

A Strategic Framework For Economic Cooperation between Sudan and South Sudan

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A Strategic Framework For Economic Cooperation between Sudan and South Sudan

- 1. What Went Wrong?**
- 2. A Strategic Framework For Economic Cooperation: Meaning and Substance**
- 3. A Strategic Framework For Economic Cooperation: Feasibility and Preconditions**
- 4. A Strategic Framework For Economic Cooperation: Programmes and Implementation**
- 5. The Way Forward**

What Went Wrong? Periods of Economic Policy Formation and Conflicts

1947-1956: No real development initiative since the Juba Conference of 1947 to plan and implement for the future of Sudan; start of civil war in 1955

1956-1972: Early attempts at development planning and industrialization; regime changes; civil war

1972-1983: Addis Ababa Agreement, but two distinct phases; in Phase 1 to 1978/79 ambitious Breadbasket Programme, and in Phase 2 various emerging conflicts

What Went Wrong? Periods of Economic Policy Formation and Conflicts

1983-1989: Start of Second Civil War; Regime Changes; Political and Economic Instability since 1985; again no move to broad-based regional development towards rain-fed agriculture despite of international advice

1989-1999: Bashir government; Civil War continued; experiments with new economic philosophies and policies; slow growth and impoverishment even of the middle class; no change despite of international advice

What Went Wrong?

Periods of Economic Policy Formation and Conflicts

1999-2005: Continuation of Civil War; Start of oil exports and of an oil economy without any institutions for transparency and planning; parallel administration in the South; high but increasingly volatile growth rates; no action for broad-based regional development; new conflicts in Darfur and East; CPA of 9/1/2005

2005-2011: Transition period to Referendum; early phase spread optimism but increasingly lack of trust

What Went Wrong? The Sudanese Growth Model – Pre 1999

- 1. Low growth (stagnation 1960-1999 with 0.39% p. a.)**
- 2. Volatile growth (very dangerous for fiscal planning)**
- 3. Top-down growth strategies (no bottom-up plans)**
- 4. Growth is increasingly associated with “horizontal inequalities” and “vertical inequalities”**
- 5. Growth is not broad-based by sectors and regions and is underfinanced by tax revenues/expenditures**

What Went Wrong? The Sudanese Growth Model – Post 1999

- 1. High growth (around 6-8% but great fluctuations)**
- 2. Increasingly volatile growth (very dangerous for fiscal planning as no Permanent Fund is in place)**
- 3. Top-down growth strategies (no bottom-up plans) and no move to broad-based regional development**
- 4. Growth is increasingly associated with “horizontal inequalities” and “vertical inequalities”**

What Went Wrong? The Sudanese Model of Development Administration and Governance

- 1. Development Strategies are not evidence-based and not implemented (visions and development plans are not really translated into action plans)**
- 2. Institution-building was not seen as the key development function (some skills development took place but was not embedded into institutions)**
- 3. Finance was seen as the key constraint to growth instead of institutions and knowledge absorption**

What Went Wrong? The Sudanese Model of Development Administration and Governance

- 1. The oil sector escalated the governance problems and spread them to all other economic sectors and political mechanisms; see governance indicators**
- 2. Public finance systems did never balance the interests of the federation, the states and the local communities/counties and never worked pro-poor**
- 3. Governance in the South is contested by the international aid business; huge security sector**

A Strategic Framework For Economic Cooperation: Meaning and Substance 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**

A Strategic Framework For Economic Cooperation: Meaning and Substance 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.)**

Projekt Afrikanische Entwicklungsperspektiven



A Strategic Framework For Economic Cooperation: Meaning and Substance Interdependence and Horizontal Inequality

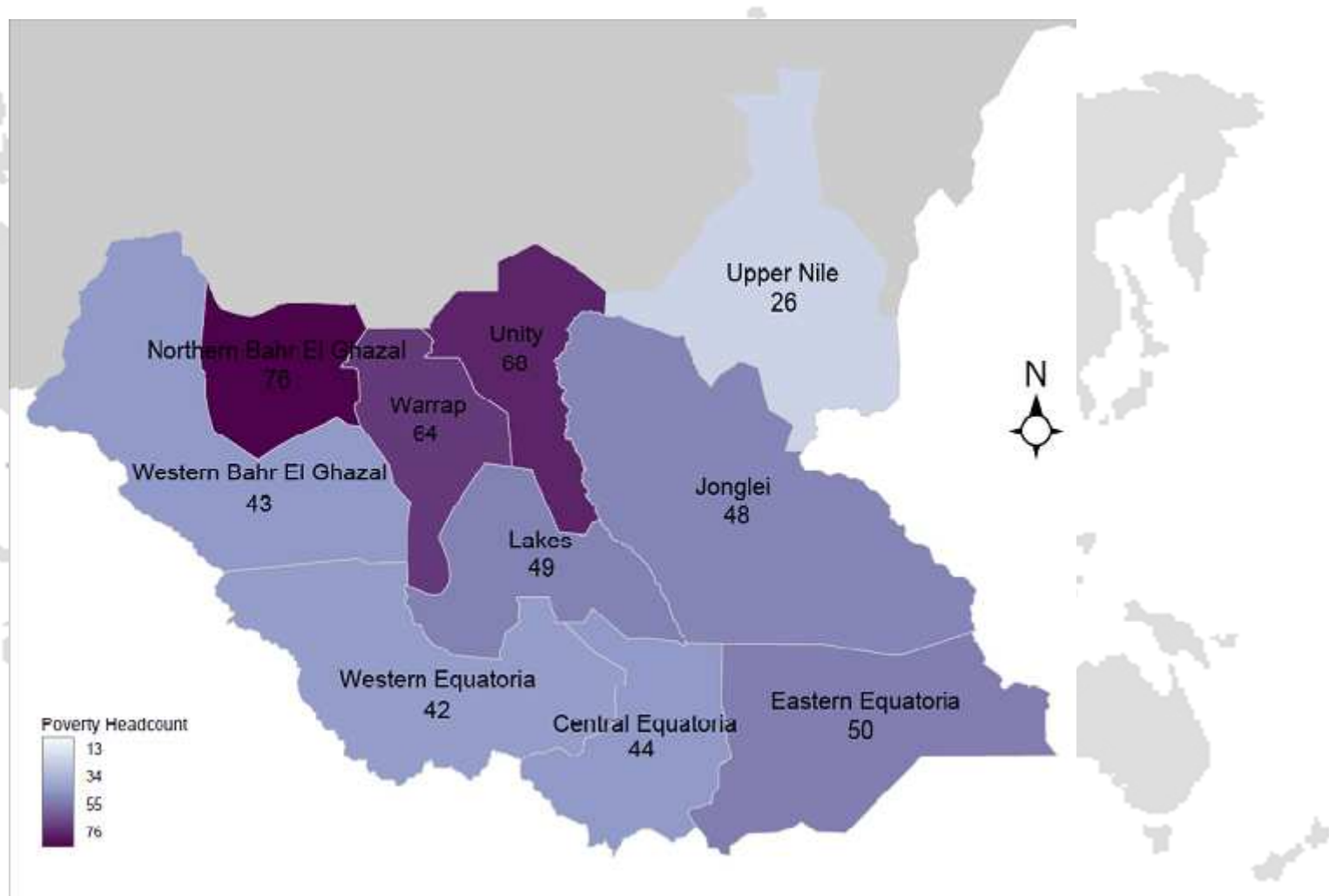
- 1. “Horizontal inequality” can explain a lot of conflicts in Africa, and particularly so in Sudan and South Sudan; it can be defined as an inequality between “identity groups”, like people in particular regions, states, counties, ethnic groups, religious groups, and also groups of producers affected by politics**
- 2. This form of inequality spreads to other regions and cross-border while the “vertical” one not always**

A Strategic Framework For Economic Cooperation: Meaning and Substance 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**

A Strategic Framework For Economic Cooperation: Meaning and Substance Interdependence and Horizontal Inequality

- 1. “Horizontal inequality” can be attacked by broad-based development, especially so 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**



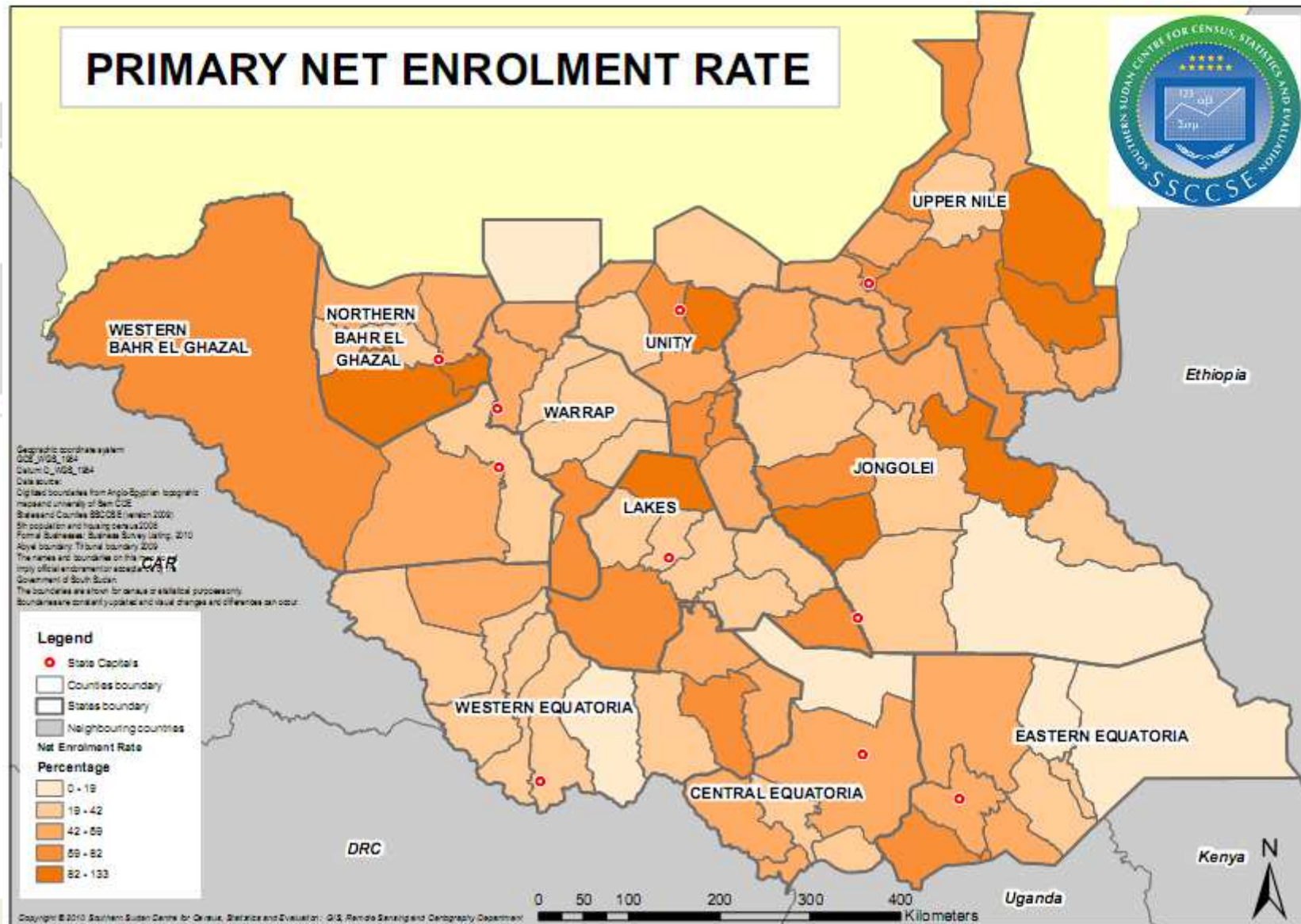


Figure 1: Net primary school attendance rate: Proportion of children of primary school age currently attending primary or secondary school, %

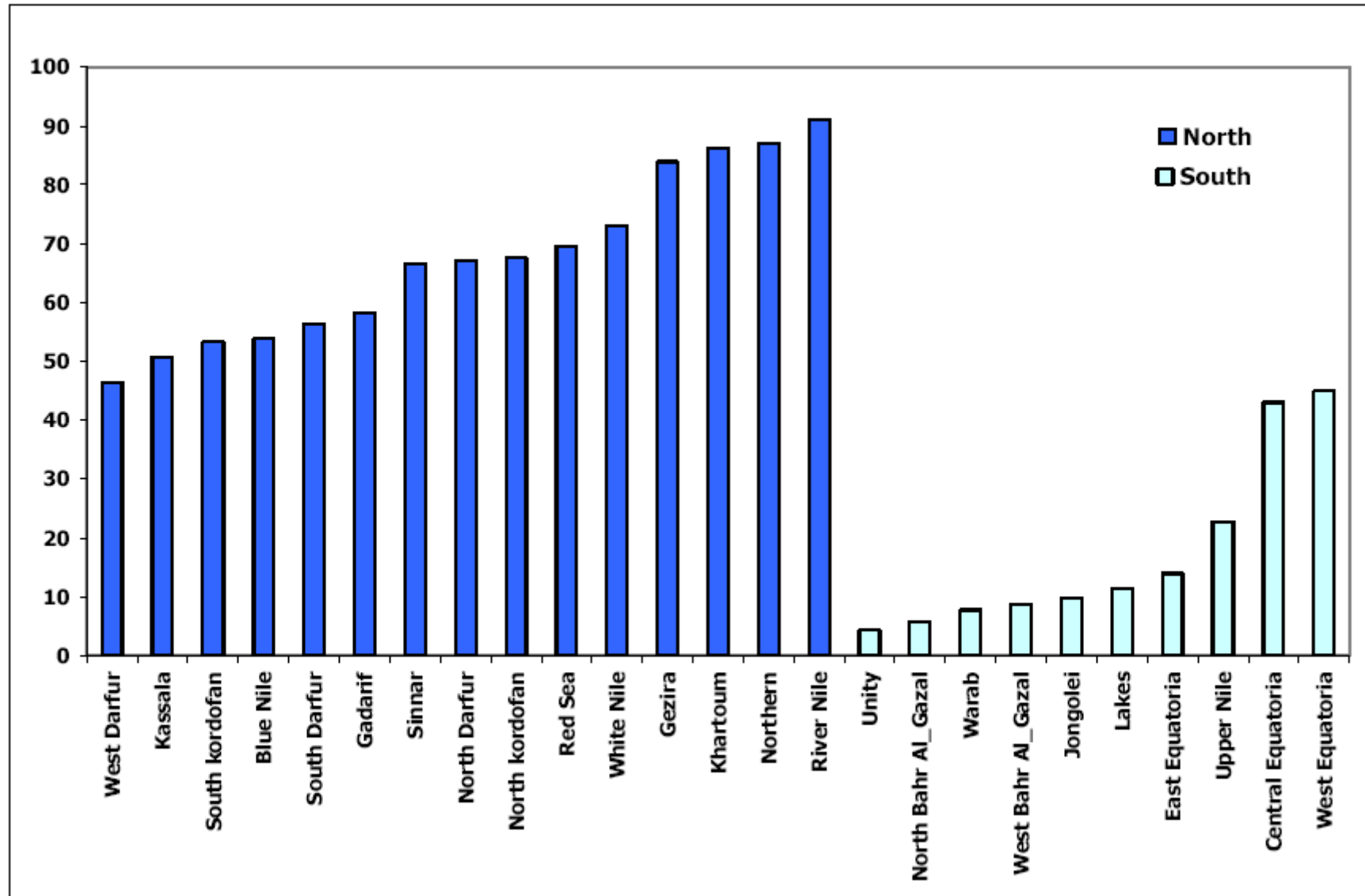
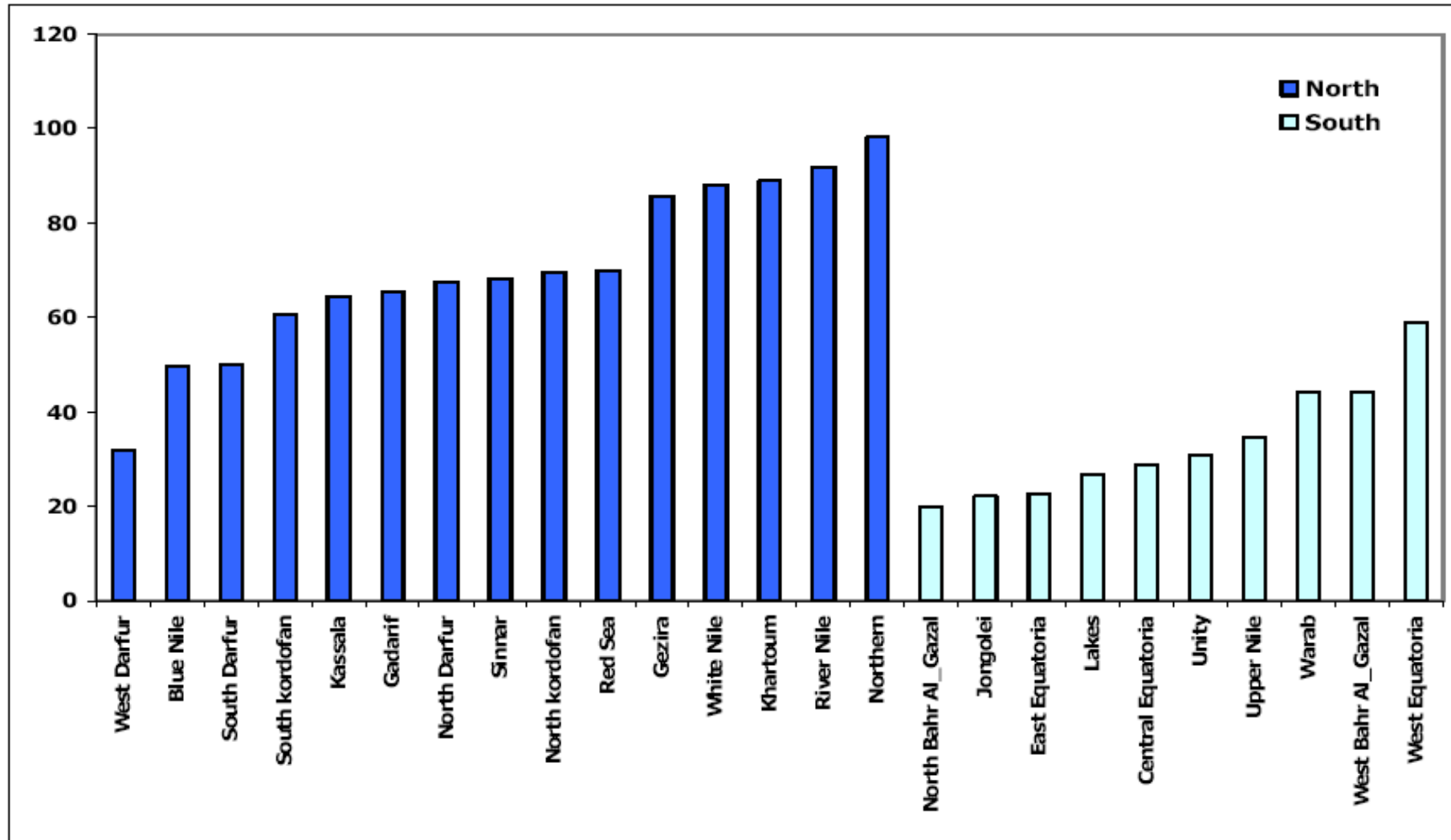


Figure 2: Skilled attendant at delivery: Percentage of births attended by skilled health personnel, %



A Strategic Framework For Economic Cooperation: Meaning and Substance “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

A Strategic Framework For Economic Cooperation: Meaning and Substance “Strategy”, “Framework”, “Cooperation”

- 1. “Cooperation”:** This is a concept starting with exchange of information and then moving up the ladder to mutual commitments and even to a coordination of policies with specific targets set quantitatively, and based 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

A Strategic Framework For Economic Cooperation: Meaning and Substance Long-term Commitments after the Separation of the South

- 1. The Example of Czechoslovakia: The separation was based on long-term EU integration of both parts; it was and is a success story, although both parts developed in quite different ways but at very high levels of integration and interdependence**
- 2. Important lessons for the two Sudans: Prevailing incentives for the “near-war” situation and agitation have to be broken by long-term commitments**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions Four Negotiation Complexes

- 1. The “Border, Oil and Hydropower” Complex: Nothing with borders and border demarcation is a technical issue; all issues are of great strategic importance; all border issues have resource use, security and development strategy implications**
- 2. The “Citizenship, Refugees and Human Rights” Complex: These are not only legal issues, but developmental issues of long-term importance**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions Four Negotiation Complexes

- 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: Solutions will be easier with successful negotiations on complexes 1-3; role of employment**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions 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, semi-mechanized farming, hydropower, pastures, grasslands and forests, livestock, wildlife and game reserves, cross-border agricultural value chains, and also waters from lakes and rivers, etc.**
- 2. Resource conflicts dominate at/along the borders**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions

New Oil-Wealth Sharing Agreement and Long-Term Use of Oil Funds are the Key Policy Issues

- 1. New Oil-Wealth Sharing Formulae: There are three alternatives (Phasing out Wealth-sharing within 10 years and then International transit fee; Payment of International transit fee plus Budget assistance for 10 years; Joint venture agreement for oil industry)**
- 2. Formulae for Oil-Wealth Use: Both countries agree on the Alaska model (Permanent Fund, Social Cash Payments to people; Public Priority Expenditures)**

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A Strategic Framework For Economic Cooperation: Feasibility and Preconditions

Four Arguments about Feasibility

- 1. Interdependence: A long list of prevailing and even increasing interdependencies in economic and trade policies, resources use, border regimes, climate adaptation, market development, agro-value chain integration, labour mobility and migration, and natural resource development can be presented**
- 2. A Strategic Framework is feasible as alternatives are associated with high opportunity costs/conflicts**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions

Four Arguments about Feasibility

- 1. External Instability: Neither the links of Sudan to Arab countries and GAFTA nor of South Sudan to African countries and EAC will be stronger, more beneficial and less affected by tensions about resources and finance; case of oil and gas in EAC!**
- 2. Opportunities and Options: A Strategic Framework will provide the basis for exploiting large economic opportunities of cooperation and options/choices**

A Strategic Framework For Economic Cooperation: Feasibility and Preconditions

The Limits of the “Roadmap”

- 1. The “Roadmap” highlights most important actions towards security (decisions on seven measures) and for solving the four major issues awaiting final and binding decisions (on sharing of oil revenues, border issues, citizenship issues, and Abyei)**
- 2. Compared with the four complexes as discussed above the content of the “Roadmap” is suboptimal to a fully negotiated package agreement as outlined**

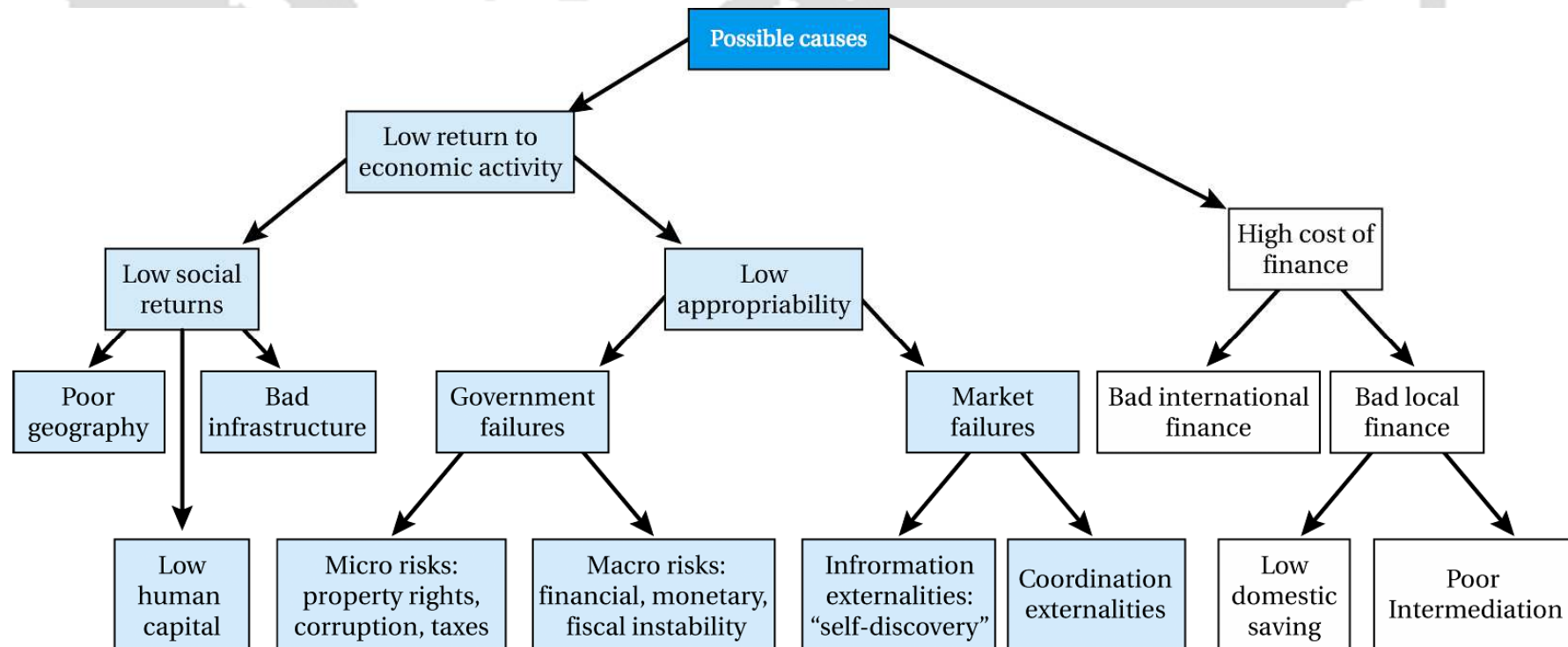
A Strategic Framework For Economic Cooperation: Programmes and Implementation

The “New” Approach: Growth Diagnostics

- 1. Allows it to structure better the reform policies by focussing on bottom-up growth assessments at state levels to initiate a broad-based development process and to reduce “horizontal inequalities”**
- 2. The “growth diagnostics” approach (developed by Hausmann/Rodrik/Velasco 2005) identifies “binding constraints to growth”; was already applied to three states in Sudan, but results wait for implementation**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

The “New” Approach: Growth Diagnostics



A Strategic Framework For Economic Cooperation: Programmes and Implementation

The Five Core Programmes

- 1. Five Core Programmes were identified for Economic Cooperation as these would change the growth model in the two Sudans towards growth and poverty alleviation by looking at the most important binding constraints at state, locality and county levels; “horizontal inequality” is in focus.**
- 2. When the “binding constraints” are identified, these Programmes can be adapted at the national levels**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

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 participation over the Governors Meetings for the Tamazuj states in the transition period) and also at national levels**
- 2. Fiscal, infrastructure, agro-industrial, ecological and STI plans are proposed, integrated and implemented**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

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**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

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 first of all 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”**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

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**

A Strategic Framework For Economic Cooperation: Programmes and Implementation

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**

A Strategic Framework For Economic Cooperation: Programmes and Implementation 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**

A Strategic Framework For Economic Cooperation: The Way Forward

- 1. Starting with Stakeholder Dialogue Forums at all Levels, especially so at Border-states Levels**
- 2. Identifying Issues for Action which promise quick benefits through economic and political cooperation**
- 3. Creating quickly awareness about the fundamental importance of oil-wealth sharing and oil-wealth use for both Sudans and the need to follow a Permanent Income/Permanent Fund approach (“Alaska model”)**