruing to local communities, and regional and local governments. In general, the global South, particularly in Africa, was falling on the wrong side of the global divide where the benefits of globalization are not easily accessible.

The case study of the education policy of the Ethiopian federal government sought to address this question: is Ethiopia falling on the wrong side of the globalization divide? Leonard Markovitz argues that Ethiopia, with its educational policy, may harness the benefits of globalization. He sketches the extent of the tremendous strides Ethiopia has made since 1995 in extending primary, secondary, and tertiary education to all Ethiopians. In particular, there has been remarkable progress towards gender parity in all three sectors. He asserts that the Ethiopian government has embraced global norms and standards of

education. Moreover, with English as the language of instruction in secondary and tertiary levels of education, Ethiopia forms part of a globalizing world. With an educated population, Ethiopia may benefit from global capital that seeks skilled labour markets in the developing countries in a drive to reduce costs. Markovitz cautions, however, that participation in the global economy may lead to more, rather than less, inequality. To ensure that globalization does not increase inequality, Markovitz argues that education must enhance everyone's access to the benefits that globalization may offer.

While its education policy gears Ethiopia, on the one hand, for participation in a globalized economy, on the other, it also cements the federal unity of the country. The devolution of education to regional states and *woreda*, and the shifting of the language of instruction to local languages, gives expression to the model of ethnic federalism that lies at the heart of Ethiopian federalism.

The second case study deals with the impact of a sub-regional institution in the Horn of Africa - the Intergovernmental Authority on Development (IGAD) - the goal of which is promoting peace and development in that region. With reference to the conflict in Sudan, Atta El-Battahani comes to the conclusion that IGAD had a significant impact on Sudan's federal solution to the conflict. He observes, however, that IGAD was much less active when it came to the implementation of the Comprehensive Peace Agreement (CPA), namely promoting reconciliation and making the federal institutions work for Sudan.

It should be noted that the issue of a federal solution to conflict often comes to the fore in the international community's interaction with countries in transition. Federal-type solutions of particular kinds are advanced as peace-making or peace-keeping devices that can prevent fractious countries from splitting up. In some cases, the interests of the international community in maintaining existing borders favor

a federal type of arrangement. Such arrangements are suggested as a way of resolving internal conflict or avoiding future conflict by giving different groups a formal stake in the nation state. Given the sanctity of established borders as the rule, the international community has sought to influence governance arrangements often through federal-type solutions. In Ethiopia, Sudan, and the DRC, federal arrangements were a key element in ending years of civil conflict. Again, to maintain the unity of Somalia, federal structure of government is mooted as a solution for that country.

However, there is no international rule or practice that makes the retention of established historical borders sacrosanct. The splitting up of countries into two or more independent countries is not unheard of or inimical to the country concerned where the separation is voluntary and with the consent of the parties concerned. Furthermore, the response to the redrawing of borders is influenced mainly by regional bodies.

In the aftermath of the Cold War and the disintegration of the Soviet Union and Yugoslavia, the European Union adopted a set of policy guidelines governing the recognition of new states, posing a set of conditions to be met, including respect for the United Nations Charter and international instruments with regard to the rule of law, democracy and human rights, guarantees for minorities, and a commitment to settle by agreement or arbitration all questions of state secession and regional disputes. The recent recognition of the status of Kosovo remains, however, controversial.

In contrast, African countries and their regional institutions, including the Organization of African Unity and its successor body, the African Union (AU), are committed to preserve national borders as they were at independence, however arbitrary the colonial borders may be, cutting across national, ethnic, linguistic, or religious groups. The fear is that the acceptance of border changes would lead to instability,

as it would encourage secessionist movements to believe that through armed struggle they will be able to achieved independence at the negotiating table. The AU has, however, recognized Eritrea on the principle of established colonial borders and the consent of both parties concerned. Again, the formation of South Sudan as an independent state was sanctioned by the AU. The international community is also set to follow the AU's lead with regard to Somaliland's bid for statehood recognition.

The third case study analyzes the impact of the recent global financial crisis on federal countries with reference to three federations in Latin America. Juan Pablo Jiménez and Teresa Ter-Minassian conclude that the impact of the global crisis on sub-national governments in Mexico, Argentina, and Brazil varied, much depending on the internal fiscal arrangements of each country. In Argentina and Mexico, sub-national governments with a high dependence on federal transfers, were more exposed to the economic shock as federal transfers declined. In Brazil, on the other hand, sub-national governments with more financial autonomy weathered the shock better.

The global financial crisis illustrated the interconnectedness of the global economy and how its effect ripples through to sub-national governments. Other forms of globalization such as regional integration have similar impacts. In the Conference discussions, it was noted that sub-national governments experience regional integration first hand with a diminution of powers in the areas of education, agriculture, transport, and energy. For example, to deal with global warming and climate change, national governments conclude treaties to this end. The Kyoto Protocol intruded, however, on sub-national competencies, particularly when the obligations imposed on states must be implemented by subnational governments.

# CASE STUDIES DAY 2

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## Q2

What lessons could be learned from the experience of federal systems under developed regional arrangements elsewhere in the world for the design and operation of regional integration in Africa and other regions of the world?

Introduction

Nico Steytler

There is now considerable experience with regional integration in many parts of the world. Prominent examples include the European Union (EU), Southern Common Market (MERCOSUR), and the North American Free Trade Agreement (NAFTA). The deeper the regional integration, the greater is the impact on federated and decentralized member states. In some cases, special arrangements have been put in place at the regional and/or the member state level to take account of the internal federal structure of member states.

The regional integration of Europe through the EU has had a major impact on the status and powers of constituent units in Germany, Belgium, Spain, and Austria. More than three quarters of EU legislation is implemented by regional and local governments. To compensate for the shrinkage of jurisdictional competence, the approach has been three-fold. First, domestic intergovernmental relations have been adapted to reflect also the interest of constituent units in the shaping and implementation of EU regulations. Following the Maastricht Treaty of 1992, both Germany and Austria amended their constitutions to provide for the participation of their *Länder* in developing their EU policy. Belgium and Spain followed suit. In Austria, provision was made that where the *Länder* presented a uniform view on an EU issue



that falls within their jurisdiction, the federal government is bound by that position in the negotiations and voting in the EU, except if there are compelling foreign and integration policy reasons to the contrary.

The second approach is to bring sub-national governments to the regional governing table through their participation in the two consultative bodies, the EU's Committee of the Regions, and the Council of Europe's Congress of Local and Regional Authorities of Europe (CLRAE). The Committee of Regions, operational from 1994, comprises both regional and local representatives and is a consultative body for the EU Commission and Parliament. The impact that this body has on EU policy is, however, not always certain. CLRAE, established in 1994, is a consultative body for the Council of Europe, dealing with such matters as a European charter on regional democracy.

The third approach is for sub-national governments to interact directly with EU bodies. German and Austrian *Länder* have established liaison offices in Brussels to engage directly with the EU Commission.

These developments in the EU certainly have had an influence on South America's MERCOSUR, of which two of the five members are federations – Brazil and Argentina. However, the inclusion of constituent units is only at the beginning stages of development in this trade bloc. The MERCOSUR Committee of Municipalities, States, Provinces, and Departments was officially created in 2004 but implemented only in January 2007. This was part of the process of dealing with the democratic deficit that characterized the trade bloc, which included the creation of the MERCOSUR Parliament in December 2006.

In contrast to the EU and MERCOSUR, the North America Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico (all three are federations), does not specifically accommodate constituent units of the member states. The complaint from states

in the United States is that NAFTA limits what states can do with regard to the environment and public health, yet there is no effective dialogue with the federal government over these issues. Canadian provinces appear to have been in a better position to influence the implementation of the Agreement.

There may be lessons to be learnt from these experiences as Africa moves toward greater regional integration through the African Union and some sub-regional bodies, such as SADC, ECOWAS, COMESA, and IGAD. Although the level of regional integration is yet limited and the impact on constituent units marginal, the experience of the EU and MERCOSUR suggests that there is an important role that sub-national governments can play in the fostering of regional integration by providing them with a platform in the regional bodies.

State-building at the Sub-national Level in Ethiopia and its Implications for Regional Integration (and cross-border populations) in the Horn of Africa: The Case of the Somali Region

### Introduction

The theme of this paper is state-building in the Somali region of federal Ethiopia and its implications for regional integration and the integration of cross-border populations. The point of departure is the urgent need to work on state-building within the region (with a view to creating an atmosphere that strengthens democracy, enhances protection of human rights, promotes local self-rule, and guarantees peace, security, and safety) in order to tackle the challenges of instability from without and thereby pave the way to regional integration. The paper also reflects on the current federal constitutional arrangement that offers a harmonization of dual identities that often are pitted against each other in the context of the Somali region. In short, the paper weighs the potential of the Ethiopian federal experiment for integration and protection of cross-border populations.

### The Somali Region: Some "facts"

Ethiopia's Somali region, also known as the Ogaden, is the easternmost region of Ethiopia. It is one of the nine states that constitute federal Ethiopia. Its incorporation into the Ethiopian polity started in the late 19th century and was achieved after the Italian occupation of 1936-41 and the subsequent *de facto* British "protectorate" in the late 1950s. Consequently, the deficits of integration of local identity with the national identity are patently visible in the Somali region

more than in most other regions. It is an example of a region where there is a bifurcated identity. The Somali people in Ethiopia are one of those who underwent what some scholars called "triple oppression", i.e., class, ethnic, and religious oppression. It is populated chiefly by ethnic Somalis who speak the Somali language and pursue mainly a pastoralist way of life. Most of the inhabitants (98.4 per cent) are Muslim (CSA Report 2007) and recent census estimates indicate the population to be about 4.5 million (CSA Report 2007). The living standard is generally poor with 71.8 per cent of the population earning some of the lowest incomes (CSA 2007 Report). The region has been suffering from a chronic lack of stability especially after 1994. The turnover of regional presidents is high. There have been nine presidents who served since the change of regime at the national level in 1991.

The region is divided into 9 zones and about 47 districts (*woredas*) which in turn are sub-divided into scores of *kebeles*. The relative stability that existed in the transitional period (1991-95) suffered since the Ogaden National Liberation Front (ONLF) left the legislative council which it had dominated in 1994. The ONLF left the government and started an insurgency, allegedly because the request of the regional legislature for a referendum on the (in) dependence of the region was declined by the Ethiopian government and the regional president was changed as a result.

The region is governed under its own constitution of 1995 which was revised in 2002. As per the constitution, the regional legislature - with 103 seats - is the supreme political organ in the region. Being parliamentary in structure, the legislature forms the government (the Chief Administrator and the cabinet). There is a court system that operates in parallel to the federal judiciary. Thus, there is the Somali Regional Supreme Court, Zonal High Court, *Woreda* Court, and *Kebele* Social Courts. In addition, there are community elders who administer justice and manage conflicts in rural and peri-urban areas. The *Gurti*, a corps of semi-formal advisory elders, functioned

until September 2008 when they were finally dismissed. The 2002 Constitution (Article 56) formally recognizes them, but there was a move since 2008 towards deleting the provision that extended recognition to them.

### The Somali Region in Ethiopia

The Somali region links Ethiopia to the Somalias, Djibouti, and Kenya. In Ethiopia, it is a region of the marginal people. Most of its inhabitants feel that they are often confused with the Somalis from the Somalias and, as a result, rejected as citizens. They also feel that they are not given their due place as citizens. They complain that their loyalty is questioned because they are suspected of harbouring irredentist ambitions and dream of being part of the Greater Somalia, or sympathize with the goings on in the other Somalias. Most other Ethiopians fear that greater recognition of regional autonomy will pose a challenge to the territorial integrity of the whole country by reversing the hard-earned victory of the Ethiopian forces against Somalia in the wars of the 1960s and 1977.

The region gained relative visibility in the Ethiopian political terrain only since 1991 when a Somali party partook in the pact that governed the eventual transition to a full-fledged multi-national, multi-cultural federation. Between 1991 and 1994 the ONLF dominated the region. Operating from Gode, the regional capital at the time, the region experienced relative autonomy. The centre generally tolerated this autonomy and its consequences. In 1994, just around the time the FDRE constitution was adopted and was about to come into force, the regional council sought to have a referendum (on secession) conducted in the region. The alleged reason was, among other things, the increasing prospect that Ethiopia was to continue to be univocal and that there was not going to be any substantive policy change on the part of the centre about its treatment of the region (interview with an informant from the Somali Region (name confidential), October 27 and 29, 2009, Addis Ababa).

The recognition of ethnic sovereignty, self-determination, equality and non-discrimination, representation in the federal institutions, and the possibility of enjoying self-rule in the region while also exercising shared rule at the federal level is reported to have blunted the sharp edge of secessionist nationalism in the region. Part of the paradoxical "beauty" of the secession clause of the Ethiopian constitution (Article 39(1)) was that it served as the uniting thread while being divisive in essence. This is reflected in the (reported) fact that the Somali parties chose to remain with Ethiopia because of the charm of the secession clause which not only offers a better bargaining chip in the federal negotiation over powers but also guarantees that Ethiopia will not become a "prison house of nations." Somali representatives have 23 seats in the Federal House of Peoples' Representatives (HPR) and 4 seats in the House of Federation (HoF). The Deputy Speaker of the HoF is also from the Somali region. There are also a number of Somalis in the foreign service (as ambassadors and/or with other positions in the ranks of the diplomatic bureaucracy).

The regional constitution was revised in 2002 mainly to allow separation of powers, promote good governance, economic growth, and a democratic order on the basis of the rule of law (Preamble of the 2002 SNRS Constitution). The revised constitution changed the flag and emblem of the region.

At the regional level, government positions are all held by Somalis. In contrast to the past, when the region was administered by Ethiopia "highlanders", this is a remarkable departure. But the federal government is alleged to have used patronage to co-opt Somali leaders working at the regional level. The region is beset by a chronic lack of skilled manpower. The result is weak self-rule in the region, which, in spite of the tremendous efforts at capacity building, is still in its fledgling stages.

The lack of stability, a the historical governance vacuum, poor

infrastructure, poor provision of public goods and services, fragile ecology, relative isolation from the centre, heavy dependence on the federal subsidy and grants for the regional budget, and the spill-over effect of conflicts in the neighbouring countries of the region exacerbate the poor living standards in the region.

### The Somali Region in the Horn

It is one of the regions that is embroiled in conflicts that originate both from within and from without the region. Conflicts over resources, borders, local power, and opportunities are examples of conflicts emerging from within. Conflicts over unclear boundaries with neighbours, conflicts that result from the socio-economic stress that immigration and displacement brings about, and, recently, tensions exacerbated as a result of Ethiopia's engagement in Somalia are examples of conflicts that emerge from without but have an important place in the dynamics of internally generated conflicts.

Being a region connecting at least four countries (Djibouti, Somalia, Ethiopia, and Kenya) to each other, stabilizing the Somali region will have an immense impact on the stability of the entire region in general and on the Horn in particular. On the international plane, the Somali region is bordered by Djibouti, the Somalias, and Kenya. Internally, it is bordered by the Oromia and Afar regions. A large part of the region was part of the Hararghe and Bale provinces of pre-1991 Ethiopia (from 1987-91, Ogaden was constitutionally recognized as an autonomous self-governing province, though this remained more political rhetoric than a legal reality.) Because the borders are porous, often not tightly controlled, and owing to the pastoralist economic culture, people move in and out of these territorial boundary markers. Given that there are cross-boundary people and cross-boundary resources shared among these four countries, the movement of people is but natural. With the mobility of the people also came a rather fluid and shifting identity. The concern with the bifurcated identity and divided loyalty (which most non-Somali Ethiopians point to) is partly the result of this shifting loci and identity.

With the trans-boundary migration of peoples, conflicts too are able to cross borders. The interlocking nature of the boundaries, the peoples, the resources, and the conflicts pose a distinct difficulty as regards to containing a conflict in the region, within the region, or within Ethiopia. What happens in the Somalias also affects the region immensely; what happens in the latter also affects the flow of events in the former. This interdependent dynamic also opens the opportunity for regional integration.

In recent years, the Ethiopia Somali region's relative stability and improved human security has made it a magnet to people from the other Somalias (for some, merely transiting to Addis from where they further transit to Europe or the Americas). This was witnessed in the early 1990s (1991-95) when the trouble in the Somalias, which resulted from the implosion of the state in Somalia, forced most war-displaced citizens to sojourn in the region and in the wider Ethiopia. One can thus imagine that a better human security regime fostered by stability in the Ethiopia Somali region, which can be achieved through state-building – through better provision of public goods and services, reinforcing local self-rule, entrenching democratic practice, improving the state of human rights, creating better economic facilities and social opportunities, and ensuring a more equitable power-sharing and representation in the federal government. These conditions can have a far-reaching and profound impact on stabilizing the Somali region internally. This, in turn, will have its dividends in the entire Horn region as under these circumstances, the Somali region might serve not only as a safe haven for the displaced Somali citizens of the wider region but also as an incentive for Somalis in the other Somalias to work towards stabilization of their own units.

From an Ethiopian perspective, such a scenario also prevents disaffected Somali-Ethiopian citizens from playing into the hands of extremist elements in other parts of the Somalias and other actors in the region. From the perspective of the international community, such a scenario



instills and reinforces the belief that ultimately the power of stability that comes about through the strength of democracy, state building, human security, is better than a fragile peace maintained by a massive military engagement. The stability that so emerges makes the region an entry point to the effort at building inter-communal trust that translates into the efforts at greater regional integration, albeit from below.

### State building and its challenges

In this paper, *state-building* refers to the establishment of an effective, efficient, transparent, and accountable government that (at least aspirationally) is bent on ensuring peace and security, delivering public goods and services, promoting and protecting human rights, strengthening democracy, entrenching ethno-cultural justice, and guaranteeing decentralization and local self-rule. Doing this demands, among other things: building physical infrastructure; setting up an effective, efficient, and stable bureaucracy; forming and maintaining a strong law-enforcement system with an independent, impartial, and corruption-free judiciary; and empowering (at times resuscitating) indigenous legal and political institutions often in charge of dispute resolution. In Ethiopia, state-building must also aim at winning the hearts and minds of ethnic Somalis, thereby resulting in building inclusive citizenship, rather than building physical infrastructure and controlling the territory.

State-building in the region started in earnest in the post-Mengistu era (i.e., from 1991). The Transitional Period (1991-1995) witnessed an experiment in limited self-rule in the region and a similar limited shared rule at the national level. Building institutions of government, appointing and employing officials and bureaucrats, constructing basic infrastructure and the like, started during those years. These efforts continued in the times that followed the transition into a full blown federal polity. In these times, the regional constitution was adopted, state legislative, executive, and judicial bodies were established, a regional police force was formed, and a fledgling civil service system was made operational.

However, the region continues to be an example of the difficulty of state-building in Ethiopia's peripheries to date. That is partly because the region is beset by instability and partly because of the lack of infrastructure that could bolster better provision of public goods and services into the far-flung corners of the expansive region. It is also because of the drought and recurrent famine that strike the region; and it is because of lack of good governance, poor performance in human rights protection, lack of genuine local self-rule, and insufficient shared rule.

State building and its implications for regional integration

In addition to bringing about a better human security regime for cross-border populations, state-building has a direct bearing on stability. Stability engenders better cross-border cooperation and installs the building blocks for a better regional cooperation in the Horn region. The right of self-determination in the Ethiopian Constitution (which is also an organizing principle) can soften the hard borders. As the right to (re)unite with other polities, it holds out the prospect of regional integration on the basis of the federal idea. The fear of being victimized will be allayed by the entrenchment of ethno-cultural justice and by the availability of the "exit" option. At home, it blunts the irredentist instincts. Abroad, it serves as the case of the dividing that unites.

State building and the overcoming of the deficits of democracy, legitimacy, human rights, self-rule and shared rule on the one hand, and the entrenchment of ethno-cultural justice (e.g. linguistic justice at the federal level) on the other, have a direct implication for the stability and stabilization of not only the region, but also the wider Horn, especially the Somalias. Some informants maintain that attaining the above-mentioned objectives might easily create an atmosphere of compromise and even truce with the ONLF that can contribute to the broader peace in the subregion. Indeed, in July 2010, such a truce was achieved partly perhaps because of improvements

in these areas. For this, it is obvious that the Ethiopian government should develop a long-term view of the unfolding of events in the region. Tolerance of local nationalism, working towards advancing the goals and ideals of federalism, entrenching democracy, human rights, and ethno-cultural justice for the Somalis (even to the extent of dealing asymmetrically with the region), building infrastructure *via* which goods and services are provided, promoting peace and security by being present (as an equal and not as an imposition) are all musts. This takes time, patience, and a lot of resources. Most of all, it requires visionary leadership which realizes that engagement in the Horn needs to be a moral-ethical one, the infrastructure of which is laid down in the (federal and federalist) constitution.

### Two Fears in Collision

There are two fears that disrupt the efforts at state-building in the region. The first is the Somali fear that they will be oppressed within Ethiopia and isolated from their kin across the three countries neighbouring Ethiopia. The second is the Ethiopian fear that the region will secede from, and rupture, the territorial integrity of Ethiopia. These two fears are equally legitimate. The Somalis, rightly, do not want a second-rate citizenship that undermines their rights and their legitimate share of power as citizens. Ethiopia does not want "the last chapter of decolonization" written on one of its peripheral boundaries. It cannot particularly stand the idea of reversing the hard-won victories over Somalia at least twice. One notes that the 1935 crisis in the relation between Italy and Ethiopia was also instigated by what happened on the boundary of Ethiopia and what was then Italian Somaliland. The incident was known as the Walwal incident and it cost Ethiopia dearly as it led to the subsequent occupation of Ethiopia by Italian fascist forces. This feeds the memory among most pan-Ethiopian nationalists of the bitter struggle to keep the national borders safe. These two fears feed the mistrust that underlies the situation in the region. The challenge among Ethiopian leaders is how to allay both fears and address the legitimate concerns of both groups.

The federal dispensation that is now being experimented offers a huge opportunity for allaying these fears and for integrating the hitherto peripheral peoples of Ethiopia.

### Conclusion

This paper has looked at the potentials of state-building in the Somali region of Ethiopia and the place of the Somali region in relation to Ethiopia and the Horn has been analyzed. The challenges of state-building in the region and their implications for the stability and stabilization of the region have also been touched upon. Furthermore, the collision of two fears emerging in the politico-legal terrain of Ethiopia (both informed by a history of uneven relations) have been explored.

One only needs to add that the federal experiment in Ethiopia for almost two decades has created an opportunity to engage in state-building in the Somali region of Ethiopia. The constitutional emphasis on the need to respond to ethnic demands by ensuring local self-rule and federal shared rule has created an immense opportunity to allay the two fears in collision in historic Ethiopia. This in turn has brought a comparative human security regime in the region thereby attracting the in-flow of peoples from the Somalias to the region. This in its turn has obviated the need for stronger efforts at state-building in the region and greater cross-border cooperation efforts in the Horn region. Ethiopia thus needs to work on state-building from within in order to advance the causes of peace and security in the subregion, thereby contributing to the stability and stabilization of the Horn. The ethics of federalism (the principle of self-rule and shared rule) and the constitutional principle of ethical foreign policy of Ethiopia (commitment to peace and fraternity in Africa) allow for, and demand, nothing less than that.

One lesson that students of comparative federalism can draw from the experience of the Somali region is that in post-conflict federations,

state building in the peripheries - though involving difficult challenges - is the only way forward in order to work towards integration through a better human security regime for cross-border populations and to a better cross-border cooperation among sub-national actors to stabilize the region. The Ethiopian federal experiment so far, with its emphasis on ethno-cultural justice and self-determination (including secession), points at the immense potential for regional integration and integration of cross-border populations.

# GERMANY

Helmut Seidel

The Impact of European  
Integration on Higher  
Education: A Perspective from  
a German *Land*

## Introduction

The Bologna Process, named after the declaration signed by 29 European countries in Bologna, Italy, in 1999, seeks to establish an overarching system in higher education, the European Higher Education Area. Since the declaration, the number of signatories has increased to 47 countries. The European Union (EU), with its 27 member states, is only one protagonist under the umbrella of the Bologna Declaration. The Process has had a strong impact on almost every aspect of the higher education system in Europe. This case study will examine the German situation from the perspective of Baden-Württemberg, one of the 16 German states (*Länder*). In Germany, education policy (including universities) is mainly in the legislative competence of the *Länder*. This makes the case of the Bologna Process in the multi-level system of Germany most interesting.

Baden-Württemberg has about 10.5 million residents. The *Land*, situated in Germany's South-West, bordering Austria, Switzerland, and France, has a prosperous economy with globally renowned companies such as Daimler, Porsche, and Bosch being located there. The *Land* also has a broad range of universities – approximately 50 of them, such as the universities of Freiburg (founded in 1457), Heidelberg (founded in 1386), and Tübingen (founded in 1477). There is a deep awareness in the population that economic prosperity, cultural standards, and individual welfare are dependent on the efficacy of these universities and their output in science, engineering, medicine, social

sciences, arts, and language. There also prevails the opinion among the populace in the *Land* that individual success and advancement requires higher education. Therefore, education and university affairs in Baden-Württemberg are important subjects which traditionally attract a high degree of attention. There is a tendency to value the status quo in education and any proposed change is viewed with a high degree of skepticism and distrust. This is the general framework within which transformation in the education sector, as envisaged in the Bologna Process, has to be carried out.

### The issues

There has never been a reform in the European universities' system that has had such a profound and widespread impact on the German universities as the Bologna Process. No one objects to the aims and purposes of this Process: creating a European-wide university system with comparable standards in teaching and studying, low barriers for student exchanges, and a broad acceptance for the degrees students acquire in the different countries. To attain the objectives of the Bologna Process, there is a pressing need for standardization or harmonization of well-established university education structures in all European countries. This imperative, however, poses a major difficulty not only for all the European countries, but in particular for Germany and its federal sub-structures, the *Länder*. Against this background it was evident that the success of the Process depended on the acceptance of both the informed public and the broader public in general.

Needless to say, the Process will have a major impact on science and education policy in Germany. For instance, the traditional two-cycle structure of *Diplom/Magister* and *Doctor* has to be transformed to a three-cycle structure of Bachelor, Master, and Doctor. Also, since the deliberations on the Bologna Process were accompanied by an intense Germany-wide discussion about the duration of studies, the Process had to deal with its agenda of shortening study time-periods

very delicately. The belief that the Bologna Process was a possible clandestine austerity program generated reservations and suspicions regarding the Process. However, there was the basic necessity of finding acceptance for the fiction that professional qualification for the bachelor degree could be obtained in a three year period as an answer to labour markets that require, for example in chemistry, a doctoral degree as the first professional qualification.

In Germany, education and science are traditionally the domains of *Länder*, but the federal government was able to somewhat circumvent this arrangement and influence the system by providing framework legislation in the field of science and universities (*Hochschulrahmengesetz*). In the constitutional reform process of rearranging the relationship between the federation and the *Länder* (which came into effect in 2006), it was especially in relation to the education policy (including the science policy) that the federal government disclaimed any competences in favour of the *Länder*. Today, and in continuation of this process, there is a serious discussion about the abolition of the *Hochschulrahmengesetz*.

The results of the constitutional reforms of 2006 were very controversial, with politicians resisting, albeit unsuccessfully, the proposed changes in the field of education in particular. The rearranged relationship between the federation and the *Länder* strongly favoured the *Länder* and they left no stone unturned to exploit their enhanced competencies. The parliament of Baden-Württemberg passed a law which took all the stipulations of the Bologna Process on board. It gave a strong impetus to this Process with the directive that non-“Bolognized” study programmes would be suspended by law on a fixed date. This was welcomed and accepted because of political demands and the desire to successfully implement the Process as part of a Europe-wide competition. The other *Länder* acted similarly and so too did the federal government within the confines of its limited competencies. The result was that there were no substantial differences between the significant players in this field.



In other European countries, for example in France and Austria, the implementation of the Bologna Process was less profound, less rapid, and less radical than in Germany. In France, for example, the Process is described as a *réforme des petits pas* (reform in small steps) with a tendency to conceptualize, adapt, and re-label the previous study courses. In Austria, the previous university degrees remained an option by law. The thorough implementation of the Process in Germany could have been the consequence of German efficiency and accuracy; it was also borne out of the desire to gain a competitive advantage by way of internationalizing the university system.

In Germany there was one main factor which furthermore influenced the implementation of the Bologna Process: the deregulation of the relationship between the federal government and the universities, where there had been a move towards increasingly weakening the ties between the federal government and the universities. Previously, the federal Minister of Education and his/her administration had had a powerful and unifying effect due to existing legislation and the explicit federal authority. For example, the regulations governing study courses came under the jurisdiction of the federal department which laid emphasis on a minimal level of uniformity. After Germany was brought within the purview of the Bologna Process, the federal government's role on the issue was reduced considerably and the power to regulate on study courses and the like was transferred to the universities and private agencies of accreditation so as to make them competitive in the market. In this situation the European Credit Transfer System (ECTS) had to be implemented. It was thus confronted with the fact of 16 *Länder* that largely disclaimed (just at that moment) any effective acts in their relationship to the universities. As a result, the ECTS provides a formal framework, but not with regard to the content of courses which would be required to ensure true comparability and uniformity. The fact is that the status quo has not changed; ECTS points do not have *a priori* validity. Because of the differing course contents, universities must control the topics which have been considered in comparable courses.

From the perspective of federalism, it was from the beginning apparent that in the multi-layered system of 16 *Länder*, it was necessary to set limits to the widespread differentiation of the Bologna Process. Thus, the "Standing Conference of the Ministers of Education and Cultural Affairs of the *Länder* in the Federal Republic of Germany" (*Kultusministerkonferenz*) passed the "Common requirements to the structure of Bachelor and Masters Courses for their accreditation." It was done to provide a substitute to the missing role of the federal government in a field where uniformity had to be assured, but where ever more responsibilities shifted, in a purposeful manner, from the federation to the 16 *Länder*.

The development surely was led by a change in the principal concept of federalism, which accompanied the simultaneous "reform of federalism": competitive federalism helped realize the concept of cooperative federalism. But a distinguishing mark of competitive federalism is variety and the indispensability of differences in the attributes of the sub-national units. This imperative creates a dichotomy within the larger framework of the Bologna Process. On the one hand, there exists the necessity of creating consistent regulations and a consistent framework for the Bologna Process; on the other hand, there is the need, borne out of the need to strengthen federalism, to ensure the differentiation of the 16 *Länder*.

The result is that there are six counter-acting dynamics impacting on the success of the Bologna Process:

- The shifting of responsibility for universities from the federal government to the 16 *Länder*,
- The coincidental tendency of the 16 *Länder* to disclaim their competences in favour of the universities;
- The political will, based on an overall coalition, to implement the process rapidly and radically and not as a step-by-step process with the possibility of revision;

- The fact, that the “reform of the reform” contributes to the federalization of the federation in a way that a lot of power is vested in the universities;
- The gap between *Länder’s* intention of cutting costs and the fact that the “Bolognized” study courses generate increasing costs (approximately 15 per cent) and the refusal of the *Länder* to give these financial resources to the universities; and
- The fact that the *Länder* refuse to “Bolognize” the study courses in domains of its own exclusive responsibility (for example: law, human medicine, pharmacy).

The reality is as follows: one of the priority targets of the Bologna Process, encouraging the students’ international mobility, has not been achieved. On the contrary, the number of exchanges has decreased, with the most frequently mentioned reasons for this being the compressed study period under the Bologna Rules. But this was clear from the beginning - transforming the traditional *Diplom* study courses into the new Bachelor system, which was seen as an essential precondition for the acceptance of the Bologna Process graduates by the labour markets, would generate high pressure on, and restriction to, everything which is not at the centre of the curriculum.

Currently, there are reliable indicators pointing to the reintroduction of the traditional *Diplom* degree because of the intrinsic value of this degree, especially in sciences and the technological sciences. Some universities decided to offer four year bachelor program instead of the three year programs. Thus, the operating profit meant no retrenchments but in fact resulted in increased costs.

The discussion over the revival of the traditional *Diplom* degree is understandable in light of the rather shaky development of the Process in Germany. Meanwhile, Austria retains the possibility of the *Diplom* and France has not changed from the *Licence* to the bachelor degree.

Yet, the obligatory regulations of the German *Kultusministerkonferenz* (valid today) forbid awarding a combined *Diplom*/bachelor/masters degree. The primary reason for this arrangement was the intention to implement the Bologna structure strictly, rapidly, and irreversibly. But the increasing discussion and political pressure has caused a rethink. It is foreseeable that this issue could have a positive effect if there is a unifying solution. Therefore, against the backdrop of a 16-fold split competence of the *Länder*, federal legislation is required, or else the result will be a "federal patchwork rug" (*föderaler Flickenteppich*), as a parliamentary motion in the Baden-Württemberg parliament called it. The rethink is not based on a new understanding of the issue; it has been forced by students' and faculties' protests, by an explicit swing in the public opinion, and the stand taken by the previously cooperative press. Moreover, the rather haphazard and ongoing Process ("Reform of the Bologna Reform") presents one with an uncertain outcome.

Whatever happens in this Process, it will impinge on the federal balance between the *Länder* and the Federation. But the actual public discussion concerning this federal balance – whether it is useful or serves as an obstacle on the issue, is becoming more and more agitated and critical, fuelled by the fact that the results of the recent reform of the German federal system have turned out to be very controversial in some other issue areas. For example, because non-smoker protection as a part of restaurant law is a *Land* competence, each *Land* is balancing the interests between non-smokers and the restaurants, particularly taverns, in its own way. The result is a bundle of differing rules which results in people crossing the intra-German borders during night-time to where the non-smoking laws are less strict and where they are allowed to smoke in an adjoining room. From the viewpoint of the topic of this paper, there is yet another example that merits acknowledgement. In the rearrangement of federalism in 2006, the *Länder* protected themselves with the so-called *Kooperationsverbot* (prohibition of cooperation). This ruled out the influence of the federal government on the *Länder* by unmandated spending, even if it was combined with the offer of federal co-financing. But in 2010, one

of the 16 *Länder* decided, because of an austerity programme, to close down its facilities in medical science and requested assistance from the federal government. A solution was found (although a clearly tricky solution) but it turned the law and the allocated competences against each other. In this context, the press coined the phrase ‘insanity of education federalism.’”

These examples are important in understanding the impossibility of disconnecting the Bologna Process from the broader issues pertaining to German federalism. The above discussion has bearing on the answer to the question of what federalism is able to achieve or not in Germany.

### Conclusion

The Bologna standardization (harmonization) plan hit the wall of federalism in Germany’s educational system with the resultant widespread diversification and the realization of the risks associated with the failure of the Bologna Process (for example, increasing costs instead of forecasted decreasing costs, less mobility instead of the targeted mobility, questionable linkage with the needs of the labour market). The efforts to solve these unintended and undesired consequences magnified the issues which, in fact, they had been intended to remedy.

The implementation of the Bologna Process shows the limited reach of sub-national legislatures in a network of unifying national and supra-national aims, particularly in the context of competitive federalism. The result is more variety, more complexity, more inconsistency, and lastly, more political pressure. The answer to this opposing trend, caused by these unexpected developments, are activities which try to stimulate the functionality of centralized structures to meet the unifying needs in a federalized system. The Bologna Process, therefore, shows the need of balancing unity in diversity in a multi-level system of government embedded in the supra-national structure of the EU.

Federalism is not a final dogma, as it sometimes comes across in official political explanations, but a guideline that has to be carefully adapted to the precise problem at hand and the prevailing conditions. One remedy is to empowere sub-national participants – and especially sub-national parliaments – to step-up in their fields of legislative competence, such as education. A multi-level parliamentary system would be able to see to it that local and regional conditions are integrated in national and supra-national legislation. Another question is whether there are indicators that could predict political discrepancy or difficulties arising from increased federalism in a particular field and the needs for centralization. Until then, it is necessary to respect the reality with step-by-step processes rather than unbridled enthusiasm for a conceptual ideal.

## SYNTHESIS & COMMENTS | Day 2

Nico Steytler

The second question on the Conference topic on Regionalization and Globalization was the following: What lessons could be learnt from the experiences of federal systems in developed regional arrangements for the design and operation of regional integration in Africa and other regions in the world? In particular, what role do sub-national governments play in regional integration structures and initiatives?

The first case study dealt with state-building at sub-national level in Ethiopia's Somali Regional state and its implications for regional integration and cross border populations. Tsegaye Regassa argues that regional integration should be built from below. If there is much better integration across international boundaries in a particular region, then it is possible, ultimately, to build a larger regional organization for the whole of the Horn of Africa. He explored this in the context of the Somalias (plural), an area that forms part of three countries. If there is good coordination across boundaries, it will contribute, he argues, to a larger state-building project because it enhances human security.

The case study by Helmut Seidel on the impact of the European Union integration on tertiary education in Germany examined the question from the perspective of Baden-Wurtemberg, one of the German *Länder*. The Bologna Process, by which tertiary education in Europe is to be standardized, has had a great impact on *Land* law and practice because tertiary education is a shared *Land* competence. The Bologna Process leads to greater uniformity, coupled with an increase in responsibility for *Länder*. It could also lead to unacceptable results for a local community, where diversity is lost in the pursuit of uniformity of the large European Union.

What lessons can, then, be learned from regional integration in regions where well developed regional bodies have emerged?

First, regional integration is best achieved incrementally, starting with economic issues before tackling more difficult political ones.

Second, where regional bodies emerge, they obviously impact on the powers of sub-national governments. To safeguard the interests of these sub-national governments, the point of departure must be that there should be recognition that sub-national governments are players with legitimate interests in cross border matters. A number of mechanisms can then be used to give effect to this recognition. Most important is the duty of the federal government to consult with sub-national governments. This could be done through specific structures or forums or *ad hoc* ones. The second mechanism is that sub-national governments should form part of any regional body in an advisory role. The prime examples are the EU and MERCOSUR where sub-national governments form, respectively, the EU Committee of Regions, and the MERCOSUR Committee of Municipalities, States, Provinces and Departments.

Third, regional integration may also pose a number of dangers. Regional bodies may lead to uniformity, which militates against diversity. The challenge lies in striking a balance between unity and diversity within a regional body. As a regional body reflects much of the same structure and dynamics of a federation, the same challenges prevalent within a federal system will come to the fore in a regional body.

Fourth, in applying international experience to Africa, a number of important conclusions were reached in the group discussions. In Africa, a number of regional bodies have emerged: at a continental level, the African Union (AU); at a regional level COMESA, SADEC, ECOWAS, and IGAD. These regional bodies have not yet developed to such an extent that there is any interaction in a structured way between



## SYNTHESIS & COMMENTS • DAY 2

sub-national governments and the regional body. However, such a practice is emerging in Ethiopia. Although sub-national governments do not play a role in treaty negotiations, they are brought in when the implementation of such treaties so requires. An example is IGAD, a regional body that started off dealing with drought and development and is now called upon to deal with conflicts. In this endeavour, sub-national governments are being drawn into a regional body to deal with the challenges that the Horn of Africa faces. The conclusion was that a healthy practice is emerging in Africa, in Ethiopia, and in the Horn of Africa; sub-national governments are beginning to play a positive role in resolving the conflicts and the challenges that face the region.



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# CASE STUDIES DAY 3

**Q3**

What lessons can be learned from the practices followed in the course of international cooperation involving federal type states?

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# Q3

What lessons can be learned from the practices followed in the course of international cooperation involving federal type states?

Introduction

Nico Steytler

Given the ever increasing international and regional integration, there is an emerging trend of recognizing federations' sub-national governments as legitimate players in the international arena. This occurs through both direct participation in regional bodies, as outlined in the previous section, and interacting in their own right with other sub-national governments across an international border.

In general, constituent units do not have treaty-making powers. Belgium is the exception where the constituent units may conclude treaties in their area of jurisdiction without the consent of the federal government. Argentinian provinces also have limited treaty making powers but must exercise such powers subject to the national government's powers over foreign relations. German and Austrian *Länder* also have treaty making powers subject to the consent of the federal government.

Despite their limited foreign relations powers, constituent units across the world are actively engaged in what is called *para-diplomacy* or *constituent diplomacy* – concluding agreements not subject to international law on matters such as culture, economic development, tourism, and cross-border “housekeeping.” The main focus is on the promotion of economic interests – attracting investment or even development aid. Perhaps the most extensive cross-border relations

have been where two or more constituent units on different sides of an international border have to deal with “housekeeping matters” such as common waterways, pollution, and waste management. This is a prominent feature in Europe and the Council of Europe adopted the European Convention for Trans-Border Cooperation to promote cooperation between constituent units. More recently, an agreement – the European Grouping for Territorial Cooperation – provides a legal framework for cross border legal structures in terms of which member states, regional governments, and local authorities can engage in joint action and cooperation.

The key issue is, then, how to accommodate the role of sub-national governments in fostering regional integration through their own interaction with neighbours, without intruding on the national government’s foreign relations domain?

Federalism and the  
Developmental State in Ethiopia:  
Some Strategies in Industrial  
Transformation

## Introduction

The discussion of industrial transformation was once dominated by neo-liberal economic theory with its emphasis on the free market as the agency of economic development. However, in the 1960s, this theory was challenged by a new model, namely, structuralism. Structuralism held that market failure was a permanent feature of developing economies; hence the state can play a positive role in correcting it. Structuralism also held that state intervention could compensate for inadequate supplies of capital, skilled labour, entrepreneurship, and technological capacity in nations seeking to modernize. The state's ability to compensate has been well established by the experiences of late industrializing nations such as Russia, Germany, France, Italy, and Austria where the state played a key role in the process of industrial transformation (Gerschenkron 1962). But after those countries were industrialized, the role of the state as an agency of economic and social change was ignored in political analysis until the 1980s (Evans *et al* 1985). The re-emergence of the consideration of the state in economic development came as a result of breakthroughs made by four Asian states — Taiwan, South Korea, Hong Kong, and Singapore — which achieved extraordinary rates of economic growth with relatively egalitarian rates of income. They accomplished this by a state-led export-oriented model driven by market incentives and a strong private sector (Ballasa 1988).

Thus, the structuralist view of the phenomenon of “late development”

asserted that states have played, and can play, a strategic role in taming market forces and harnessing them to national ends, as opposed to simply attempting to maximize gain on the basis of current comparative advantage. In other words, the key to rapid takeoff was the synergy between an autonomous “hard” state and the market; the latter can provide the directional thrust to long-term economic objectives via investments formulated to provide for outstanding development performance.

### A case study of Ethiopia

All late industrializers have faced obstacles to industrial transformation, and aspects of the East Asian model may be appropriate in Ethiopia. In the past, the main challenge confronting Ethiopia was the obstructive and ineffective nature of state power and political ideology, institutionalized both by the *ancien regime* and subsequent military rule under garrison socialism. This was changed by the third re-constitution of the Ethiopian state, this time under a system of federalism that reflected the nation’s cultural pluralism and devolved power to regional states (Tsfaye 2002). A second obstacle is Ethiopia’s position in the global economy, having a deficit of capital resources and market opportunities, which prevents it from exercising national autonomy. Ethiopia faces competition from superior global capital-endowed countries with considerable advantages not available, until recently, to Ethiopian entrepreneurs. Third, at least until recently, is the unpredictable national environment for industrial enterprise associated with an inadequate, unreliable education system complicated by bad communications infrastructure and increased regulations from the bureaucracy.

What are the solutions to these challenges? Does industrial transformation by “late developers” require a particular regime type that is incompatible with a pluralistic form of democracy? Can Ethiopia’s federalism facilitate industrial transformation?

Scholars once thought that industrial transformation and an attendant middle class should be a priority because they lead to democracy. This, in essence, was the “no bourgeoisie, no democracy” argument that was popular in the 1960s and 1970s (Moore 1993: 418). However, the rapid industrialization of the East Asian states via authoritarianism challenged the “democracy first” argument (Johnson 1987). Besides, the case of China demonstrates that economic growth does not necessarily lead to liberalization of politics. But some scholars, such as Amartya Sen, insist that democracy is a prerequisite for development and that “lack of substantive freedoms relates directly to economics of poverty” (Sen 1999: 3-4). The view of Ethiopia’s new leaders seems consonant with Sen’s contention; it enshrines freedoms in the federal constitution and does not seem to favour authoritarianism, or a “hard” state, to achieve national industrial objectives. Instead, Ethiopia’s leaders seem committed to the creation of a single economic community out of the voluntary union of Ethiopia’s mosaic of cultural communities.

The East Asian model was a product of specific cultural and historical circumstances, which may be found at the crossroads of Confucian values, with its emphasis on hierarchy and status quo; Japanese colonialism, which indirectly left an efficient bureaucracy; Cold War-generated U.S. foreign aid; and, except for South Korea, Chinese capital. The East Asian states achieved their spectacular transformation before the advent of full-blown globalization, attendant recession, and financial crisis. In addition, the hardness of the state was not some cultural anomaly of the orient, but a result of the Cold War favouring centralizing regimes bent on containing communism.

Today Ethiopia finds itself at a different juncture of global politics and economy. It does not favour *dirigisme*, but seems rather to prefer flexibility in implementing its industrial policy. The Asian model favoured a unitary state, where power was given by the centre to regions, in a highly centralized and authoritarian manner. Ethiopia



has eschewed such an arrangement, preferring federalism and decentralization, where cultural communities get power not from the central government, but from the constitution. Thus, Ethiopia's institutional contexts and environments limit the transferability of the East Asian model.

### Strategies and policy options

One interesting strategy successful East Asian states have adopted is the creation of a nodal agency with institutional authority to lead the industrialization process, which can, when necessary, discipline other agencies involved in the implementation of industrial policy. If the Ethiopian state is to selectively intervene, subsidize, and directly select industries and expose them to international competition, it needs such a nodal agency to give its bureaucracy internal cohesiveness in order to identify critical sectors and successfully channel resources. Otherwise, various economic ministries acting independently will attempt to implement industrial policy and the result will be haphazard allocation of resources. This produces ministerial autonomy and not state cohesiveness. In other words, industrial transformation is more successful if inter-agency, even inter-state, power relations are transformed to accommodate the mandate given to this nodal agency with authority to monitor and demand information and performance compliance.

Then there are several pre-conditions of industrial transformation. First, agriculture is the foundation of industrial transformation. All successful late industrializers, fully recognizing the importance of agriculture, have devised policies that ensure food security for their people, but at the same time, have managed to accumulate surplus, making the forward linkage to industry. In Ethiopia, agriculture constitutes up to 47 per cent of GDP. Land belongs to the state but peasants have right of use that they can pass on to their families but cannot sell. The main reason for this land policy is that the federal system is built on the political empowerment of cultural communities that elect and send

representatives to regional state councils. Privatization of land would benefit not peasant farmers, but urban farm entrepreneurs; it would erode the political and economic power of peasants, who would then gravitate to cities in search of livelihoods. But the private investments in large commercial farms are allowed and also encouraged. In any case, according to the 2010 federal Five-Year Transformation Plan, the percentage agriculture contributes to GDP will decrease due to a forward linkage, making the beginning of industrial transformation a reality (FDRE 2010).

Second, the foundations of industrial transformation are education, technology, and infrastructure. The federal government's achievements in education have been impressive. Primary enrollment is now 94.2 per cent and expected to grow to 100 per cent; and secondary school enrollment, currently at 36 per cent, is expected to increase to 75 per cent in the next 5 years. In terms of infrastructure development, road networks – currently at 49 000 kilometres – are expected to increase to 136 000 kilometres. The same kind of growth is happening in other sectors such as energy, health, urban development, and housing.

The third pillar of industrialization is an appropriate monetary policy – specifically, exchange rate policy – and here the Ethiopian federal government seems to stress stability while guarding against overvaluation. Indeed, the government has de-valued the Ethiopian currency, the *birr*, several times since 1991. As GDP grows, Ethiopia will want to link its currency to a trade-weighted basket of its major trading partners' currencies. In any case, undervaluation of the *birr* is an important boon to exporters of domestic industry. In addition, all foreign exchange should be controlled by the federal government and allocated almost entirely for development, not for travel. Exporters should be required to surrender all receipts to the national bank, although under a marketable foreign-exchange linkage system, many could regain 100 per cent of their export earnings. One big reason stringent federal controls are important is that overvalued currencies

can promote capital flight, discourage surrender of foreign exchange, and encourage the rise of parallel market rates above official rates.

The fourth important variable in industrial transformation is a sound credit and interest rate policy, which is a function of the money supply. All successful late industrializing states have had extensive government direction and control of credit and interest rates. In Ethiopia, the federal government has set a minimum interest rate of 4 per cent for private depositors. This is designed to encourage national savings while lowering the cost of money to entrepreneurs who can borrow at a low interest rate for investment purposes. The federal government has also set targets for state-owned banks to meet in directing finance to particular industries and sub-sectors in textile and leather manufacturing, agro-processing, and export-oriented industries.

A fifth key factor is a sound fiscal policy regarding tax and spending. The critical points here are to control budget deficits and enhance state capacity to collect revenues from investment in targeted sectors. The federal government's Growth and Transformation Plan (2010-2015) calls for maintaining the deficit at a sustainable level in the medium term while limiting inflation to single digits. The plan also increases, through its tax reform programme (and computerization), state capacity to collect taxes and boost revenue at the national and regional levels. The tax reform programme should be biased toward consumption taxes – skewed in favour of manufacturing and with low rates of personal taxation. In addition, the federal government should consider passing legislation that encourages investment, institutes tax reform, and provides a five-year tax holiday or a percentage cap for export-oriented manufacturers.

A sixth variable is labour policy. All successful late industrializing states have had to grapple with this policy area. The fundamental challenge for the new leaders of Ethiopia is how to enable the

state to accumulate the surplus needed to build its industrial base while pursuing egalitarian income for labour. Whereas some late developing states have disciplined labour in favour of capital, others have incorporated labour – indeed, made it a partner – in the project of industrial transformation. Thus, the country needs to maintain a competitive labour market, reducing the likelihood of union strikes, and eventually, as the economy grows, real wages will increase, based on productivity in the private sector.

A seventh and important variable in industrial transformation is trade policy. Late industrializing states are always tempted to impose import restrictions, quotas, and non-quantitative restrictions such as investment regulations; these policies are counter-productive in an era of globalization. At present, Ethiopia's trade policy focuses on export-oriented import substitution. This means the state is not engaged in import substitution industrialization, but rather encourages its private sector to export, and at the same time, compete with foreign importers in the domestic market. As a result, exports are projected to grow by 37 per cent in 2010-11 and by an average of 28 per cent annually thereafter. However, trade liberalization should be gradual with a sequencing strategy that maintains stability and is designed to eventually produce a trade surplus. In any case, a preferred method of enhancing exports may be explicit fiscal subsidies followed by tax exemptions to selected national manufacturing companies, active export promotion, and consideration of export processing zones.

A final variable in industrial transformation is the role of foreign capital, which is stating the obvious. Some states have welcomed foreign capital, extending all sorts of incentives, and others have refused, erecting mountains of regulations and red tape, preferring to grow infant industries or selected vulnerable sectors and open up the domestic market decades later. Ethiopia's policy seems to welcome foreign investors while erecting barriers in some sectors, such as communication and financial services, considered vital to the national economy and industrial transformation.

## Conclusion

The preconditions for industrialization of the East Asian states of the 1950s and of Ethiopia today are different in many important aspects, including the role of foreign aid, agricultural foundations, cultural heritage, and international economic conditions. In East Asia, Japanese colonial investments produced a strong agricultural sector, extensive transport infrastructure, and a base of literacy. After World War II, the Asian states imposed reforms that preceded the export push and provided industrial development with a basis of equitable land distribution and spread the benefits of growth to society. Extensive aid from the U.S. contributed to infrastructure, deficit reduction, and, above all, helping develop a foreign-educated technocratic elite who staffed state industrial bureaucracies.

Ethiopia starts with none of these advantages. Second-generation industrializing nations such as Ethiopia are on a learning curve from their own experiences of past ineffective leaders, decades of war, and devastating famines. The new leaders of Ethiopia have created an environment that encourages industrial development. They have realized that, in this era of globalization, authoritarianism does not always produce rapid economic growth, and industrial transformation is not economic growth *per se*, even though it makes economic growth possible. Rather, industrial transformation is a process that the peoples of Ethiopia do for themselves in accordance with their own choices in matters that concern and affect them at the national, regional, and village levels. Therefore the new leaders of Ethiopia have institutionalized federalism, which recognizes the rights and free expression as well as political and economic participation of the nation's diverse people. Federalism acknowledges that the Ethiopian state is an agent of change, a facilitator, but that transformation rests fundamentally with the people.

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# IGAD

# Zemelak Ayele

Sub-regional Organizations  
and Conflict Management:  
The Case of the  
Intergovernmental Authority  
for Development (IGAD)

## Introduction

The Horn of African subregion is replete with violent inter-state and intra-state conflicts, making it the most volatile subregion in the continent. Somalia, which is the sole example of a failed state, is located in the subregion. There are settled and unsettled violent conflicts in the rest of the countries in the subregion including Ethiopia, Kenya, Djibouti, Sudan, and Uganda. The subregion has witnessed horrendous inter-state conflicts, including the war between Ethiopia and Eritrea and the military confrontations between Eritrea and Djibouti. It is also alleged that the states in the region are engaged in proxy wars against one another (Møller 2009: 1).

Moreover, recurrent drought, famine, and food insecurity have exacerbated the problems of the subregion. Trans-national ethnic groups are common in the subregion which is exemplified by the presence of pastoralist and agro-pastoralist societies such as Afar, Somalis, Anyiwaa, Nuer, and other ethnic groups who are found in more than one state in the subregion. The interactions among these groups along the arid and semi-arid border areas transcend international boundaries creating socio-economic ties among the countries. Yet it is also the very source of cross border resource-based community conflicts that are prevalent in the subregion.

Thus, internal conflicts in any of the IGAD states have an immediate spill-over effect to other states in the subregion. There is no purely

local or domestic conflict in the Horn of Africa, as local problems easily “transmute into interstate discord” (Samatar and Machaka 2006: 27). Therefore, in the subregion, national constitutional and institutional mechanisms of conflict prevention and management, unless complemented with sub-regional mechanisms, are less likely to be successful.

This case study attempts to explain how IGAD – a regional organization in the subregion – makes an endeavour to settle internal conflicts through the promotion of federalism and decentralized systems of governance in the subregion. It also demonstrates how IGAD attempts to integrate the countries in the subregion with a view to preventing internal and inter-communal conflicts from escalating into inter-state clashes. The paper examines the role of IGAD in conflict resolution based on the cases studies of Somalia and Sudan. The role of sub-national governments in the organization is also considered.

The formation IGAD: A step towards an integrated subregion?

A dream of integration among the states of the subregion through the establishment of some form of federal or con-federal structure has been very much alive for a long time. Conflict prevention and existing common socio-economic and cultural ties among the people in the subregion have all been motivating factors behind the debate for a con-federal or federal structure. For instance, in 1970s the formation of a confederation between Ethiopia and Somalia was considered before conflict broke out between the two countries (Bahru 2006: 23). Ethiopia and Eritrea had a working federation before it was dissolved in the 1960s causing more than 30 years of horrendous war. Even after the secession of Eritrea from Ethiopia in 1991, some form of con-federal relationship between the two countries was proposed, though it was frustrated by the 1998 war between the two countries (Bahru 2006: 23).

The most noteworthy practical stride forward in the direction of



integration with a view to bringing peace to the subregion is the revitalization of IGAD in 1995. IGAD, (previously known as the Intergovernmental Authority on Drought and Desertification (IGADD)) was established in 1986 with its mandates limited to controlling drought and desertification. In 1995, in the Extraordinary Summit held in Addis Ababa, the leaders of the member states of IGADD decided to revitalize it and provide it with additional mandates. This was effected in 1996 in the Nairobi Summit when the constitutive Act of IGAD was adopted. The most important inclusion to IGAD's mandates was prevention, management, and resolution of inter-state and intra-state conflict. According to the constitutive act of IGAD, among the objectives of the revitalization of the organization was to "[p]romote peace and stability in the subregion and create mechanisms within the subregion for the prevention, management and resolution of inter- and intra-State conflicts through dialogue." (Agreement Establishing IGAD 1996, Article 7(g)).

### Federalism for peace in IGAD sub region: Sudan and Somalia

The main focus of IGAD in terms of resolving internal conflicts has been on southern Sudan and Somalia. The conflict in southern Sudan, which broke out 1983 and continued for more than two decades, had been one of the longest and bloodiest civil wars in Africa (Young 2007: 8; Jambo 2006: 151). Somalia also has been plunged into multi-dimensional crisis since the end of the authoritarian regime of Seyad Barre in 1991 (Ahmed 2006). The crisis not only has caused the deaths of close to half a million people and the emigration and forced displacement of millions, but, by destroying the social fabric, it has also reduced the country into an utterly collapsed state.

Over-centralization of power, authoritarianism, "mismanagement of diversity" and marginalization of particular groups of the society are blamed as the main causes of the conflicts in the two countries (Thomas 2009: 14; Ahmed 2006: 170). For this reason, IGAD, in

all its peacemaking effort in these two countries, has been advancing a decentralized system of governance through a federal or quasi-federal structure. For instance, with a view to resolving the conflict in the Sudan, IGAD had proposed some measure of autonomy to southern Sudan. The first and one of the most important steps taken by IGAD in this direction was the formulation of a "Declaration of Principles" (DoP) in 1994, as a basis for negotiation between the government of the Sudan (GoS) and the Sudan People Liberation Movement (SPLA/M) (Young 2007: 4). In the DoP, IGAD declared the need for extensive rights of self-determination to the various peoples of the Sudan on the basis of a federation and autonomy (DoP 1994, Article 3(3)).

Based on the DoP, lengthy negotiations took place with the mediation of IGAD which resulted in the signing of the Machakos Protocol in July 2002, the Naivasha Protocol in May 2004, and other agreements. The peace process culminated in the signing of the Comprehensive Peace Agreement (CPA) in January 2005, of which the aforementioned protocols and agreements formed parts. The agreements clearly underscored the right to self-determination of the people of Southern Sudan. Based on the DoP, the establishment of a federal structure and decentralized system of government with devolved powers was also plainly stipulated in the agreements. In light of this federal arrangement, it was agreed that at the centre, a government of national unity (GoNU) would be established. Moreover, the government of South Sudan (GoSS) and the states would have their own constitutions and government institutions including legislative, executive, and judiciary. The Southern Sudan government would be an umbrella government for the states within the region. The agreement further provided that at the end of a six-year interim period, which commenced in 2006, a referendum would be conducted which would determine whether southern Sudan will continue to be part of the Sudan. Furthermore, the agreement provided for sharing of oil revenue between the centre and GoSS (See the Machakos Protocol 2002 and Naivasha Protocol 2004).

It should be noted that the peace process was meant to be directed at making unity within the federal structure “attractive” to the people of southern Sudan. However, it appeared that little effort was made to make unity attractive (Thomas 2009: 12). The ceasefire agreement was breached on several occasions. Twice, the GoNU survived the threat of dissolution. The national election, which was conducted in 2010, did not bring about the desired inclusive and legitimate national government. Moreover, lack of comprehensiveness in the peace process, which failed to address the conflict outside “the south-centre axis” is said to have been a critical deficiency of the peace process (Thomas 2009: 12). The overwhelming support for secession in the referendum of January 2011 saw the formation of South Sudan as an independent state in July 2011.

In Sudan and Somalia IGAD was on the side of introducing a federal and decentralized government structure in the country as a measure of peace-making. The first IGAD sponsored document which clearly articulated federalism as a solution for the crisis in Somalia was a “Declaration on Cessation of Hostilities, Structures and Principles of the Somalia National Reconciliation Process.” This document was adopted in October 2002 in a “Somalia National Reconciliation Conference” at Eldoret, Kenya (Ahmed 2006: 169).

In this document, those involved in the peace talk agreed “to create federal governance structures for Somalia, embodied in a Charter or Constitution, which are inclusive, representative, and acceptable to all the parties” (Declaration 2002, Article 1(1)). They also agreed “to endorse the principle of decentralisation as an integral part of Somalia’s governance structures” (Declaration 2002, Article 1(1)). In February 2004, based on the above Declaration, a “Transitional Federal Charter” of Somalia was adopted in Nairobi, Kenya. This Charter created the Transitional Federal Government of Somalia (TFG). A parliament with 275 representatives was established and the first president of the

TFG, Abdullahi Yussuf Ahmed, was elected.

Nevertheless, internal division within the ranks of the TFG has stifled any progress towards a peaceful Somalia (Ahmed 2006: 170). The rise of an extremist group called Union of Islamic Courts (UIC) also has posed a huge challenge to the peace process. To assist the TFG, IGAD, with the authorization of UN Security Council, had planned to deploy a peace keeping mission back in 2005 — the IGAD Peace Support Mission to Somalia (IGASOM). As a result of capacity related constraints and lack of political will on the part of the IGAD member states, the deployment of IGASOM never materialized (Murithi 2009: 7-8). In December 2006, the TFG, assisted by the Ethiopian armed forces, ousted the UIC from Mogadishu. However, the presence of Ethiopian soldiers in the country was perceived as occupation, further fuelling the violence in the country (Murithi 2009: 8). In 2007 with authorization of the UN Security Council, the African Union Mission in Somalia (AMISOM), which consisted of 1700 Ugandan and Burundi soldiers (the number has grown to 7,000 presently), was deployed in Somalia for the purpose of peacekeeping. The pledge to step up the peacekeeping mission with more soldiers from other African countries has not been effected. Thus, at the time of writing in early 2011, a peaceful Somalia with a federal structure envisioned by IGAD has not yet been realized.

**IGAD: Subregional integration for conflict management**

While promoting federalism and decentralized governance systems as devices to resolve intra-state conflicts, IGAD has set out to craft a mechanism of integrating the states in the region with a view to preventing inter-state and intra-state conflicts. The mechanism adopted by the organization for this purpose is the establishment of Conflict Early Warning and Response Mechanism (CEWARN). CEWARN, which is part of the AU's early warning mechanisms, was established with the signing of an establishing protocol in January 2002 in Khartoum.

The main functions of CEWARN include both early warning and response. The main rationale of this mechanism is to prevent interstate conflict and to impede “national problems from becoming regional headaches.” The Protocol establishing the CEWARN provides that the CEWARN is meant to promote the exchange of information and collaboration among the member states on early warning and response on the basis of timeliness, transparency, cooperation, and free flow of information.

CEWARN aims to report on all violent conflicts in “a broadly defined human security area” (Wulf and Debiel 2009: 19). At present, it is chiefly focused on the conflict-prone border areas of the member countries where communal conflicts among the pastoralists in the areas are rife, which are linked to livestock rustling, grazing and water points, nomadic movements, smuggling, illegal trade, refugees, landmines, and banditry. Through a National Research Institute (NRI) in each member country and Field Monitors, CEWARN gathers, verifies, processes, and analyzes information about violent conflicts in the region. It communicates all such information and analysis to decision makers of IGAD policy organs and the national governments of the IGAD member states. Presently, the focus of CEWARN is limited to three pastoral conflicts areas of the “Karamoja cluster” in the cross-border areas of Ethiopia, Kenya, Uganda, and Sudan; the “Somali cluster” in cross-border areas of Kenya, Ethiopia, and Somalia, and the “Afar Issa Cluster” in the cross-border areas of Djibouti and Ethiopia.

Within the context of IGAD’s conflict management mechanisms, in each of the seven member states, a Conflict Early Warning and Response Unit (CEWERU) has been established. Each CEWERU has a steering committee, a focal point, and local committee. In the Steering Committee, pertinent national and sub-national organs are represented. These include ministries, state/provincial government

representatives, etc. With the exception of Somalia, each member state of IGAD has established a CEWERU. The CEWERUs are linked to IGAD through the CEWARN Unit. In effect, sub-national forces are, even if indirectly, linked to the IGAD through the CEWERUs.

The main functions of CEWERU of each country include collecting information relevant to early warning and response and passing them to the CEWARN. To that end, each CEWERU liaises with civil society groups involved in collecting information. Moreover, each CEWERU undertakes preliminary analysis of collected information, reviews analyses received, formulates response strategies, prepares periodic conflict early warning reports, and communicates information and analysis gathered to the CEWARN Unit.

### Eastern African Standby Brigade (EASBRIG)

The other integrating factor within the context of IGAD's mechanism of conflict management is the establishment of Eastern African Standby Brigade (EASBRIG) which has been established as part of the African Peace and Security Architecture (APSA) (Wulf and Debiel 2009: 18). The seven IGAD member states along with Comoros, Seychelles, and Madagascar are members of the EASBRIG. The headquarter of the EASBRIG is located in Addis Ababa and the planning unit is in Nairobi. The EASBRIG has multi-disciplinary civilian, police, and military components. Members of the brigade remain on standby in their own countries to be rapidly deployed in crisis areas (Wulf and Debiel 2009: 19).

### Challenges

In spite of the recognition of the need for coordinated efforts in order to resolve, prevent, and manage conflicts in the subregion, the subregional organization is far from achieving the purposes that it has set out to accomplish. It suffers from various setbacks. The organization is financially dependent on international donors as the member states have acute financial constraints in funding IGAD's

operations. This opens a door for “the injection of external foreign policy concerns” into IGAD’s peace initiatives thereby threatening national and regional sovereignty of the member states (Young 2007: 5). The hostility and mistrust among some of the members of the organization, for instance Ethiopia and Eritrea, is a hindering factor on the organization in achieving its mission. Competition between Ethiopia and Kenya for sub-regional hegemony is also a challenge for IGAD. The absence of a strong central government in Somalia has been a stumbling block to IGAD’s peace efforts in the country and in the process of the sub-regional integration as a whole (Møller 2009: 11). Also, the presence of other sub-regional organizations such as the East African Community create a conflict of interest as well as overlapping allegiances among the member states making the integrative functions of IGAD less significant.

### Conclusion

While playing a critical role in conflict prevention and resolution in the Horn of Africa subregion, IGAD injects elements of federalism in the subregion in two interconnected ways. On one hand, as is the case in Sudan and Somalia, it promotes the use of federal structures for the purpose of resolving existing internal conflicts. On the other hand, recognizing the interrelatedness of the countries in the subregion and the inadequacy of unilateral action for sustainable peace in the subregion, it attempts to bring the countries of the subregion together through the CEWARN mechanism for a concerted effort. It also involves sub-national forces through CEWERU. However, due to financial problems and hostility and mistrust among the states in the subregion, IGAD is far from accomplishing its vision.

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# MERCOSUR

Alberto Kleiman

The Process of Creating and Implementating the MERCOSUR Committee of Municipalities, States, Provinces, and Departments

## Political Origins of the Creation of the Committee of Municipalities, States, Provinces, and Departments

The democratization of the countries of the MERCOSUR bloc, constitutionalization of the decentralization of competencies, and the emergence of sub-national governments as a force to reckon with, having attained prominence in the formulation and execution of public policies, are central to understanding how the creation of the Committee of Municipalities, States, Provinces, and Departments came about. Municipalities, states, provinces, and departments are governed by newer leaders who are in tune with, and committed to, progressive ideas and solutions. They have criticized and opposed the model adopted by the central governments in the establishment and administration of MERCOSUR. The MERCOSUR, when dominated by the central governments, has been marked by an exclusionary bias. It has also tended to follow the general tenets of the neo-liberal economic policies; this has been especially conspicuous in Argentina and Brazil.

The establishment of MERCOSUR, which was to effect profound changes in hemispheric geopolitics, and relations among the countries of South America, became the object of lively debates in light of the possibilities and new spaces created by the emergence of other social players and sub-national governments in the political processes. The discussion focused on regional integration and identifying what would be the most desirable model of integration for the region. The local

leaders not only wanted to take part in the debate, but also wanted to be included during the deliberation process which would impinge on policy-making. Once clarity was reached on the basic structure and mandate of MERCOSUR, attention shifted to the creation of the MERCOCITIES Network which, in the beginning, included capital cities of MERCOSUR and cities with more than 500,000 inhabitants.

MERCOCITIES was a response to an institutional demand – direct participation in the formal structure of MERCOSUR, with the creation of an entity that would be linked directly to the bloc's decision-making bodies. The political agenda was marked by the push for a wide-ranging, democratic, inclusive, and participative MERCOSUR that would deal directly with the various social forces and sub-national governments. As a form of direct action, taking into consideration that the dynamics of integration manifested themselves on various levels of society, MERCOCITIES developed international horizontal cooperative mechanisms by means of thematic units which involved local players participating around diverse urban themes such as local economic and social development, environmental issues, planning, and culture.

The coherency demonstrated by the MERCOCITIES Network in the course of years of work, political action, and cooperation, and its ability to exert pressure on central governments helped to enhance and broaden its participation within the bloc. It led the MERCOSUR Common Market Group (CMG), the bloc's main decision-making agency, to create REMI (the Specialized Meeting for Municipalities and Local Governments) in 2001. Although REMI formally integrated municipalities into the MERCOSUR institutional structure, it was unable to realize its objective of catering to the demands and proposals of local governments. Linked as it was to the Political Concerting and Consultation Forum - an intermediary agency of the Common Market Group (CMG) - it began to fulfil a bureaucratic and formal

function instead of effectively making the urban agenda an integral part of MERCOSUR.

The creation of REMI revealed the central governments' difficulty in understanding the role of the sub-national governments and their potential to strengthen and deepen integration-related activities within the national territory. The local powers were seen as a "theme" to be dealt with, and not as "partners" for joint actions. In the course of its fleeting existence, REMI faced difficulties in effectively inserting local governments into the decision-making levels of MERCOSUR, a fact that spurred the drive to create another formal space for local governments in MERCOSUR, a space linked directly to the CMG or to the Common Market Council (CMC). Thus, new negotiations took place that aimed to convert REMI into a forum with an effective voice in the bloc's processes.

It is important to point out that it was the cities – empowered and united by the MERCOCITIES Network – that pushed the debate on institutional reform promised for the Ouro Preto Summit of 2004, marking the 10th anniversary of the Ouro Preto Protocol, where the Committee was finally created.

### The Committee

It was a concise text – Decision 41/04 of the Common Market Council (CMC) – that created the MERCOSUR Committee of Municipalities, States, Provinces, and Departments (*Foro Consultivo de Municípios, Estados, Províncias e Departamentos do MERCOSUL*). In its comments and its six articles, the text refers to "the convenience of instituting a forum that encourages dialogue and the cooperation of authorities at the local, state, provincial, and departmental levels of the member countries of the MERCOSUR, with one another and with the National Governments." Decision 41/04 clearly defines the Committee's place and its competencies within the MERCOSUR. The competencies include "proposing measures aimed toward coordination

of policies to promote the well-being and improve the quality of life of the inhabitants of Municipalities, States, Provinces and Departments of the region, as well as formulating recommendations through the Common Market Group" (Article 4). However, it is Articles 2 and 3 that underlined the significant aspects with regard to the workings of the Committee. Article 2 established that the Committee would succeed REMI. Article 3 established a working structure comprising two permanent branches: one of municipalities and the other of states, provinces, and departments. These two articles constituted the synthesis of the debate that preceded the creation of the Committee.

Led by MERCOCITIES, the local governments defended the creation of a Committee that would represent only the cities without including regional governments. Their position was based on the fact that, until then, only the local governments had had any voice in the debate related to the creation of an institutional space for the sub-national governments within the MERCOSUR structure. It was feared that the agenda of regional governments, above all those of the Brazilian states and Argentine provinces, strongly marked by themes addressing their competencies, such as infrastructure, economic development, attracting investments, energy, and university cooperation, would override the agenda of the cities, relegating them to a secondary position. On the other hand, the national governments, especially those of Brazil and Argentina, understood that this new level had to be represented by the body of territorial governments in order to express the political desires of the states and provinces.

These governmental levels have been holding an extensive agenda of activities in the process of Latin-American and MERCOSUR integration, although such initiatives take place in an isolated and sporadic manner with the nation-states. This was another source of misgiving for the cities which, organized in a network and having attained a high level of "supra-nationality," foresaw a reduction in the activities of the Committee as a whole due to the regional governments'

lack of experience in acting on levels of collective agreement. The solution that was negotiated resulted in the working structure of the Committee comprising of two committees with a view to ensuring the autonomy of the municipalities, upholding the diversity of agendas and difference in the pace of action.

Finally, throughout the text of Decision 41/04, one notes the concern in regard to establishing, as clearly as possible, the Committee's link to the CMG. It is laid down that the Committee's recommendations, its House Rules, its public declarations, as well as possible contacts with other levels of MERCOSUR and international organizations must be submitted to the CMG and approved by means of CMG intermediation.

#### Creation and implementation: second stage of the negotiation process

It took two years for the Committee to go into operation – from the Ouro Preto Summit in 2004 during Brazil's *pro tempore* presidency of the MERCOSUR, until the Rio de Janeiro summit in January 2007, with Brazil again leading the bloc. The provision for the creation of a MERCOSUR entity uniting governors of Brazil and Argentina and the mayors of all the countries of the region began to be discussed seriously by the member-country chancelleries. At the same time, the new national governments that had been elected began to put aside narrow political considerations, and give pride of place to ideas and policies to bring about regional integration and strengthen the MERCOSUR.

However, this task proved to be more complex and slower than expected. Speeches and statements by the presidents of the member countries, indicating a new era for the bloc, created lofty expectations in the regional players, but failed to take into account the very slow pace at which processes of integration tend to develop owing to their extreme complexity and plurality of players and interests.

There is an important aspect in the Committee's institutional dynamics that differentiates it from the overall dynamics of the MERCOSUR, already consolidated in the structures of the chancelleries of member countries. Management of the political, institutional, and administrative processes is the responsibility of the Ministry of Foreign Affairs of the members. Regardless of the ministerial structure in each country, the status of a member (in the Venezuelan case, that of "quasi member") obliges the public structures of the countries to have a CMG National Coordinator plus a substitute, usually a high-ranking diplomatic staff member, or even the Chancellor himself (as in the Paraguayan case).

In the Committee, one notes that each country adopted its own solution as a means of taking on board the constraints prevailing in their domestic politics; the solutions reflected the diverse national realities. In Brazil, the Under Secretariat of Federative Affairs, directly linked to the structure of the Presidency of the Republic, was designated to take charge of national coordination, thereby attaching a high level of priority to the theme since federative relations – the construction of channels of permanent dialogue among the three spheres of the federation, (union, states, and municipalities) – was granted special attention by the administration of President Lula, including its hemispheric and international dimension.

Argentina adopted a solution similar to the Brazilian one, appointing the *Subsecretaria de Relaciones Institucionales* (Under Secretariat of Institutional Relations) of the *Ministerio de Relaciones Exteriores y Culto* (Ministry of Foreign Relations and Culture) to coordinate the issue. This entity has similarities with its Brazilian namesake since, although it is linked to the office of foreign policy, it also handles relations with Argentine sub-national governments, among other duties. Paraguay also opted to delegate coordination of the Committee to its Ministry of Foreign Relations, which is in charge of appointing the sub-national governments that make up the entity.

A different solution was adopted by Uruguay and Venezuela. The two countries directly designated local or regional governing leaders as national coordinators. In the case of Uruguay, the national coordinator is chosen by the President of the Congress of Intendents, a collegiate entity that comprises the country's local representatives (a total of 19). In the Venezuelan case, the national coordinator is appointed directly by the President of the Republic, as is the case of the other representatives of that country in the Committee. At present, the person who occupies this position is the mayor of the Metropolitan District of Caracas, an intermediate governmental level with the attributes of a state (Capital District).

In Argentina, Brazil, and Paraguay, one notes the presence of the national governments in the national command of the Committee, while in Uruguay and Venezuela, we see the involvement, via delegation, of the local governments. Both solutions have their pros and cons and the arrangement in each country is justified by its political dynamics, by the greater or lesser importance lent to the theme by the entities linked to the MERCOSUR in the public structures, as well as by the level of decentralization and federative dialogue present in each member country.

While this institutional diversity brings variety and dynamism to the process, it also generates functional and methodological complications related to process, content and conception. Local and national governments may work together on common agendas, but their view and objectives will depend on their perception of the MERCOSUR process and of regional integration as a whole. Differences in viewpoint, perception, and objectives can compromise the process in its current stage, which calls for special care to ensure its institutional consolidation, legitimacy, and a relevant role of the sub-national governments.



### Committee dynamics and agenda

As of January 2007, the date of the Committee Implementation Meeting, attended by President Lula, governors, and mayors of the main Southern Cone cities, the discussions of the Committee were focused on three main axes. The first had to do with the institutional and working scope which materialized in negotiations on the House Rules and was approved at the Plenary Session of the Committee in June 2007 in Asuncion and ratified by the CMG in September 2007 in Montevideo.

The Committee debates and proposals point to the importance attached to inter-institutional relations with other MERCOSUR entities, especially those focusing on social and political themes of the bloc, such as the MERCOSUR Parliament, the Commission of Permanent MERCOSUR Representatives, the Economic and Social Committee, the Political Concerting and Consultation Committee, and the "We Are Mercosur" Program, as established in the Rio Letter.

Secondly, in the realm of the Committee of Municipalities, States, Provinces and Departments, since the implementation meeting, reunions and/or gatherings were proposed with the purpose of bringing governors of the various Southern Cone regions closer together. The first of these took place in Tucumán Province, Argentina, in May 2007, bringing together eight of the nine governors of the Brazilian Northeast Region, and five of the six governors of the Northeast Region of Argentina. These gatherings underlined the need to establish closer relations among the governors in order to enhance mutual knowledge, to identify common interests with a view to establishing short-term cooperation agendas, the governability of which is in the hands of the governors and local players. To this end, the gatherings of political leaders are preceded by technical seminars in which employees, specialists, and high-ranking staff of the regional administrations debate previously selected thematic axes with potential for exchange.

In Tucumán, the Cooperation Agenda and the themes defined were regional development, tourism, and university cooperation.

The third priority axis, highlighted in the two branches and considered to be one of the main obstacles to true integration of the countries and their citizens, is the issue of border integration. Despite the growing importance that the member countries have been lending to this theme due to the strategic relevance of the border regions for integration, and although many advances have recently been made, the national governments have been finding it difficult to coordinate their actions in these territories.

Apart from their importance to the development of the region, the border zones were traditionally left to fend for themselves, in part because of their distance from the capitals and large cities, and in part because in past decades, they represented defense zones, zones of protection against threats, and were seldom or never seen as privileged areas of development and integration. The impact of this reality is undoubtedly more intense in the border cities and states, usually affected by low levels of economic and social development and a lack of perspective and context. Thus, it is not by chance that the Committee, through its representatives, elected this theme as a priority, and identified concrete possibilities for the change of this territorial reality in the regional integration and development movements brought by MERCOSUR.

In regard to the political-institutional aspect, the Committee differs from the other MERCOSUR entities due to its nature, which is at the same time political, with members who are representatives directly elected, as well as technical, with great potential for formulation and execution of public policies and integrationist initiatives. In this sense, relating the Committee to the Common Market Council, the entity that unites the presidents of the member countries, was an option adopted in the Committee's House Rules. The plenary meetings of the

Committee thus invariably occur in the realm of the MERCOSUR Presidential Summits, and at each of them a representative is chosen on the eve of the summit to take part in the Presidential Summit.

In their turn, the two branches, within the realm of the plenary session, gather once every six months, accompanying the MERCOSUR *pro tempore* Presidencies. However, the House Rules preserve their autonomy, allowing them to hold extraordinary sessions whenever necessary. Their decisions must be announced in the name of the Committee, the sole entity from which the two committees derive their authority and standing. All decisions, recommendations, declarations, or any other manifestations of the Committee must be submitted to the CMG.

### The Committee's achievements

Since its implementation in 2007, the Committee developed several action plans in order to realize its agenda and to serve as a platform for sub-national government activities. Several activities and initiatives were developed since 2007, most of them co-organized by national and sub-national governments:

- Brazilian Northeastern and Argentinean Northwestern Governors Meeting, Tucuman, Argentina, 2007
- The MERCOSUR Amazonian Governors Meeting, Belem, Brazil, 2007
- Northern Productive Integration Meeting, Manaus, Brazil, 2008
- Southern Productive Integration Meeting, Foz do Iguaçu, Brazil, 2008
- Seminar on Border Integration, Formosa, Argentina, 2008
- Seminar on Transport and border infrastructure, Formosa, Argentina, 2010

- Seminar on Local Development and Regional Integration, Tandil, Argentina, 2009
- Seminar on the role of local governments in the Regional Integration process, Caracas, Venezuela, 2009
- Encomex I and II (International trade meetings), Foz do Iguaçu and Porto Alegre, Brazil, 2009 and 2010
- Memorandum of Understanding (MoU) with the *Coorporacion Andina de Fomento* (CAF)
- MoU with the MERCOSUR Parliament
- MoU with International Labor Organization (ILO)
- MoU with *Embrapa* (Brazilian Agriculture and livestock research enterprise)

On one hand, the Committee has not been able to present any recommendation for the CMG until now; doing so would be desirable and would fulfill its role as a consultative body of the MERCOSUR. Although the Committee has stuck to its practice of preparing a political statement in each of its Plenary Meetings in which it highlights specific and generic political issues, it would be more effective and practical for sub-national governments if the Committee could declare political statements which concerns specific issues related to sub-national interest like sub-national governments' availability of funds, infrastructure initiatives, urban issues, productive and development proposals, and so on. On the other hand, there is no doubt that the Committee has become a real platform for sub-national governments to develop their activities, to promote south-south cooperation at the sub-national level, and to bring to the MERCOSUR discussions urban and territorial perspectives.

## SYNTHESIS & COMMENTS | Day 3

Nico Steytler

The third question was: what lessons can be learned from the practice followed in the course of international co-operation involving federal-type states? Put differently, have sub-national governments emerged as actors in the own right in the international arena?

Although there is ample evidence world-wide of sub-national governments participating in regional integrative initiatives, the three case studies reveal considerable variation (from limited to more expansive) in the role that they have played in three very different contexts.

In the case of the economic development trajectory of Ethiopia, sought through industrial transformation, there is a limited role for regional governments to engage directly with the global economy. In the case study on "Federalism and the Developmental State in Ethiopia: Some Strategies in Industrial Transformation," Aaron Tesfaye argues that economic development in a developing country in the context of a globalized economy requires strong central government intervention and coordination. In the context of Ethiopia it means the role of regions is a more supportive one, as the industrial transformation process is controlled by the centre.

The author outlines how industrial transformation across the world, first driven by the market alone, increasingly relied on central government intervention. Referring to the East Asian economies of Taiwan, South Korea, Hong Kong, and Singapore, he argues that this was achieved by a state-led export-oriented model, driven by market incentives and a strong private sector. The question then is: how could such a centralized model work in the context of Ethiopia's federal structure? He rejects the argument that an authoritarian regime is necessary, and aligns himself with the notion of Amartya Sen that

democracy is a prerequisite for development. Moreover, the Ethiopian choice of democracy and federalism limits the transferability of the East Asian model. Tesfaye does, however, recognize the need for central coordination and favours the South Korean model of a central nodal agency that leads the industrialization process. Such an agency not only brings coherence to national departments dealing with the various aspects of economic development, but also aligns the role of regions in the process.

The list of preconditions for economic development suggested by Tesfaye illustrates both the centrality of the central government in the industrial transformation process as well as the supportive role of regions. The list is: the accumulation of surplus agricultural products; education, technology, and infrastructure; an appropriate exchange rate; a sound credit and interest rate policy; a sound fiscal policy regarding tax and spending (including controls over budget deficits); a suitable labour policy; gradual trade liberalization; and a suitable policy on foreign capital. Most of these preconditions relate to central economic planning and management, while the regions may contribute in the areas of agriculture and education.

It should be noted that while any strategy towards rapid economic growth and development, premised on a process of industrial transformation, tends to emphasize the lead role of the central government, it does not need to occur at the expense of the federal elements in a constitution. India, the largest federation and democracy in the world has shown that growth is possible in the current era without dismantling the federal nature of the state.

The second case study shows that in seeking peace in the Horn of Africa, IGAD also requires the active support of sub-national governments. When the focus of IGAD shifted to the prevention of inter-state and intra-state conflicts, it established the Conflict Early Warning and Response Mechanism (CEWARN). In each member country, a Conflict Early Warning and Response Unit was established, with a steering committee comprising both national and sub-national

organs of state. Thus, at Zemalak Ayele points out, sub-national organs of state are linked to IGAD through CEWARN units.

The third case study, in the paper prepared by Alberto Kleiman, illustrates the key role that sub-national governments (both at state and local levels) play to make regional integration through MERCOSUR a reality. The importance of the MERCOSUR Committee on Municipalities, States, Provinces, and Departments lies not only in sub-national governments participating in the decision-making processes of MERCOSUR, but also in the horizontal relations they are building between themselves across international borders to give real effect to regional cooperation and integration.

With the establishment of MERCOSUR, sub-national governments soon realized that regional integration would have a profound impact on them as many aspects of their competencies would be affected thereby. They were thus demanding to be players in the integration process, and not mere recipients of MERCOSUR policies, which the national governments collectively formulated. The first step was the formation of MERCOCITIES Network which comprised capitals and large cities, with the aim of developing international horizontal cooperation among members on relevant themes. The next step was the formal integration of municipalities into the MERCOSUR institutional structure. Eventually, the MERCOSUR Committee of Municipalities, States, Provinces, and Departments followed in 2004. Given the variety of sub-national governments and their different functions and diversity of interests, the Committee comprises two permanent branches: one for municipalities and the other of states, provinces, and departments. The Committee functions under the auspices of the highest decision-making body in MERCOSUR.

The successes of the Committee soon became apparent. It brought together governors and mayors who then identified common interests to establish for themselves short-term cooperation agendas, including regional development, tourism, and university cooperation. Kleiman observes, however, that one of the main difficulties confronting the





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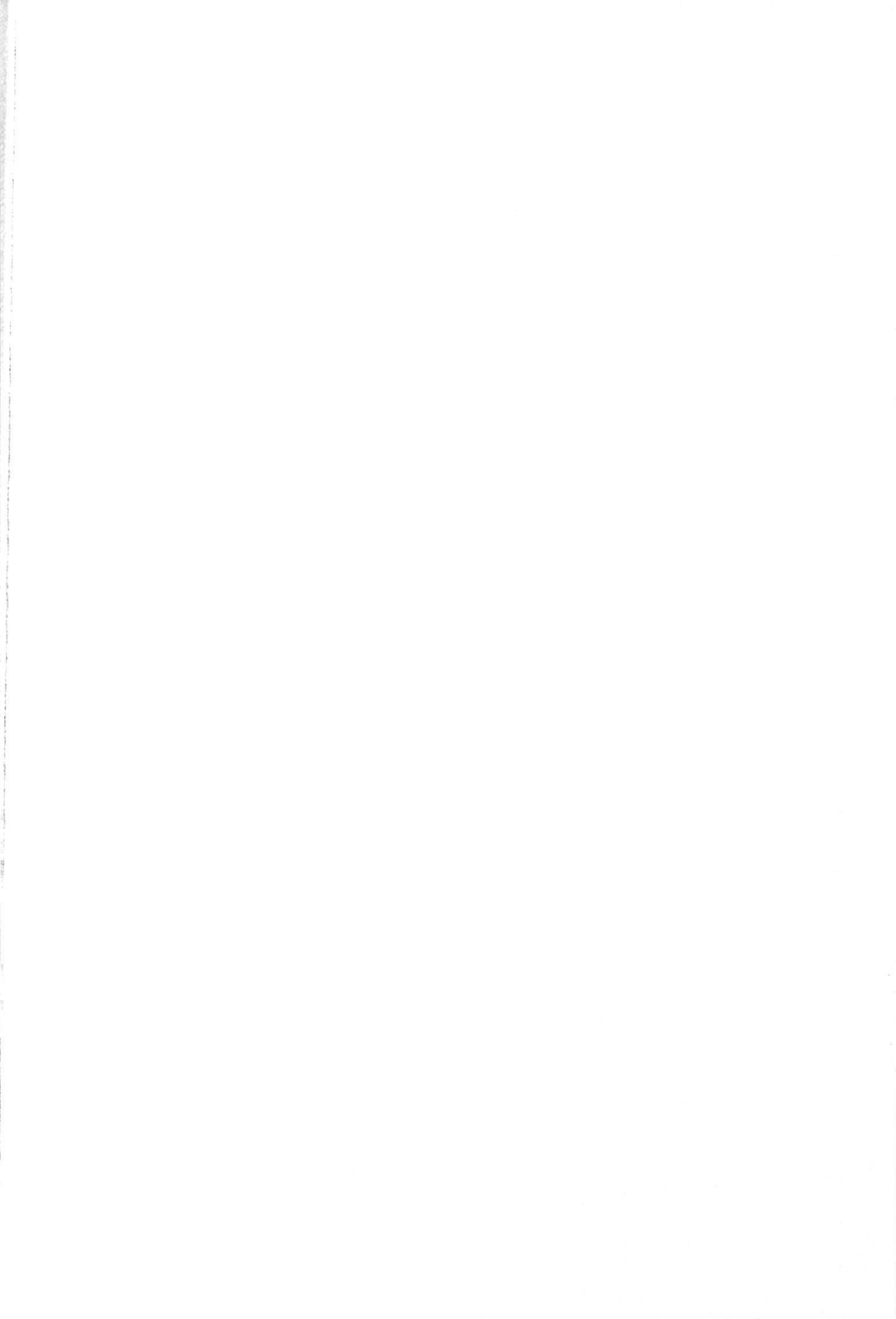
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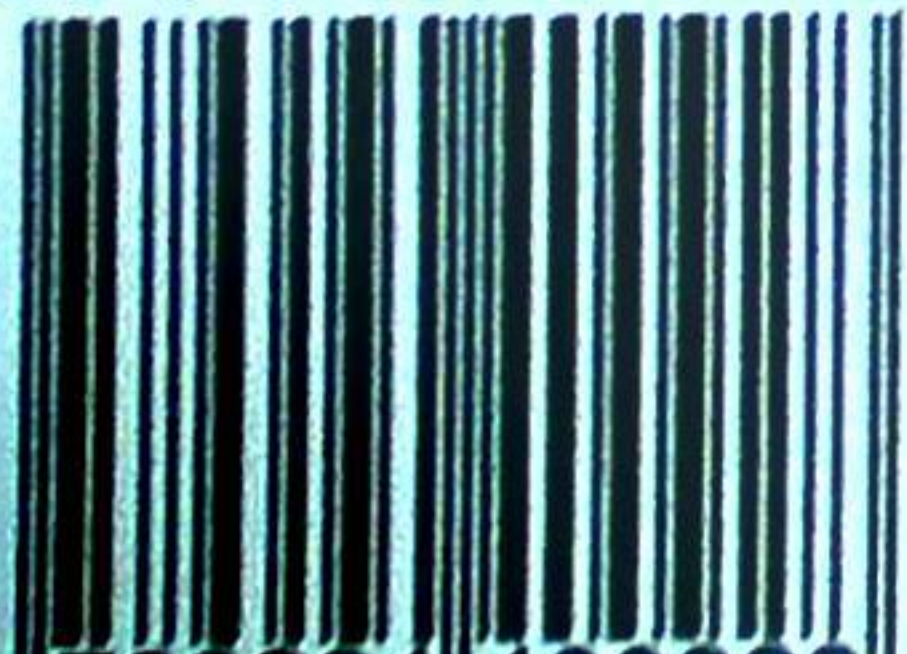


This volume is the second in a six-volume series that shares the proceedings that transpired at the 5th International Conference on Federalism (ICF) in Addis Ababa, December 2010. While the previous ones took place in Canada (1999), Switzerland (2002), Belgium (2005) and India (2008) this was the first ICF held on the African continent and was thus organized under the appropriate theme of "Equality and Unity in Diversity for Development." It was attended by over a thousand practitioners from six continents, including heads of government, parliamentarians, academics, journalists and others. This volume presents nine case studies: three from host Ethiopia as well as from South Africa, Kenya, Nigeria, Malaysia, Nepal and Mexico. In all the cases the authors have firsthand involvement in dealing with the complex processes of democratization and federalization. These cases therefore provide unique reflections on the theoretical as well as practical dimensions to the transitions in a rich cross-section of country experiences over the past half-century.

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