The Economic Impact of Southern Sudan Secession

Khalid Hassan Elbeely[1]

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ABSTRACT

This paper aims at examining the economic impact of Southern Sudan secession on the economy of both the North and the South, especially its impact on certain economic indicators which include: the exchange rate; government revenue; external debt; and balance of payment; and GDP and per capita income. In addition, the proposed policies to mitigate the negative impact which may take place as a result will be assessed critically.

The results indicate that the economy of the North has been badly affected by the Southern Sudan secession. Hence, the value of the Sudanese Pound against the dollar has deteriorated drastically, while the balance of payment deficit has even widened, and at the same time inflation rates rise steadily to around 28%. In contrast, per capita income has increased, but this was due mainly to the reduction in number of population that took place as a result of Southern Sudan secession. Alternatively, public debt still remains high at 38 billion dollar, with the two parties yet to reach to an agreement over debt apportionment issue.

1-1-Introduction

Sudan gained its independence on 1th January 1956 from the Anglo-Egyptian Condominium rule, since then the country had suffered from a continuous civil war between the North and the South. In fact, the war between the two parties started even before the country declared its independence, i.e., it started in August 1955. The war between the North and the South had stopped only during the period of 1972-1983 under May regime when the two parties signed Addis Ababa Agreement, but in 1983 the war erupted again triggered by the decision of the president Numerie to divide the South into three main regions without consulting his partners in the South.

On 30th June 1989 the Salvation Government came into power after overthrowing the elected democratic government of Sadig Almahdi. Indeed, the long lasting civil war and the political instability that prevailed during the period of 1985-1989 were among the main reasons, which led to that military coup. Accordingly, the Salvation Government declared its intention to stop the war in the South as one of its priorities. A federal system of government had been introduced in 1991, which divided the country into nine states (including the Southern States). Nevertheless, the war continued in the South until 2005, when the two parties (the North and the South) signed the Comprehensive Peace Agreement (CPA) in Nivasha Kenya. As a result, a referendum took place in January 2011, where the majority of Southerners (98%) vote for independence from the North and to have their own independent state, later named as "Southern Sudan State".

Due to Southern Sudan independence the North population decreased to 33.6 million (instead of 41.3 million). Moreover, the country lost about one-third of its area which amounts now to 1,882,000 sq km (Ministry of Information, 2011).

1-2-Objectives of the Study

The aim of this study is to investigate the economic impact of Southern Sudan secession on the economy of the north, specifically its impact on exchange rate; balance of payment; inflation; government revenue; Gross Domestic Product (GDP) and per capita income; and public debt. Furthermore, the policies proposed by the government in order to mitigate the negative impacts that might take place as a result of Southern Sudan independence will be examined critically.

[1] Associate Professor at College of Business Studies- Sudan University of Science and Technology,
E-mail: khalidelbeely@gmail.com

1-3- Methodology
The methodology adopted in this study is a combination of comparative, descriptive, and analytical approaches. The performance of the economy will be compared before and after Southern Sudan declared its independence from the North in July 2011. The study attempts to investigate the impact on exchange rate; balance of payment; inflation; government revenue; GDP and per capita income; and public debt during the period of 2010-2012.

The study depended on secondary sources of data, which include Ministry of Finance and National Economy reports; International Financial Institutions reports; and papers presented in workshops.

1-4- Organization of the Study
This study is divided into four major parts; part two reviews the economic impact of Southern Sudan secession on the Northern economy. Part three explores the proposed policies declared by the government in order to mitigate the negative impacts (if any) that took place as a result of Southern Sudan secession, while part four presents the conclusion of the paper and its main finding.

2- The Economic Impact of Southern Sudan Secession on the Northern Economy

This section focuses on exploring the economic impact of Southern Sudan secession on the Northern economy during the period 2010-2012; specifically it examines the economic impacts on the following economic indicators:

2-1-Exchange Rate
The Sudanese Pound's value witnessed a sharp and a continuous decline relative to foreign convertible currencies during the period 2010-2012. Hence, the official exchange rate of the Pound against the dollar had dropped from (1$=2.5 SD) in 2010 to (1$=2.7 SD) and (1$=3.0 SD) in 2011 and 2012 respectively, i.e., it fell by 10% and 20% during that period. Moreover, the gap between the official rate and the black market rate has even been widen more recently in 2012 (the black market rate is now $=5.0 SD), which indicated that the Pound has lost about 66% of its value against the dollar.

The main reason behind the deterioration of the Pound's value can be attributed to the sharp decline in exports revenue, specifically oil revenue, which contributed with 80% of exports revenue, as well as 30% of the total government revenue (Ministry of Finance and National Economy, November 2011).

2-2- Balance of Payments
The current account deficit increased from 2.6 billion dollar in 2010 to 4.5 billion dollar in 2011 (73% increase in the deficit). Furthermore, the deficit is expected to grow more in 2012 to reach 5.3 billion dollar (Ministry of Finance and National Economy, May 2011). Accordingly, the overall balance of payments deficit had increased from 1.0 billion dollar in 2010 to 2.3 billion dollar in 2011 (130% increase in the deficit), and this deficit is expected to rise more in 2012 to reach 3.3 billion dollar.

The sharp decline in oil revenue after Southern Sudan secession has been regarded as the main reason behind the huge deficit in both the current account and the overall balance, where about 75% of Sudan oil revenue generated from Southern oil production. Accordingly, the contribution of oil in exports revenue dropped from 9.7 billion dollar in 2010 to 6.6 billion dollar in 2011 (47% decrease in exports revenue).

We should note that since the discovery and beginning of exports of oil in 2000, Sudan has become a mono-product economy, highly dependent on oil for exports and revenue, with oil contributing over 80% of merchandise export and about 30% of government revenues.

Alternatively, since the advent of oil, the non-oil sector has continued to grow briskly, for example it contributed with 3.8%, 4.2%, and 7.6% of the total exports revenues during the period 2007-2009 (Poverty Strategy Paper, June 2011).

2-3-Inflation
Inflation rates increased continuously during the period 2010-2012 showing a double digit figures. Actually, in April 2012 inflation rates reach a record figure of 28%. The huge rise in inflation rates can be attributed

to many factors such as higher food prices, which represent 53% of total basket. Moreover, the sharp increase in deficit financing to offset rapidly shrinking oil revenue; coupled with the deterioration in the value of the Sudanese Pound has been regarded by many scholars as the main factor, which triggered that increase.

In fact, the Depreciation of the Sudanese Pound is expected to fuel imported inflation through imported consumer, intermediate and capital goods, on which the country has been heavily dependent (Ahmed, 2010). Alternatively, fiscal deficit has risen from 2.7% of GDP in 2010 to 4.3% of GDP in 2011, where the domestic finance (i.e., borrowing from the Central Bank, commercial banks, and the public by selling securities and bonds) attributed to 36% of the overall deficit finance (Ministry of Finance and National Economy, November 2011).

2-4 Government Revenue

The CPA's oil wealth sharing provided for a roughly 50:50 sharing of revenue from oil produced in the southern Sudan between the two parts of the country. The self-determination referendum for South Sudan provided for in the CPA was held in January 2011 where about 98% of Southerners vote in favor of the secession of South Sudan. This became effective on July 9, 2011. During the transition period of six months, the authorities of the North and the South were in negotiations on a number of post-referendum issues, namely oil wealth sharing, debt apportionment, currency, citizenship, borders, and the status of Abyei area (Poverty Strategy Paper, 2011).

With about 75% of Sudan oil revenues generated from Southern oil production, the independence of the South has immediate negative fiscal implications. Although government revenue had risen by 9% in 2011 in comparison with 2010 due to increase in oil revenues by 6.6%, since oil revenues continue to flow during the six month transitional period. Nevertheless, government revenue is expected to shrink by 24.3% in 2012 due to the sharp decrease in oil revenues by 68.9% (Ministry of Finance and National Economy, May 2011).

2-5-GDP and Per Capita Income

The anticipated decline in the growth of oil production from 10% in 2010 to 4.5% and -6.5% in 2011 and 2012 respectively has even negative impact on the GDP growth rate, which is expected to decrease from 5.5% in 2010 to 2.8% and 2.0% in 2011 and 2012 respectively (Joint IMF and World Bank report, 2010; quoted by Sobahi, 2010).

Alternatively, the average per capita income has risen from 1572.5 $ % in 2010 to 1812.9 $ and 2179.8 $ in 2011 and 2012 respectively due to a reduction in the country's population after Southern Sudan independence, where the population decreased from 41.3 million to 33.6 million (Ministry of Finance and National Economy, May 2011).

2-6-Public Debt

Sudan's debt problems can be traced back to the 1960's when the country embarked on a large-scale industrialization, financed in part by foreign borrowing on non-concessional terms, and accompanied by government heavy regulation of the economy. The resulting heavy debt burden has shaped the evolution of the country's economy and its performance over the past 20 years. The arrears to International Development Association, the African Development Bank, and other development agencies have prevented normal relations with these agencies and constrained access to concessional financing. Sudan's external debt, which amounted to 38 $ billion by 2010 consisting of 16.1 $ billion of principal (debt disbursed and outstanding) and 21.9 $ billion interest arrears and penalty interest (Poverty Strategy Paper, 2011).

The Government of Northern Sudan is currently negotiating the apportionment of the stock of external debt with the Government of Southern Sudan, but no agreement has been reached yet. In fact, most of the post-referendum issues has not been resolved yet, this include oil wealth sharing, citizenship, borders, and the status of Abyei area, and it remains to be seeing whether and when the two parties will reach to an agreement on these conflicting issues.

We should also note that the economy of the new state will struggle (especially in the short run) to maintain the stability of the major economic indicators such as exchange rate; inflation; and unemployment. This view stems from the fact that the Southerners economy had been badly affected by the civil war. As a result, the economy exhibits signs of underperformance, where one can identify features such as inadequate infrastructure, lack of skill and trained labors, inadequate legal and institutional framework, and inadequate use of advanced technology in production. Furthermore, the private sector in the South has been very weak and its contribution is the economy is negligible (Ahmed, 2011).

Accordingly, the improvement of the above mentioned features of the economy is expected to take time, and as a result the impact on the Southern economy in the short run may be negative. On the other hand, it is difficult to predict the economic impact in the long run, as this will depend on many factors such as the diversification of the economy, which is heavily dependent on oil (oil contributed with 98% of government revenue), resolving ethnic and tribal conflicts that affected negatively the political stability of the country, and above all maintaining a peaceful relationship with the North. The two countries need to reach to an agreement on the disputed issues, namely oil wealth sharing, borders, citizenship, and the status of Abyei area.

3- The Policies Adopted by the Sudanese Government to Mitigate the Negative Economic Impact of Southern Sudan Secession

In order to mitigate and contain the negative economic impacts that took place as a result of the Southern Sudan secession, the Government of the North introduced in February 2011 a three Years Recovery Program (2011-2013). The main objective of the program is to maintain and sustain the stability of the economy, as well as the continuation of the adoption of the free market economy policies, which introduced by the prevailing government since 1992.
The general objectives of the program include the followings:-
1-Maintaing the stability of the external sectors through reducing the balance of payment deficit.
2-Restructuring of the government budget with the aim of reducing budget deficit through reduction of government spending, and increasing the contribution of taxes and custom duties in government revenues.
3-Utilization of the idle resources in the economy with the aim of increasing the productivity of the productive sectors (mainly agriculture and animal resources, industry, mining and oil).
4-Introduction of policies that directed to reduce the poverty rate in the country, as well as increasing the provision of social services (especially education and health services).
5-Containment of the rise in both the inflation and unemployment rates, as well as maintaining the stability of the exchange rate (Ministry of Finance and National Economy, May 2011).

In order to achieve the above-mentioned objectives the government is planning to adopt the following policies during the period (2011-2013):-
1-The government proposed to increase the contribution of non-oil products in exports (especially animal resources and agricultural products). Moreover, to increase custom duties on luxury goods, and to reduce the imports by 20% in every year of the program.
2-The government proposed an increase in development tax from 5% to 10%, besides adopting policies that directed to fight tax evasion. Also, the government called for the delay in joining the custom union of the COMESA, as joining the union may lead to a huge reduction in government revenue from custom duties. Moreover, the government is even proposing to remove subsidies gradually from fuel, a sensitive issue which may face a fierce protest from both trade unions and the public. On the expenditure side the government is planning to cut the spending on the army, security, and police forces (Ibid).
3-The government proposed to increase the production of the main crops (specifically wheat, maize, sorghum, cotton, oil seeds, and sesame) through encouragement of research and development in agriculture, besides encouraging investment in the forest sector with the aim of increasing the volume of Gum Arabic exports. On the other hand, the government is aiming at improving the competitiveness of the animal resources in external markets, as well as invading new markets in Asia, Africa, and Arab Countries. Regarding the industrial sector, the government is aiming at increasing the productivity of both sugar and wheat, besides protecting the domestic industries from dumping by issuing anti-dumping laws. On the mining and oil sectors the government is aiming at the discovery and exploration of new oil field, as well as starting to look for partners for those unlicensed fields. Furthermore, the government is aiming at increasing the productivity of gold in order to compensate for the huge loss in oil revenue at a result of Southern Sudan secession. In fact, gold exports reached to 950 million dollars in 2011 (Minister of Finance and National Economy Consultative Council, 2011).
4-Regarding the provision of social services, the government is proposing the construction of 180 new Health Medical Centers all over the country; and the maintenance of around 300 already existing ones. Also,

the introduction of training programs for the employees in the health sector (especially midwifes and health assistants). On the education sector, the government is proposing to increase the number of students in higher education by 20% in each of the program three years. Alternatively, the government is aiming at reducing the percentage of those under the poverty line by 50% through activating the role of the social funds in combating poverty, besides encouraging the involvement of national non-governmental organizations in poverty alleviations programs, as well as activating of micro-finance role in the provision of jobs for the lower income groups, which may contribute in reducing the percentages of people under the poverty line.
5-In relation to reduction of unemployment rates, the government is proposing to reduce the rate by 20% in 2011, and in the years thereafter through the coordination of policies between the Ministry of Labor and the Ministry of Higher Education, as well as encouragement of the private sector to play a leading role in the provision of employment opportunities for universities graduates. On the inflation side the government is aiming at controlling the rise in money supply by increasing the required reserve ratio to 19% by the end of the program. Finally, the government is hoping to contain the huge reduction in the value of the Sudanese Pound, which took place after the Southern Sudan secession through the intervention of the Central Bank in the foreign exchange market in order to maintain the exchange rate at $=3.5 SD by the end of the program (Ibid).

A former Minister of Finance criticized the Three Years Recovery Program advocating that the implementation of this program needs adequate resources, which the government does not have at the moment; he even proposed an alternative budget model, which covers five main areas as follows:-
1- Creating more resources for the government through the adoption of expansionary monetary policy by increasing borrowing from both the Central Bank of Sudan and the Public.
2-Designing of policies that directed to improve the investment environment in order to attract more foreign direct investment.
3-Creating a conducive environment for the private sector to play a leading role in the economy.
4-Adoption of a flexible exchange rate regime with less intervention from the Central Bank in determination of the value of the Sudanese Pound against other foreign currencies, while at the same time introducing policies that cater for the poorer, especially the encouragement of micro-finance policies. In addition, designing of attractive policies that aim at encouraging the informal sector to join the economy business cycle and hence to increase its contribution in the economy.
5-Encouragement of more foreign banks to be operated in Sudan in order to finance the import of strategic goods, as well as modification of labors, investment, insurance laws in order to encourage foreign investors (Hamdi, Minister of Finance and National Economy Consultative Council, 2011).

4- Conclusion

The proposed Three Years Government Recovery Program has been hit badly and mostly collapsed as a result of the eruption of the war between the North and the South in South Kordfan and Blue Nile area. The situation has even aggravated due to the invasion and capturing of oil fields in Higlig by South Sudan army last month (13th April 2012), since this area contributed with around 50% of the North oil exports. Immediately, after that invasion, the value of the Pound witnessed a drastic decline, and almost the pound lost 100% of its value, where the black market rate is now 1$=6.0 SD. Although, the Northern Government has seized back the oil fields in Higlig area in 23th April, but experts believed that it will take time before the oil fields resume production due to the volume and magnitudes of the damages in the area. However, the Government declared its intention to reduce government spending by 40% in order to compensate for the loss of oil from Higlig fields, and the Minister of Finance and National Economy declared that the government may even be forced to take more austerity measures, including the removal of subsidies from strategic food products and fuel.

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