

# **A Sound Economy and Strategic Cooperation between Sudan and South Sudan – A Tool For Peace?**

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# **A Sound Economy and Strategic Cooperation between Sudan and South Sudan – A Tool For Peace?**

- 1. Nine Agreements between Sudan and South Sudan – are they supporting the move to sound economies and cooperation?**
- 2. Sound Economies and Sustainable Economic Policies - what does it mean for Sudan and South Sudan?**
- 3. Towards Strategic Economic Cooperation between Sudan and South Sudan – why is it needed?**
- 4. Sustainable Development and Strategic Cooperation - A Tool for Peace?**

## **Nine Agreements between Sudan and South Sudan – Threat of UNSC Sanctions and Near Collapse of the two Economies**

- 1. Threat of UNSC Sanctions: The threat with UNSC sanctions brought the two parties to the negotiation table in Addis Ababa, but major issues were not agreed upon and implementation has to start now**
- 2. Loss of Public Revenues and of Foreign Exchange: These losses had threatening impacts on inflation, living standards, payment of salaries and wages, food security, transport and production**

# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

- 1. The “Border, Oil and Hydropower” Complex: All border issues are of great strategic importance; all border issues have resource use, security and development strategy implications; strategic role of oil, land and water**
- 2. The “Citizenship, Refugees and Human Rights” Complex: These are not only legal issues, but developmental issues of long-term importance**

# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

- 1. The “Debt, Assets and Finance” Complex: These issues are not at all minor, as solutions to external debt, internal entitlements issues, and “bridging” the two finance and banking systems are crucial for development, especially so in the ten border-states**
- 2. The “Security, Demilitarization and Stability” Complex: The fiscal and resource burden of the military and security apparatuses is unsustainable**

# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

- 1. The “Border, Oil and Hydropower” Complex: Agreement 1 on “Border Issues” contains good wording (“Soft Borders” and “Integrated Border Management”), but what is the real substance? Agreement 2 on “Oil and Related Economic Matters” has a too short time horizon to allow for adjustments of the two economies, and nothing is written about the use of oil funds (for development and cooperation). Agreement 3 on “Trade” is weak.**

# Projekt Afrikanische Entwicklungsperspektiven





# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

**2. The “Citizenship, Refugees and Human Rights” Complex: The Agreement 4 on the “Status of Nationals of the Other State and Related Matters” is vague and does not incorporate other forms of freedom, like religious freedom and human rights; nothing is said about refugees, displaced people, compensation for expropriation and sufferings, or about labour migrants; the agreement can be suspended at short notice; there is suspicion in the North and the South on the issue**



# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

**3. The “Debt, Assets and Finance” Complex: The Agreement 5 to “Facilitate Payment of Post Service Benefits” is a first attempt to assess the scope of the problems; the Agreement 6 on “Cooperation in Central Banking” is about facilitating payments between the two states, while Agreement 7 on “Certain Economic Matters” is about the treatment of external and domestic assets and liabilities; the texts contain abstract principles and vague action modalities**

# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

**4. The “Security, Demilitarization and Stability” Complex: Agreement 8 on the “Security Arrangements” is focussing basically on the already agreed upon joint institutions to make the Safe Demilitarized Border Zone (SDBZ) working. However, there is no programme for demobilization, demilitarization and reintegration (DDR) of armed forces in the two countries; and there is no agreed upon socio-economic stability mechanism, such as a joint Border Belt Development Programme**

# **Nine Agreements between Sudan and South Sudan and Four Major Negotiation Complexes - Is there Commitment to Implement?**

- 1. The Agreement 9 is an umbrella type “Cooperation Agreement”; it emphasizes the establishment of two viable states and peaceful relations, listing the past and the new agreements as well as outstanding CPA issues and the envisaged Cooperation Mechanisms**
- 2. However, a Strategic Cooperation that is supporting sound economies and peaceful relations is not outlined in these agreements despite of the wording**

# **Sound Economies and Sustainable Economic Policies - What does it mean for Sudan and South Sudan?**

- 1. Macroeconomic Stability and International Competitiveness**
- 2. Public Finance Management and Fiscal Federalism**
- 3. Supporting Diversification and Non-Oil Sectors**
- 4. Social Safety Nets and Employment Creation**
- 5. Reducing Horizontal Economic and Social Inequalities and Vertical Inequalities**

# **Sound Economies and Sustainable Economic Policies - Macroeconomic Stability and International Competitiveness**

**1. Macroeconomic Stability has four dimensions: Current Account deficits (exports of goods and services minus imports of goods and services) have to be sustainable; Public Sector Deficits (public revenues minus public expenditures of all state levels; overall, primary and non-oil deficits) have to be sustainable; Inflation Rates should be low and should not escalate; Exchange Rates should be stable to the US \$, also in real terms by considering domestic price increases**

# **Sound Economies and Sustainable Economic Policies - Macroeconomic Stability and International Competitiveness**

- 2. The stop of oil production in South Sudan was an extreme shock to both economies, but macroeconomic instability had affected both countries already before**
- 3. Sudan had inflation rates above 10% since 2008, large depreciations of the Sudanese currency (SDG), and unsustainable current account and public sector deficits despite of austerity policies; the projections for 2012 and 2013 are quite unfavourable**

## **Sound Economies and Sustainable Economic Policies - Macroeconomic Stability and International Competitiveness**

- 4. The foreign exchange reserves declined to a record low of US \$ 1bn in 2012 while external debt increased to US \$ 44bn in 2012 (and no debt relief in sight!)**
- 5. Sudan has introduced austerity budgets but reforms of tax and expenditure systems and measures to generate higher non-oil revenues need a medium- and long-term framework; fuel and food subsidies were reduced but savings not targeted to social safety nets**



## **Sound Economies and Sustainable Economic Policies - Macroeconomic Stability and International Competitiveness**

**6. The international competitiveness is reduced by inflation and exchange rate pressures, by political instability and conflicts, by neglect of non-oil exports, and by a lack of progress with structural reforms**

**7. In May 2012 South Sudan inflation has reached 80 % while the currency (SSP) has lost 40% of its value to the US \$ from February to June 2012; non-oil sources generate not more than 10% of public revenues**

# **Sound Economies and Sustainable Economic Policies - Public Finance Management and Fiscal Federalism**

- 1. Macroeconomic Stability can only be provided in a medium-term public finance framework; key is the public finance separation of the “oil economy” and the “non-oil economy”; the public finance share of the non-oil economy has to be increased while the public finance share of the oil economy has to be stabilized; this requires in practice a Permanent Fund/Permanent Income Approach in oil- exporting countries like South Sudan to care for the future**

# **Sound Economies and Sustainable Economic Policies - Public Finance Management and Fiscal Federalism**

- 2. As Sudan will get a share of the oil revenues of the South as a budget assistance according to the “Oil Agreement” also this country will have to plan carefully how to spend the oil money in the next three years**
- 3. Oil revenues in South Sudan have to be used for a Permanent and Stabilization Fund (for future income and for fiscal stabilization), for (social) cash payments to the people, and for priority spending to key sectors**

# **Sound Economies and Sustainable Economic Policies - Public Finance Management and Fiscal Federalism**

- 4. Both countries need to work on new forms of fiscal decentralization as the system of block transfers from the central government to the states is not pro-poor; it is not based on criteria such as per capita income, income inequality, human development, constraints on development and on utilising development potentials**
- 5. Fiscal Management at all state levels needs reforms (to avoid multiple taxation, increase transparency, etc.)**

# **Sound Economies and Sustainable Economic Policies - Public Finance Management and Fiscal Federalism**

**6. The whole system of public expenditures and public revenues needs structural transformation because of: a low taxation to GDP ratio; the high share of non-tax revenues; the low importance of direct taxation; a low share of allocations to education and health, social subsidies, and grants/transfers to the states; low and volatile development expenditures; and because of an overwhelming importance of public wages and salaries and of government purchases (defense and security!)**

# **Sound Economies and Sustainable Economic Policies - Supporting Diversification and Non-Oil Sectors**

- 1. In both countries the “oil economy” has prevented diversification of the economy and support of non-oil sectors (mainly: agriculture, manufacturing, and of services related to these productive sectors)**
- 2. The solution for Sudan is not to concentrate action on gold mining (with its horrible working conditions and destructive effects on the environment), on the search for new oil fields, or on other mining options**

# **Sound Economies and Sustainable Economic Policies - Supporting Diversification and Non-Oil Sectors**

**3. The solution is for both countries to concentrate on broad-based agriculture (for the three sub-sectors) and on agro-industry development; agro-industry potentials are huge, but economic incentives have to be provided. By incentives comparative advantages in agriculture can be converted into competitive advantages - by increasing productivity in export sectors, by investing into R&D, extension services, vocational education, but also by investing into trade and export promotion**



# **Sound Economies and Sustainable Economic Policies - Supporting Diversification and Non-Oil Sectors**

**4. Both countries emphasize their huge opportunities as having vast “breadbasket” areas with prime land, but both countries are dependent on food imports because of the bad state of agriculture. South Sudan has a share of 43% of food imports in total imports, and has only negligible exports. Sudan has an import share of around 15% of its total merchandise imports and an export share of only 5-6%, despite of having 80% of the workforce employed in the overall agriculture sector**

# **Sound Economies and Sustainable Economic Policies - Social Safety Nets and Employment Creation**

- 1. The legal/official social security system in Sudan is covering only few per cent of the population and of the work force (old age pension: 3.8% of the people in pension age; only 2.9% of work force are paying social security contributions); public expenditure for social security is 0.3% of GDP; and public health expenditures are at 1.26% of GDP, so that “cost recovery” is affecting the poor and the middle class; a gradual adaptation of the legal system is needed**

# **Sound Economies and Sustainable Economic Policies - Social Safety Nets and Employment Creation**

**2. Private forms of social security and Zakat systems of poverty alleviation as well as Islamic and other charity organizations cover only few people, as few people can pay for private insurance and as the Zakat Chapter has high administration costs and is funding only a small number of poor people; some extensions are possible; informal, traditional and family forms of social support dominate. Cost recovery in health and inflation have eroded the legal, private, Zakat and informal systems**

# **Sound Economies and Sustainable Economic Policies - Social Safety Nets and Employment Creation**

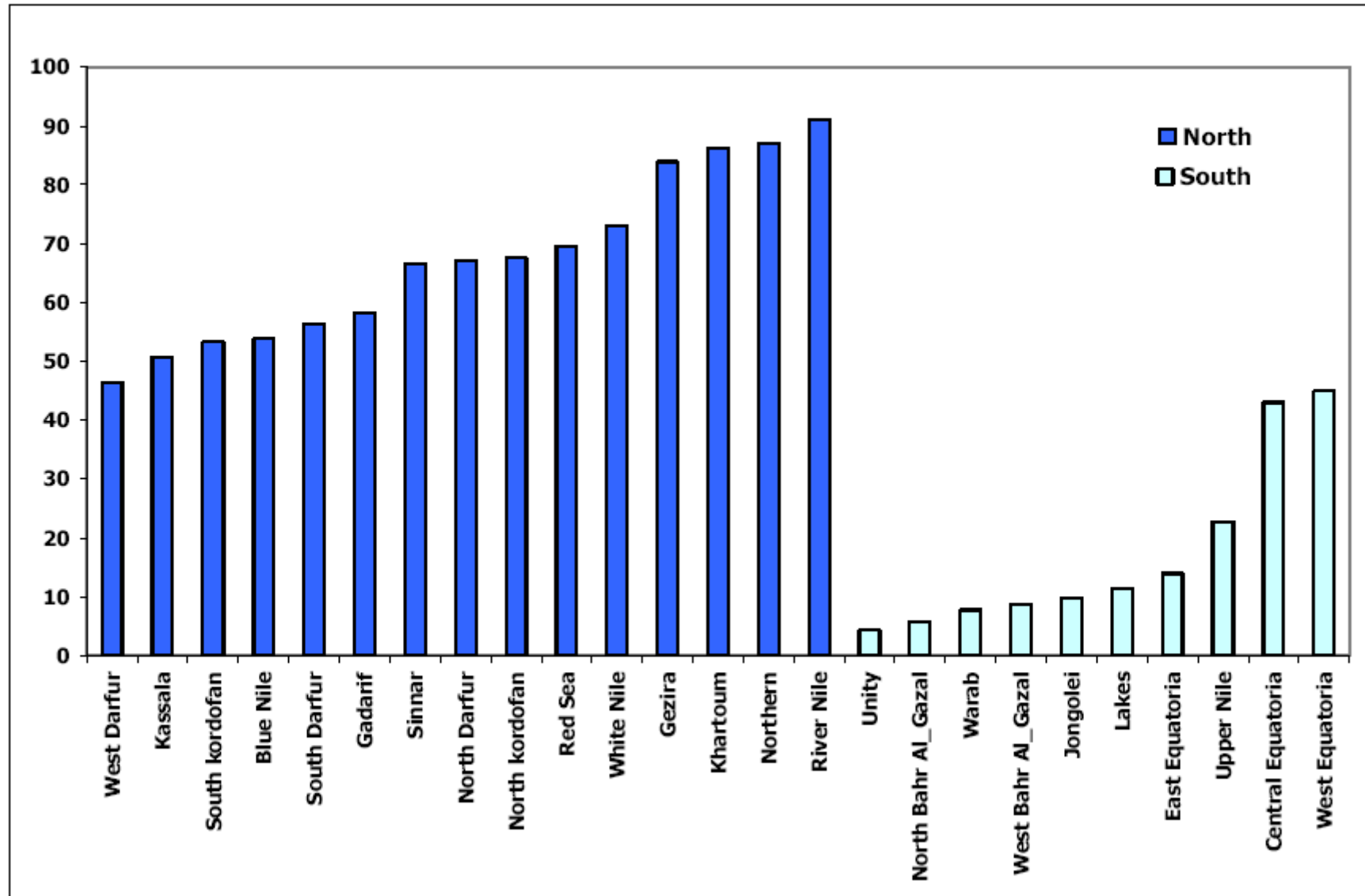
- 3. South Sudan should use a share of its oil revenues for (conditional social) cash transfers, for social assistance, and for health and education sectors, targeted to the mostly poor people, linking funding to (youth and adult) employment creation schemes**
- 4. Sudan has to generate savings (reducing fuel price subsidies, reallocating funds from wages and salaries and government purchases) for targeted social support**

# **Sound Economies and Sustainable Economic Policies - Social Safety Nets and Employment Creation**

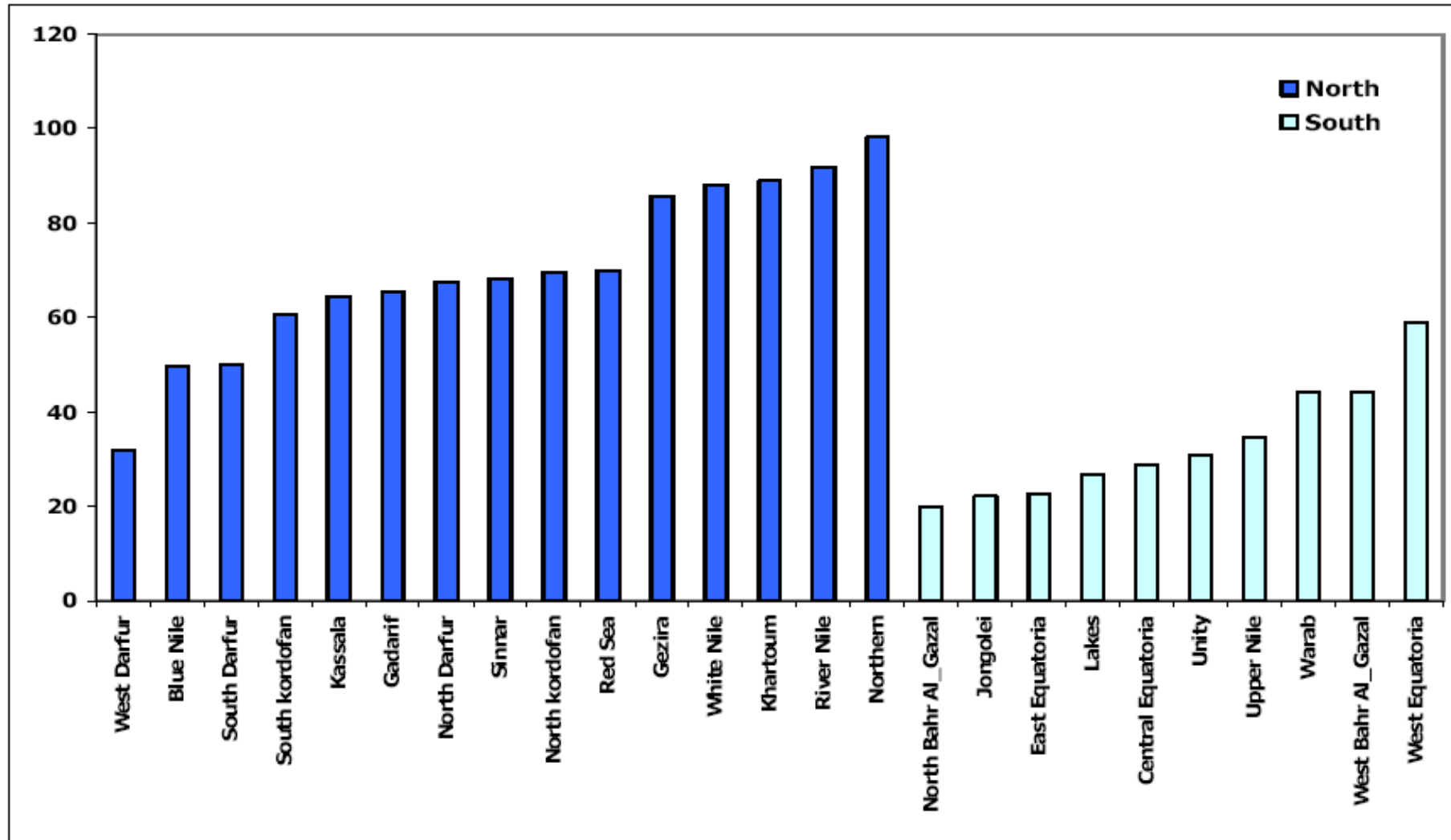
**5. Both countries can do more for health and education sectors and for labour market interventions as overall and youth unemployment rates are alarming; the huge imbalances between states are a source of conflicts and need to be addressed by a new fiscal federalism**

**6. Macroeconomic policies can become pro-poor by targeting agriculture, agro-industries, manufacturing sectors, small and medium enterprises and services**

**Figure 1: Net primary school attendance rate: Proportion of children of primary school age currently attending primary or secondary school, %**



**Figure 2: Skilled attendant at delivery: Percentage of births attended by skilled health personnel, %**





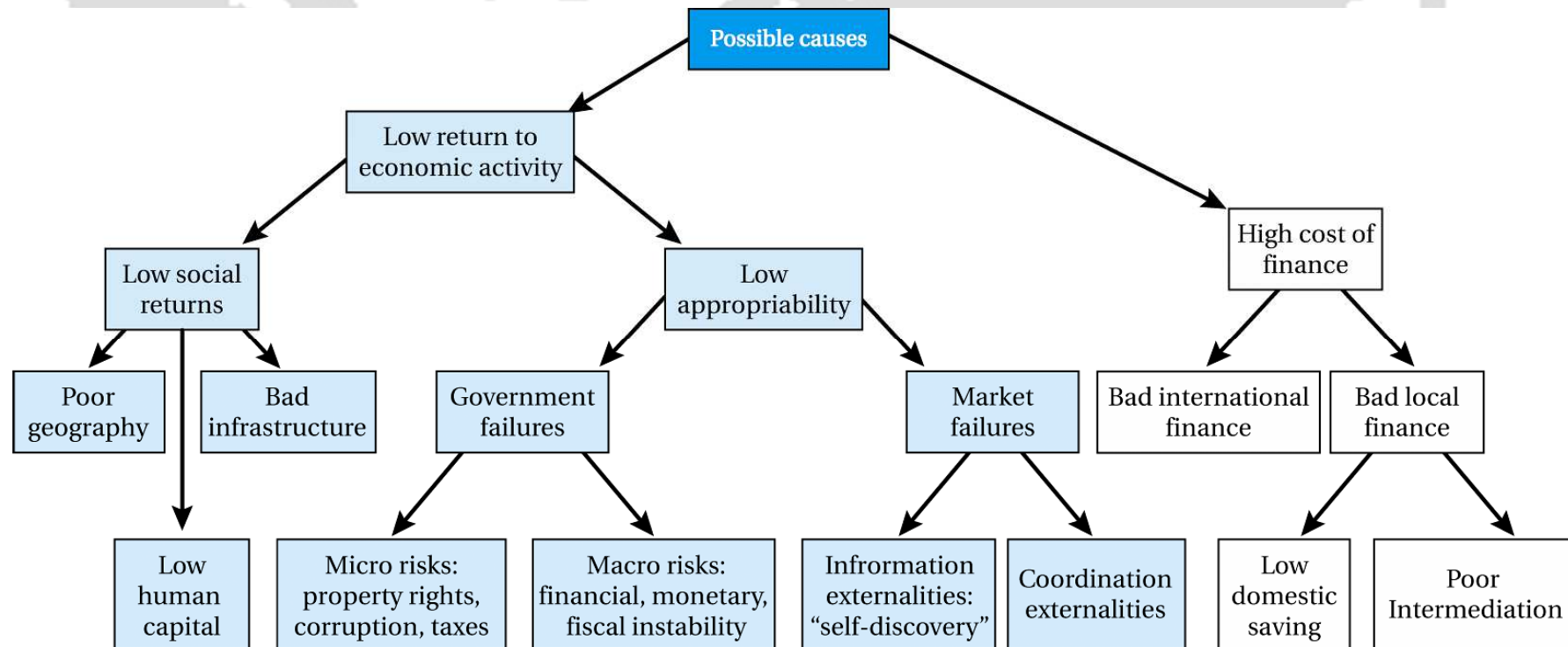
# **Sound Economies and Sustainable Economic Policies - Reducing Horizontal Economic and Social Inequalities**

- 1. Horizontal Inequalities (between regions, states, counties, ethnic groups and other identity groups) can be addressed by pro-poor grants and block transfers to the regions, states, counties/localities, but also by a new bottom up growth strategy**
- 2. Such a new growth strategy was already conceived for: Blue Nile, South Kordofan, Upper Nile, Western Bahr El Ghazal and Eastern Equatoria States**

# **Sound Economies and Sustainable Economic Policies - Reducing Horizontal Economic and Social Inequalities**

- 1. With a new bottom-up growth strategy based on a “growth diagnostics” approach the reform policies can be better focussed at state and county levels so as to initiate a broad-based development process and to reduce the serious “horizontal inequalities”**
- 2. The “growth diagnostics” approach (developed by Hausmann/Rodrik/Velasco 2005) identifies “binding constraints to growth” and facilitates policy action**

# Sound Economies and Sustainable Economic Policies - Reducing Horizontal Inequalities by a New Bottom-Up Growth Strategy



# **Sound Economies and Sustainable Economic Policies - Reducing Vertical Inequalities As Measured by GINI-Coefficients**

- 1. Action is needed at the level of the rich and the super-rich: progressive income and real estate taxation; cost recovery measures; and eliminating high public wage and salary scales and allowances**
- 2. Action is needed at the level of the middle class: as inflation and cost recovery for health and education have impoverished large segments of this class**
- 3. Action at the level of the poor and the poorest: s. a.**

# **Sound Economies and Sustainable Economic Policies – Avoiding Disasters in three Major Areas**

- 1. Ecology: Deterioration in all agricultural sub-sectors and in mining and oil production - because of land use, policies, conflicts, and climate change**
- 2. Land rights: Lack of de facto land rights in the North and in the South; large-scale expropriation and sale of agricultural prime land in the North and the South**
- 3. Governance: Lack of minimum standards in all types of governance in the North and in the South**

## **Towards Strategic Economic Cooperation between Sudan and South Sudan – Interdependence and Horizontal Inequality**

- 1. The transition period 2005-2011 and more so the post-independence period since 9/7/2011 have seen too many erroneous views about “independence” and “interdependence”; it was overlooked by too many that interdependence may even increase with independence; “isolation view of independence”**
- 2. Interdependence has three main implications: mutual dependence, sensitivity, and vulnerability**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Interdependence and Horizontal Inequality**

- 1. The oil production stop of early 2012 shows how mutually dependent the two countries are, how sensitive they are to actions and reactions of the other side, and how vulnerable they are when they try to get out of this high level interdependence**
- 2. There are so many other areas of interdependence (like natural resource development; environment and climate change adaptation, infrastructure, etc.)**



# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Interdependence and Horizontal Inequality**

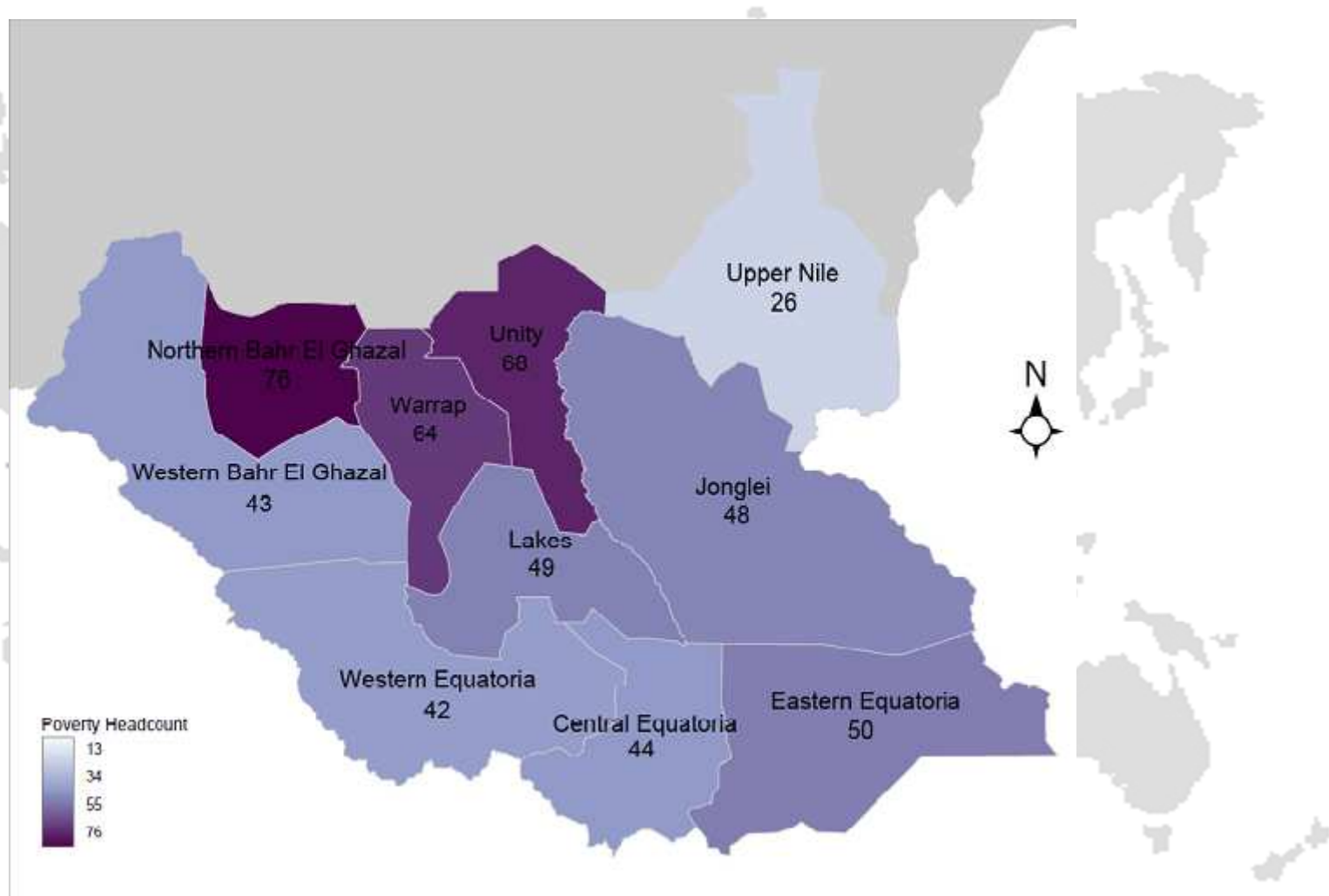
- 1. “Horizontal inequality” can explain a lot of conflicts in Africa, and particularly so in Sudan and South Sudan; it can be defined as an inequality between “identity groups”, like people in particular regions, states, counties, or ethnic and religious groups, as well as groups of producers (as livestock herders)**
- 2. This form of inequality spreads to other regions and cross-border - “vertical” inequality does not always**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Interdependence and Horizontal Inequality**

- 1. “Horizontal inequality” has four components: economic, social, political, and cultural; conflicts arise with more intensity if more than one type is prevalent; in the border-states of Sudan and South Sudan we have such a serious merger of factors;**
- 2. While actual inequalities matter, the perceived ones are also dangerous; perceived ones can escalate violent action if not early warning systems are used**

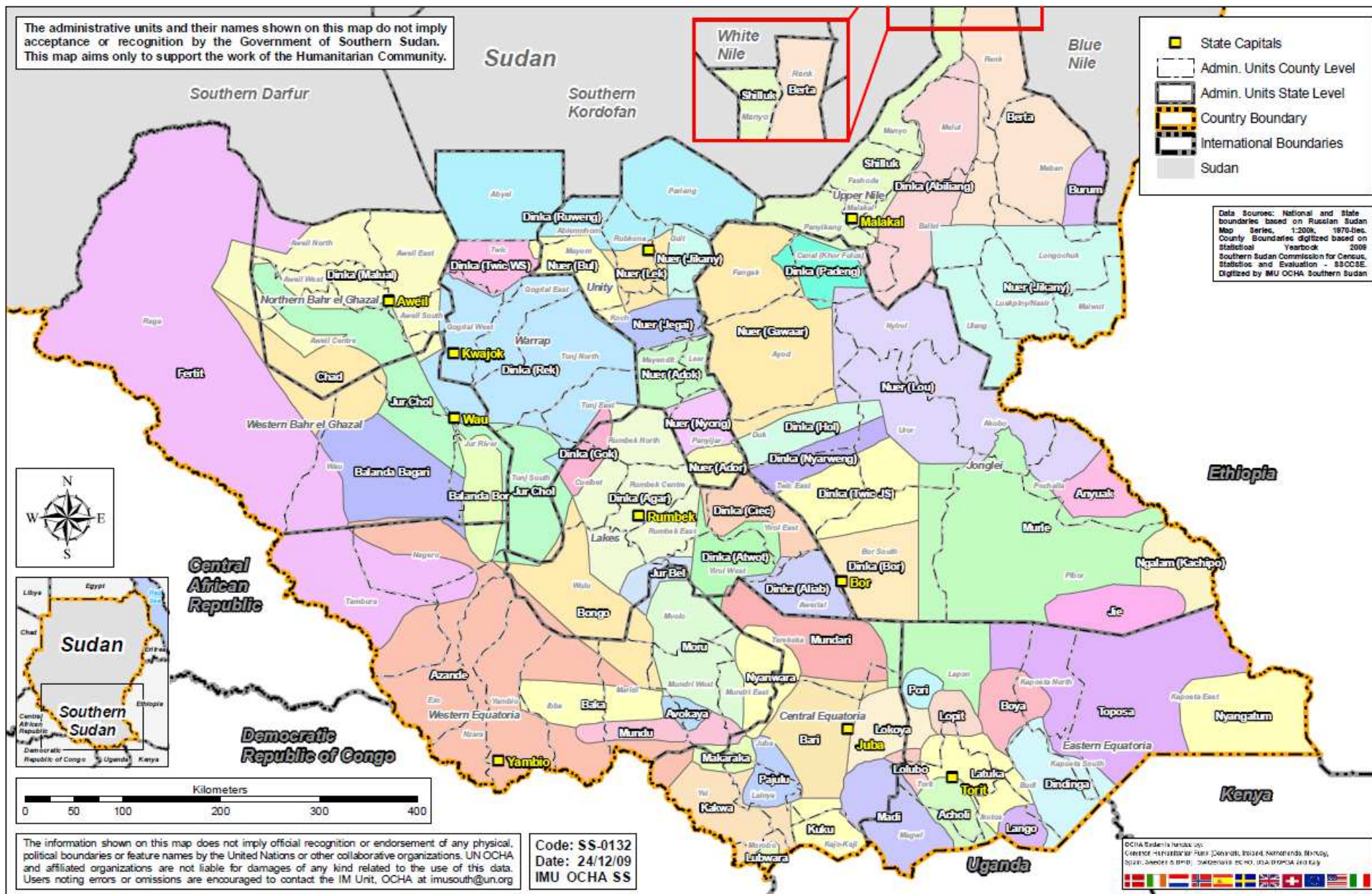
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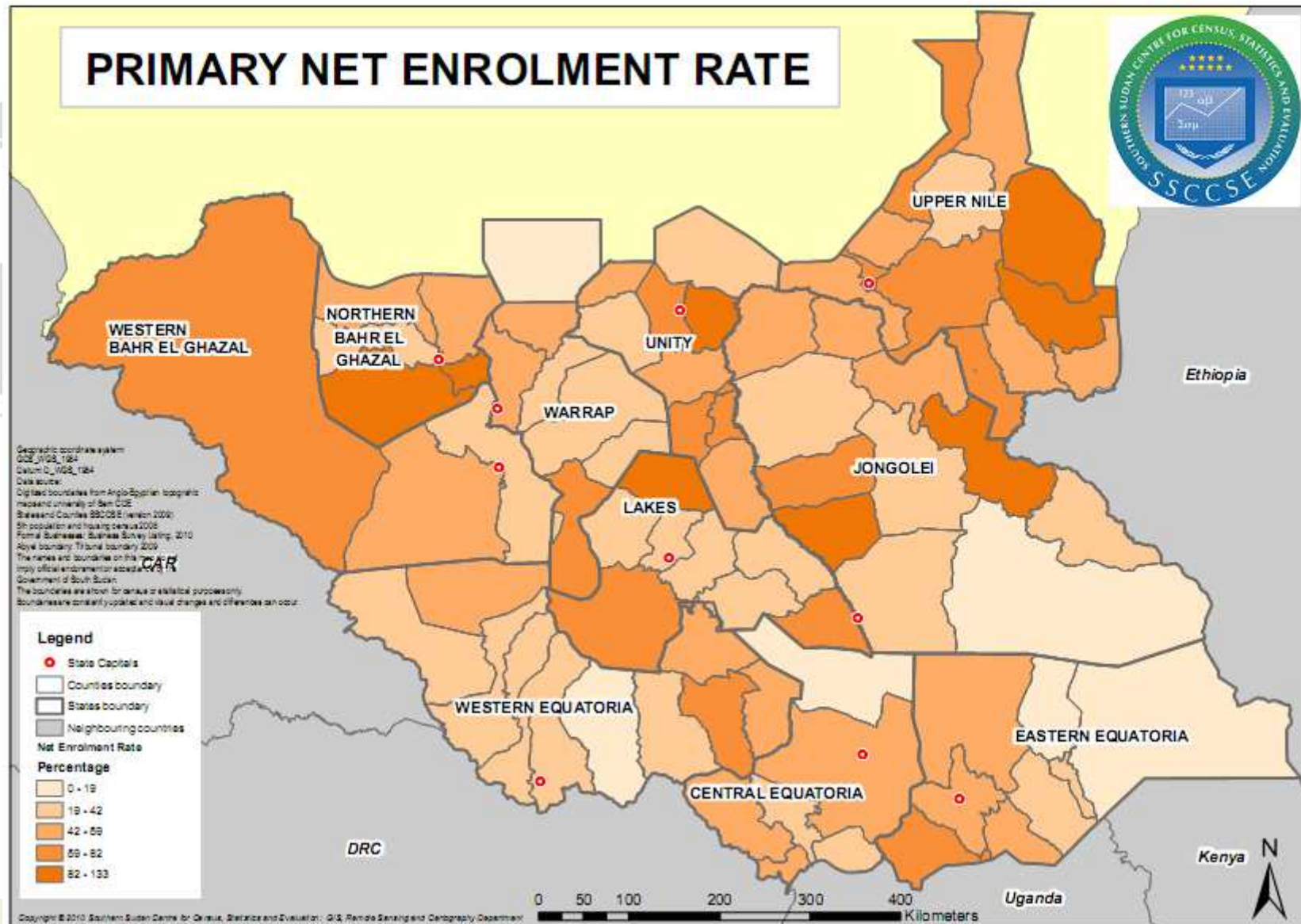
- 1. “Horizontal inequality” can be attacked by broad-based development, especially by agricultural and agro-industrial development, related infrastructure development and integrated human development**
- 2. Most serious in the Sudans is the fact that all other important causes of conflict/violence (grievance and “greed”; transition from grievance to “creed” and “greed”; lack of commitment and trust ) also apply**





# Projekt Afrikanische Entwicklungsperspektiven







## **Towards Strategic Economic Cooperation between Sudan and South Sudan – “Strategy”, “Framework”, “Cooperation”**

- 1. “Strategy”:** A strategy directs development based on visions, development plans, and action plans; the two Sudans have development plans but lack visions, action and implementation plans; there is only marginal reference to the other Sudan state.
- 2. “Framework”:** As external constraints by regional and international organizations are not effective, a set of formal and/or informal agreements is needed



# **Towards Strategic Economic Cooperation between Sudan and South Sudan – “Strategy”, “Framework”, “Cooperation”**

- 1. “Cooperation”:** This is a concept starting with exchange of information and then moving up the ladder to mutual commitments and then even to a coordination of policies with specific targets set quantitatively, being relevant at various state levels
- 2. A Strategic Framework for Economic Cooperation** for the two Sudans should first of all work on the basis of information and incentives to create trust

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Border-States as Powerhouse and Growth Pole**

- 1. The ten Border-States have a unique position as being richly endowed with labour and human resources, oil and gas, other mineral resources, land under semi-mechanized farming, hydropower, waters from lakes and rivers, pastures, grasslands and forests, livestock, wildlife and game reserves, cross-border agricultural value chains, etc.**
- 2. But resource conflicts dominate along the borders**

## **Towards Strategic Economic Cooperation - Oil-Wealth Sharing and Long-Term Use of Oil Funds remain the Key Policy Issues**

- 1. Oil-Wealth Sharing Formulae: The new Agreement is not a solution as it is only short-term and as it is not including a developmental component in the border-region (Abyei Proposal!). A Joint Venture Agreement for oil industry development may be appropriate.**
- 2. Formulae for Oil-Wealth Use: Both countries agree on the Alaska model (Permanent Fund, Social Cash Payments to people; Public Priority Expenditures)**

# Projekt Afrikanische Entwicklungsperspektiven



# **Towards Strategic Economic Cooperation between Sudan and South Sudan – The Five Core Programmes**

- 1. Five Core Programmes are identified for Strategic Economic Cooperation - these would support a new and more inclusive growth model in the two Sudans by favouring joint development programmes**
- 2. These five core programmes will focus on the most important binding constraints on development at national, state, locality and county levels, and so act on “interdependence” and “horizontal inequality”**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Core Programme 1: Border-States Development**

- 1. Growth diagnostics and participatory approaches in the ten states will lead to master plans which can be coordinated at the level of a joint Border-States Development Commission (extending cooperation beyond the Tamazuj States' Governors Meetings in the transition period!) and also at national levels**
- 2. Fiscal, infrastructure, agro-industrial, ecological and STI plans are proposed, integrated and implemented**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Core Programme 2: Agro-industrial Development**

- 1. Agro-industrial strategies for the two Sudans need clarification if a broad-based development is really intended, or a hydropower-focussed agro-industry development in Sudan and a highly selective agro-commercialization strategy in South Sudan; both strategies would not reduce horizontal inequalities**
- 2. After such clarification there are many opportunities to extend/integrate cross-border agro-value chains**



# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Core Programme 3: Medium- to Long-Term Public Finance Strategy**

- 1. Based on a Permanent Income/Permanent Fund approach the taxation and expenditure systems have to be reconstructed in both Sudans at all state levels, what requires long-term oil-revenue-sharing**
- 2. The public revenue and expenditure systems are not “pro-poor” and developmental; grants to states, development expenditures, “pro-poor” expenditures are at present not reducing “horizontal inequalities”**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Core Programme 4: STI Infrastructure and National Innovation Systems**

- 1. Both Sudans can develop and support like Rwanda an STI-based agro-industrial development strategy, and there are plenty of opportunities to cooperate, as agro-conditions in the border states are similar.**
- 2. Agricultural Research Systems of Sudan had high levels and could be adapted and networked for Agricultural Innovation Systems to support effective agro-industrial value chains in both countries**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Core Programme 5: Environment, Climate Change Adaptation, and Land Policies**

- 1. Interdependence with regard of environment and climate change is so strong that immediate action is requested based on available evidence; high priority for coordination of environment plans and action**
- 2. Land policies are in both Sudans the most relevant binding constraint for agro-industrial development, broad-based development, but also climate change adaptation and reducing “horizontal inequalities”**

# **Towards Strategic Economic Cooperation between Sudan and South Sudan – Five Supplementary Programmes with Cross- Border Perspective**

- 1. Foreign, Trade, Investment, Regional Integration**
- 2. Private Sector Development and Dialogue Forums**
- 3. Infrastructure Development and Services Provision**
- 4. Poverty Alleviation, Social Policy and Human Development**
- 5. Coordinating and Integrating Donor Interventions and Humanitarian Assistance**

# **Sustainable Development and Strategic Cooperation - A Tool for Peace?**

- 1. Sound Economic Policies in both states are a precondition for a Strategic Cooperation and for Peaceful Relations**
- 2. Strategic Cooperation in the Border-States Region is of greatest importance for development and peace all over the two states**
- 3. New modalities for oil-wealth generation, oil-wealth sharing and oil-wealth use will contribute to peace**