



**POLICY BRIEF**

# Trade for Peace and Resilience in South Sudan



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*Trade can contribute to building peace in countries struggling with armed conflict. This paper examines the case of South Sudan and is intended to assist the country's policymakers in the current reform process.*

*Based on an analysis of the country's geographical, resource, economic, human and institutional characteristics, and an overview of its historic legacy and trade structure and policies, the paper examines the nexus between trade and conflict with their influence on each other. This leads to seven ways in which trade can support the enhancement of resilience and movement towards peace and prosperity.*

*Trade helps to connect areas long isolated by conflict with the rest of the economy and expands opportunities beyond subsistence. It will be important to make sure that impacts of opening up of trade are inclusive, and to enhance the quality of trade policymaking. Regional integration with the East African Community can play a key role, while accession to the World Trade Organization is an ideal process to accompany the economic reform process for sustainable and widespread growth. Economic diversification is important for sustaining peace. Agriculture and local economic development need to be core focus areas. To fully benefit from opening of trade South Sudan needs to strengthen its supply capacity for agricultural products. In doing this, the private sector will be the driving force.*

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AT A GLANCE:

# The Republic of South Sudan



The administrative boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of Abyei area is not yet determined.

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ESTIMATED POPULATION

13.3 million



LAND AREA

644,000 km<sup>2</sup>

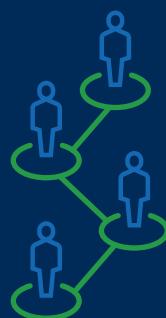


LOW POPULATION DENSITY  
20.6 per km<sup>2</sup>



HIGH POPULATION GROWTH  
3.1% per year

It is expected that the population will be double its present number in 30 years.



YOUNG POPULATION

41%  
younger than 15 years  
73%  
younger than 25 years



LOW LEVEL OF EDUCATION

27%  
literacy rate  
37%  
children formally educated

An estimated 80% of the population is living in rural areas and half of the population is living below the poverty line.

LARGE AGRICULTURAL SECTOR

85-95% workforce

FISHING AS A MEANS OF SUBSISTENCE

14% of households

LAND SUITABLE FOR AGRICULTURE

Approx. 70-80%

ESTIMATED SUSTAINABLE HARVEST

US\$ 300 per year

SINCE THE BEGINNING OF THE CENTURY, THE NATIONAL ECONOMY HAS BEEN DEPENDENT ON OIL.

However, because oil deposits are limited the revenue has been declining since 2011, and is forecast to be insignificant within 10 years.

DEVASTATION DUE TO CONFLICT



54% of population

in 'crisis' or 'emergency' or 'catastrophe'

6.2 million people



FOOD INSECURITY AT RECORD HIGH IN 2018

74% of population



The poor performance of the 2018 cropping season was mainly due to below-average and erratic rains constraining yields, and persisting and protracted insecurity that disrupted agricultural activities.

REDUCED CONFLICT INCIDENTS IN 2018

60% less than previous year, mainly as a result of the security improvements in some locations.

NUMBER OF INTERNAL DISPLACED PERSONS (2018)

1.87 million

Number of refugees in neighbouring countries was close to 2.3 million.



## Executive summary

*Trade can contribute to building peace in conflict-ridden countries and can bring sustainable and widespread development and welfare.*

This paper examines the case of South Sudan. Based on an analysis of the country's geographical, resource, economic, human and institutional characteristics, and an overview of its historic legacy and trade structure and policies, the paper examines the nexus between trade and conflict, and their influence on each other. This leads to seven ways in which trade can support the enhancement of resilience, and a movement towards peace and prosperity.



*South Sudan has a young, mainly rural population with a low population density, but a high population growth rate.*



South Sudan has a young, mainly rural population with a low population density, but a high population growth rate. Education and health indicators are low, although rising. The majority of the population is ill-prepared for the needs of a modern labour market.

The country is endowed with rich natural and mineral resources. In addition to oil, these resources include agriculture, forestry and fishery. However, these are so far mainly used for subsistence and only marginally marketed and hardly exported.

South Sudan is disadvantaged by its landlocked geographical position. This is added to by 'thick borders' with high tariff and non-tariff barriers. Since independence, more borders within the country through the creation of new states have been added that also act as barriers to trade. The transport links to the world market and within the country are rudimentary. Since independence, the situation has not improved. This is a major hindrance and cost for trade – both domestic and international.

Since the Comprehensive Peace Agreement (CPA) of 2006 the key institutions of a modern state have been established. However, they are still in their infancy and are crippled by frequent leadership and institutional changes, and insufficient qualifications and incentives. Indicators on the

quality of governance and the business climate continue to be very low and have further slipped during the civil conflict.

The Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCISS) of 2018 provides for stability and transformation and defines the current policy framework which underpins the National Development Strategy and economic sector strategies. Their implementation is often hindered by lack of adoption of implementation policies at the highest policy level and by insufficient resources. Although the various strategies and plans refer to the civil conflict, they are mostly not conflict-sensitive, but assume the conflict to be external.

Due to the conflict, government–donor cooperation and coordination is reduced and concentrates on the local level. Most of South Sudan's partners have redirected funds earmarked for development cooperation to humanitarian assistance.

The outbreak of armed civil conflict in 2013 and again in 2016 has led to a deterioration of an already critical economic situation and plunged the country into a deep economic crisis with contraction of output, high inflation, loss of value of the national currency, depletion of currency reserves and increasing fiscal gaps.

History is important. It plays an important role in determining policy choices of a country. South Sudan's history is characterized by conflict and violence – a heavy burden for the young country. Conflict deepened its isolation. The British colonizers left in haste, with Sudan being unprepared for independence. South Sudan was included in Sudan without proper consultation and on promises of a federal system that were not honoured, leading to civil conflict.

The peace period (1972–1983) brought stability, but economic development did not take off and economic integration did not progress. Abrogation of the peace agreement meant return to the civil conflict.

In 2006, the CPA led to stability and oil-based economic development in South Sudan, but the promise of a transformation of governance was not fulfilled.

Data on trade are deficient and unreliable. Oil dominates exports. Oil income fluctuates, due to partly conflict-induced production vacillations and international price fluctuations. Non-oil exports are minimal and hardly increasing, but have great potential. They are currently unprocessed.

Extra-African sources of imports dominate, with China and the United States of America representing more than half. However, cross-border trade with Uganda is increasing significantly. Trade with Sudan is greatly hampered by the aftermath of the separation of the two Sudans, with numerous issues being unsolved at South Sudan's independence.

South Sudan has a draft trade policy with a liberal, market-oriented outlook. The policy was developed during the CPA period and marks a



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sharp departure from the restrictive trade policy of Sudan. However, the trade policy document has not yet been adopted by Cabinet and passed by Parliament and is not reflected in actual trade policy. The de facto trade policy remains restrictive and includes numerous non-tariff barriers. A trade reform process was started early in the 2010s, but it stalled due to the conflict-induced economic crisis.

The key body for implementation of trade policy is the Ministry of Trade and Industry. It is not yet in a position to deliver an effective trade policy. Its budget is not commensurate with its mandate, staff is not sufficiently skilled, and the institutional structure does not meet its requirements. Senior staff and political leaders change frequently, and this brings policy changes.

In 2016, South Sudan became the sixth member of the East African Community (EAC), with its most important trade partners being Uganda and Kenya, which are important markets and sources of qualified labour. Once the country has fully adopted the EAC policies, it will be part of a growing and deepening common market. The obligations to the EAC will also be of important assistance in deepening the role of law, driving reform, improving the business climate and enhancing investment confidence.

South Sudan also started the process of accession to the World Trade Organization (WTO) in 2018. This will be a further step to integration into the global trading system and it will further strengthen the rule of law and regulations. The EAC integration process is an important step in the WTO accession process.

South Sudan's dominant source of income derives from its oil, complemented by foreign aid. These sources of income could be a boon in jump-starting the process of development that will bring rising productivity. However, in the absence of the strong institutions that are needed to manage development, they have turned out to be a resource curse (as for many other resource-rich countries). Oil benefits have not been distributed to the population, they fuelled the armed conflict within Sudan since the late 1990s, and they provide the basis for the current armed conflict in South Sudan.

The protracted civil conflict created a conflict economy that is not quickly altered by a peace agreement. Those that profit from the conflict economy have a strong interest in a continuation of the conflict situation. The negative impact of conflict on trade and the wider economy is obvious. Armed conflict chokes trade, as shown by the dramatic interruption of trade and destruction of the trade infrastructure during the 2013 and 2016 outbreaks of conflict in South Sudan.

Beyond its impacts on trade, conflict has wider impacts on the economy, as evidence from many countries shows. It increases market weaknesses, contributes to economic recessions, has negative fiscal effects and may result in debt distress. South Sudan is a case in point.



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Trade of non-minerals can help to prevent conflict as it increases resilience of the economy and the people. Trade in goods increases incomes of producers and consumers through the expansion of markets and by lower prices via more competition. However, trade can also co-exist with and extend conflict.

While the past and current conflicts are best described as fights over resource control. International trade in oil and natural resources further fuels conflict and reduces resilience. The current trade pattern fuels the conflict and reduces resilience, rather than bringing peace.

South Sudan's conflict redefines gender roles. While the direct actors and victims of conflict are mostly men, the indirect costs fall heavily on women and children. While women traditionally play a limited role in public life and their economic contribution is largely invisible, conflict also promotes their emancipation. Women play an active role in peacebuilding and an increasing role in society. Their role in trade promotes their economic and social emancipation.

Climate change is increasingly visible in South Sudan. Data show that temperature anomalies strongly affect the risk of conflict. The relationship between temperature anomalies and intergroup violence is especially strong in pastoralist and agro-pastoral areas in both Sudan and South Sudan. Women are particularly vulnerable to the effects of climate change.

## How trade can support resilience, peace and prosperity

The basis for sustainably overcoming fragility and increasing resilience is raising incomes of the broad population, best done through employment. Higher incomes from trade opportunities and lower prices resulting from trade are associated with reduction in conflict intensity and greater resilience.

Relatively closed borders and inward-looking trade policy contribute to concentration of economic activity in large cities, while regional and international integration will be important for sustaining peace. Trade helps to connect areas long isolated by conflict with the rest of the economy and expands opportunities beyond subsistence. Encouraging local and ethnic communities to trade with other groups through better connectivity will help to increase resilience and build peace through increasing trust.

A peace-oriented trade policy includes macro- and micro-level interventions. It further needs to combine a short-term with a long-term perspective. It also needs to address both technical and political challenges. At the macro level, continuation and activation of the trade policy reform is vital. Stronger engagement in trade needs a stronger capacity to produce non-oil goods in order to buy imports.

Policies need to ensure that the impacts of opening up of trade are inclusive. Trade creates new economic opportunities, but its benefits are not automatic, as markets are not perfect. Overall gains from opening up

of trade are accompanied by losses for some producers, who may need to be compensated. Domestic traders need to be capacitated to play a stronger role. Effective trade policymaking needs broad and transparent consultative processes with meaningful influence over the decision-making process.

The quality of South Sudan's trade policymaking needs to be enhanced. The country is engaged in multiple trade and regional integration agreements and negotiations. Further progress in negotiations and implementation requires a well-staffed and capable trade ministry and effective coordination mechanisms. In particular, research and analytic capacity are vital for successful trade policy. Public–private communication on trade policymaking and implementation need to be strengthened and institutionalized, and society-wide awareness and buy-in will be required for deeper integration.

Regional integration in the EAC is vital for sustainable growth and development. Neighbourhood effects are important for any country – what happens in neighbouring countries has strong spillovers. Regional integration has considerable direct and indirect economic potential. The EAC in particular has a strong record of effective regional integration with its customs union and common market – it is ahead of other bodies in the rest of Africa.

In addition to its result, WTO membership, accession to the WTO is an ideal process to accompany the economic reform process that is needed to reach sustainable and broad-based growth, peace and resilience.

Economic diversification is important for peace, and agriculture needs to become the focus of development. With its crops, livestock, fisheries and forests, it is the mainstay of the vast majority of the population. The exploitation of minerals and timber and the production of charcoal are presently largely informal with no benefits for the local communities and public finance, and they need to be regulated to ensure sustainable use. Tourism has potential, but only in the long term.

The private sector is the key driver of economic development in the country. To unlock its potential, numerous constraints, as identified above, need to be addressed to improve the business environment. Its representative organizations, primarily the chamber of commerce, need to be capacitated, in particular in the rural and remote areas.

Principles for trade for peace policy include:

- Continually engage in implementation of the peace agreement for stabilization and transformation
- Be conflict-sensitive in trade interventions
- Prioritise and sequence interventions
- Strengthen rigorous internal and external monitoring and evaluation of government and development interventions
- Increase information and transparency to reduce pervasive information asymmetries.



# 1

## Introduction

Frédéric Bastiat famously claimed, “If goods don’t cross borders, soldiers will”. Bastiat argued that free trade between countries has the potential to reduce international conflict because trade forges connections between nations and gives each country an incentive to avoid war with its trading partners (Adorney, 2013).

Conflict arises not only between countries, but also within countries, between government and armed opposition, and with intercommunal or intergroup violence. Intrastate armed conflicts are even more important today, and South Sudan is an example.

In the past 30 years, the world has become less poor in all but fragile countries. Fragile and conflict-affected countries are home to an increasing share of the world’s poor, and these countries are also at much greater risk of relapsing into conflict than other states. The Republic of South Sudan is one such country.

Openness to trade is vital, though on its own not sufficient, condition for sustainable growth. It is all the more vital for small and remote economies that are necessarily highly import-dependent and need to export in order to earn resources to pay for imports. Shared growth is vital for conflict- and post-conflict countries to sustainably overcome civil conflict and attain peace.

Approximately half of the countries in the accession process to the World Trade Organization (WTO) are considered to be fragile and conflict-affected (FCA). The ‘Trade for Peace’ initiative, launched in 2017, aims at using the WTO accession process as a pathway to economic growth and development, fundamental elements for national, regional and international peace and security. The initiative aims to facilitate better collaboration between those engaged in trade and those in peacebuilding by breaking down the separated silos of trade and peace, creating opportunities for



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establishing creative and interdisciplinary approaches for leveraging the multilateral trading system for peace and security.<sup>1</sup>

The g7+ WTO Accessions Group is a subgroup of the larger g7+, an association of 20 FCA states established in 2010. The former group was officially launched on the margins of the 11th WTO Ministerial Conference in Buenos Aires in 2017 by eight g7+ members associated with WTO accession: three recently acceded members (Afghanistan, Liberia and Yemen) and five acceding governments (Comoros, Sao Tome and Principe, Somalia, South Sudan and Timor-Leste). In January 2019, the group accepted Sudan (an acceding government and outside of the g7+) as its ninth member. The group recognizes the link between trade and fragility and requests more effective support from the international development partners.

The main objectives of the g7+ WTO Accessions Group are:

- to facilitate the integration of FCA economies into the multilateral trading system through WTO accession-related reforms, including the establishment of credible economic and trade policy frameworks and institutions, and the promotion of transparency and good governance; and
- to support the efforts of the WTO acceding governments in the group, including through sharing of information and experience.

This policy paper makes the case for the use of trade policy to contribute to enhancing resilience and attaining peace, and explains the difference in trade policy for peace for conflict-ridden countries to that of other countries. The paper is informed by an analysis of the situation in South Sudan and experiences and lessons learnt elsewhere. The analysis is informed by interviews with key informants, visits to border areas and a review of the literature.

Chapter 2 of the paper provides an overview of the geographical, resource, economic, human and institutional characteristics of the country, Chapter 3 explains the country's historical legacy of conflict, Chapter 4 describes South Sudan's foreign trade and the trade regime, and Chapter 5 explains the nexus of trade and conflict that mutually influences each other. On this basis, Chapter 6 provides recommendations on how trade can support enhancing resilience and moving towards peace and prosperity. The concluding chapter (Chapter 7) lists principles that support reaching peace through trade and those that should be avoided in order to avoid the risk of falling back into conflict. Annexes include background data supporting the analysis (Annex 1), a list of people interviewed during a country visit in June–July 2019 (Annex 2) and the participants at a workshop that discussed the first draft report at the end of the visit (Annex 3).

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<sup>1</sup> [https://www.wto.org/english/thewto\\_e/acc\\_e/tradeforpeace\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/tradeforpeace_e.htm)



## 2 Country context<sup>2</sup>

### Human resources

*South Sudan has a young, mainly rural population with a low population density, but a high population growth rate. Education and health indicators are low, although they are rising. The majority of the population is ill-prepared for the needs of a modern labour market.*

South Sudan has an estimated population of 13.3 million (2019) in an area of 644,000 square kilometres, with a low average population density (20.6 per square kilometres). However, the population growth rate is exceedingly high, at 3.1 percent (2010–2019) (United Nations Population Fund (UNFPA), 2019, p. 168). It is expected that the population will be double its present number in 30 years. The population is very young: 41 percent is younger than 15 years, and 73 percent is younger than 25 years (*ibid.*, p. 168).

Potentially, the youthfulness of the population could be an advantage in the future and could help provide a demographic dividend. However, for this to materialize, the population would need to be healthy and educated – two conditions that will first need to be built. In the short term, the extremely high population growth rate is a burden to the national economy, making it difficult to provide the necessary expansion of health and education services (United Nations Commission of Africa, 2018, p. 13).

An estimated 80 percent of the population lives in rural areas (as compared to 60 percent in overall sub-Saharan Africa in 2018) (*ibid.*, p. 14). Half of the population was estimated to be living under the national poverty line in 2009.

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<sup>2</sup> For basic data on economic, governance and social development see Annex 1.

Human development indicators are very low, even though the development of human resources has been a priority for aid since 2006. This reflects the heritage both of extremely low human resource investment and of the long history of civil conflict.

The education level is also very low. South Sudan's literacy rate is currently 27 percent, about half the African average. Only 37 percent of children receive any form of formal education. As a consequence, the majority of the population is ill-prepared for the needs of a modern labour market (*ibid.*).

The country's health indicators have improved markedly due to massive funding from international cooperation partners (with a life expectancy of 58 as compared to 46 in 1994) (UNFPA, 2019, p. 168), but are still worse than the African average.

## ***Extensive mineral and other natural resources***

**South Sudan is endowed with rich mineral and other natural resources. In addition to crude oil, these resources include agricultural, forestry and fishery resources. However, these have so far been used mainly for subsistence and have hardly been marketed or exported.**

Since the first decade of this century, the national economy has been dependent on oil. However, because the deposits are limited, oil revenue has been declining since 2011 and is forecast to be insignificant within 10 years (Government of the Republic of South Sudan, 2011, p. 25) (see Figure 1 in Annex 1).

The agricultural sector is the largest source of income and employment (85–95 percent of the workforce). Approximately 70–80 percent (Republic of South Sudan (RoSS), 2014, p. 101) of the total land area is estimated to be suitable for agriculture. With an abundance of water, rich and diversified soil, and suitable temperatures, agriculture has the potential to be a key driver to take the country out of poverty and food insecurity (International Monetary Fund, 2019). Fostering employment in this sector can potentially have significant multiplier effects, not only for household incomes but also for the wider economy through value-adding activities and the commercialization of agriculture.

Currently, the sector is still largely subsistence-oriented and contributes less than 15 percent to gross domestic product. Extensive areas of land are virgin. Notwithstanding the abundant supply of land, the area currently being farmed is estimated at only 3.8 percent (RoSS, 2014, p. 103). Crop production is mostly done on small, hand-cultivated plots farmed by women. Only the land close to their homes has been cultivated by farmers, mainly due to many years of war and insecurity in the past, which has limited the land under cultivation.

With technology being simple, agricultural productivity is very low, a key reason for chronic food deficits and shortages that are increasing in frequency, and which aggravate poverty, hunger and malnutrition.

Underlying reasons for the insufficient agricultural development include the long civil war and new armed conflicts following the 2013 political crisis; sporadic insecurity stemming from inter-ethnic conflicts and partly armed criminality; lack of agricultural extension and research services; and the low priority given to agriculture by the government (2 percent budget allocation to agriculture in 2012) (*ibid.*, p. 107).

Livestock rearing is another activity with major potential, but it is only marketed to a limited degree. South Sudan is endowed with extensive livestock resources with an estimated 11.7 million cattle, 12.4 million goats and 12.1 million sheep (*ibid.*, p. 106). Key constraints are “low productivity exacerbated by droughts and insecurity, lack of inadequate slaughtering facilities and marketing structures, weak extension services and training capacity and poorly organized and informed herders and traders” (RoSS, 2014, p. 108) and the high incidence of endemic diseases. Perhaps most important is the mindset of agro-pastoralists, who see their cattle primarily as a sign of prestige and wealth and not as a source of food and income. Livestock could be a major export, as there is high demand in Sudan, and also in East Africa. Livestock by-products, such as hides and skins, also have potential.

Since South Sudan is located within the Nile River basin, including one of the largest wetlands in the world, the Sudd, the country has abundant fishery resources. Some 14 percent of households are estimated to engage in fishing as a means of subsistence. There is an estimated sustainable harvest valued at more than US\$300 million per year (*ibid.*, p. 109).

Major constraints to the full realization of the fishery sector’s potential include recurrent civil conflicts; a weak policy and legislative framework; weak institutional capacities in terms of manpower and the coordination of the development partners involved in fishery initiatives; inadequate information on fishery production and markets; and underdevelopment of aquaculture. Other constraints include relatively high post-harvest losses of fish resulting from improper handling throughout the supply chain and very limited access to markets due to poor road infrastructure, poor organization of fishermen and limited fishing capacity. In addition, the fishing profession is looked down upon and the fishing communities are socially and economically marginalized (*ibid.*, p. 108).

Although little attention has been given to the fishing sector, there are now some projects to promote this sector. However, the conflict that started in 2013 put most projects and investments on hold, with only projects to secure livelihoods being maintained, not those aiming at exports. Currently, domestic production does not meet the large domestic demand, which is supplemented with sizable imports.

The natural forests and woodlands of South Sudan are estimated to cover a total area of about 29 percent of the total land area (*ibid.*, p. 104). South



Although little attention has been given to the fishing sector, there are now some projects to promote this sector.



Sudan's forests are endowed with rich and diverse concentrations of biodiversity, which include valuable species that command high market prices.

There are also plantation forests of teak, as well as of non-timber forest products. Considerable potential exists for the expansion of forest plantations of both indigenous and exotic species. The largest forested areas are found in Upper Nile, Western Bahr el Ghazal and Eastern Equatoria (*ibid.*, p. 104).

Despite the huge potential of South Sudan's timber and non-timber forest products to provide off-farm employment in upstream forestry-based industries (sawmilling, furniture manufacture and joinery), there has been very little investment in the sector so far. The Ministry of Agriculture and Food Security estimated that teak plantations alone can generate over US\$100 million per year.

As an additional source of livelihood to agriculture and livestock, forestry could significantly contribute to the eradication of rural poverty. However, the potential of forestry is jeopardized by the fact that urban and rural households meet 90 percent of their energy needs with firewood, charcoal, shrubs and grass (*ibid.*, p. 106). This demand is increasing, along with increasing urbanization. Meanwhile, other energy sources, such as wind or solar, remain largely untapped.

South Sudan has significant potential for natural gum Arabic production. A study from 2007 estimated the export value of all Sudan's gum Arabic as being US\$150 million annually (*ibid.*, p. 105). However, this value is unattainable under the current production conditions, and with governance and marketing structures that do not provide a conducive environment for the existing small-scale farmers. The prices paid to farmers were for many years only 10 percent of the export price (*ibid.*, p. 105).

South Sudan is believed to have rich mineral resources, including gold, diamond, copper and various rare minerals. While exploration for these presents an opportunity for economic diversification, it is vulnerable to negative 'resource curse' effects.<sup>3</sup> Mineral resources in South Sudan have been almost completely unexplored and commercialization of the mining industry is insufficient. So far, no major company has started operating in South Sudan and only a few smaller companies and artisanal miners are engaged in mining, including of gold (International Monetary Fund, 2019).

## *Landlocked with underdeveloped infrastructure*

South Sudan is disadvantaged by its landlocked geographical position. This is added to by 'thick borders' with high tariff and non-tariff barriers. Since independence, more borders within the country through the creation of new states have been added, and these also act as barriers

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<sup>3</sup> These effects are discussed in Chapter 5.

to trade. Transport links to world markets and within the country are also rudimentary, and since independence, the situation has not improved. This is a major hindrance to cost for trade – both domestic and international.

South Sudan has an area of 644,000 square kilometres and is landlocked. It does not have direct access to world markets, but depends on neighbouring countries to trade. Its neighbours are Sudan, Ethiopia, Kenya, Uganda, the Democratic Republic of the Congo and the Central African Republic.

To cross borders is time-consuming and costly. Of 190 countries on the Trading Across Borders Index of the Doing Business Indicators, South Sudan ranks as 180, i.e., it is more difficult, time-consuming and costly to trade across its borders than 179 other countries. Of its neighbours, only Sudan is more difficult (World Bank, 2019a).<sup>4</sup>

In addition to these ‘thick borders’,<sup>5</sup> there are many internal borders between states, and more of these continue to be created. There are numerous roadblocks, which serve as a form of taxation by states, as they have almost no internal tax bases of their own and are starved of transfers from central government. Roadblocks are also used as a form of informal taxation by both government and rebel soldiers, as they are not regularly paid.

The only tarred overland road connects the capital Juba to Uganda, its main trade partner. Despite the 50 years of unity of Sudan and South Sudan, not one all-weather road has been built between the two countries. Many gravel roads in the interior are in need of repair and are often not passable because of rains.

The railway track connecting Wau, one of the three big towns of South Sudan, to the national rail network was built during British colonialization. It is currently not operating and needs major investment if it is to be repaired. There is erratic ship transport between Juba and Kosti in Sudan, but it is irregularly ‘taxed’ by rebel soldiers at different points on the way. There are national and international flights, but most airports rely on gravel runways.

## *Institutions at infancy stage*

The key institutions of a modern state have been established since the CPA of 2006. However, they are still in their infancy and are crippled by frequent changes in leadership and institutions, as well as insufficient qualifications and incentives. Indicators on the quality of governance and the business climate continue to be very low and have slipped further during the civil conflict.

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4 See Figure 2 (Annex 1) on data comparing South Sudan with its neighbours.

5 Terminology of the World Bank, 2009.

The modern institutions include Parliament, the Auditor General, the Central Bank, a court system, the National Bureau of Statistics, the Bureau of Standards and others. However, the majority of these are not yet fully functioning and their staff are often not sufficiently qualified. In most cases, they do not have sufficient resources to fulfil their mandates. Crucially, high inflation has reduced the salaries of public service staff, including senior staff, to well below the cost of living.

Moreover, not all senior positions are filled according to merit. The respective tasks of and coordination between institutions are not always well defined. There is also some overlap and duplication of tasks between the institutions.

As a result of this situation, state capacity is very weak and the legitimacy of public institutions is questioned. Growing expressions of popular dissatisfaction have been met by growing limitations to voicing of public opinion. Meanwhile, accountability indicators, already low, have slipped further. The low and declining quality of institutions is documented by the comprehensive composite world governance indicators that cover six areas: (1) voice and accountability, (2) political stability and lack of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law and (6) control of corruption (see Figure 3 in Annex 1).

## *Undeveloped and largely conflict-insensitive policy framework*

**The Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCISS) of 2018 provides for stability and transformation and defines the current policy framework which underpins the National Development Strategy.**

Economic sector strategies, including trade and industry policies and the Comprehensive Agricultural Masterplan, complement the strategy. Their implementation is often hindered by lack of adoption of implementation policies at the highest policy level and by insufficient resources. Although the various strategies and plans refer to the civil conflict, they are mostly not conflict-sensitive, but assume the conflict to be external.

In September 2018, the government, the Sudan People's Liberation Movement/Army in Opposition, and other rebel factions signed the R-ARCISS. Its implementation with a government of national unity, which took place in February 2020, was considered to be vital to provide security and stability, as without these no formal trade and resumption of major economic activities on a major scale would be possible.

In Chapter 4, the agreement provides for transformation of the governance system towards more institutionalization through a transparent and accountable government, commitment to fighting corruption, oversight mechanisms, an independent central bank, an effective audit system and transparent and accountable financial management. Such transformation

of personal rule based on personal relationships to increasingly institutionalized rule has been proven as key to development (North, 2013).

The implementation of the agreement has been challenged by delays and occasional obstruction. A state of emergency remains in place, and little substantive progress has been made on the most challenging provisions, notably those pertaining to political boundaries, the devolution of power from the centre to the periphery and security provisions. At the heart of these issues is a government reluctant to share control of key parts of the political, security and economic landscape of South Sudan. The agreement can still be viewed as a positive step towards the resolution of the conflict in South Sudan, although this optimism must be tempered by an understanding of the many challenges that face its implementation. It is an imperfect yet ambitious agreement, which will require sustained political support and careful monitoring, including of the management and use of public finances, if it is to deliver on its promise to the population of South Sudan (UNSC, 2019).

The Agreement on the Resolution of the Conflict in South Sudan had already provided for the National Development Strategy, which acknowledges the very challenging country context of conflict, humanitarian crisis and economic downturn. Guiding principles are peace, security and rule of law; democracy and good governance; socioeconomic development; and international compacts and partnerships.

The National Development Strategy is well formulated, but only minor attention is given to economic development. There are 13 points under socioeconomic development devoted to economic development, which include industrialization and export promotion. No attention is given to the trade–conflict nexus.

However, experience of development planning in South Sudan shows that the institutional structures to manage and implement development plans have not been developed, so they have hardly been important for existing policies. Resources have not been available, nor have enough of the necessary qualified staff. As importantly, there has been no systematic monitoring and evaluation. Pointedly, the National Development Strategy does not provide any detailed evaluation of its predecessor. Such would help for systematically learning and improving development planning.

There are a number of sector policies, including a trade policy (considered below in Chapter 4), an industry policy, and the Comprehensive Agricultural Masterplan. Their implementation is also hindered by delayed adoption at the highest policy level and insufficient resources.

The MTI also has an active Private Sector Directorate and a draft Private Sector Strategy (MTI&EAC, 2013). Private sector development is key for the emergence of exporting non-oil products and services. A key objective is to create an appropriate environment for the private sector so that it can contribute to building a competitive and socially equitable economy. In its aims of sustainable development, national reconstruction, job creation,



*A state of emergency remains in place, and little substantive progress has been made on the most challenging provisions.*



economic diversification and wealth generation, the strategy is consistent with the other development plans.

The strategy aims at removing constraints to private sector growth, including limitations in the administrative and regulatory environment and difficulties accessing finance, as well as internal sector factors, such as lack of skills. Furthermore, improving the functioning of markets is an underlying principle of the strategy, which includes inclusive public–private dialogue, education, communication and advocacy for private sector development, and institution-building for those government ministries that play a key role in delivering the strategy. Specific attention is to be given to women and youth. The strategy also foresees setting up a monitoring unit in the ministry.

The strategy proposes four pillars in implementation, these being the South Sudan Investment Climate Reform Programme, the Micro, Small and Medium Enterprise Development Programme, the Access to Finance Programme, and the Physical Markets and Institution-Building Programme.

The World Bank has supported some aspects of private sector development (micro-finance, entrepreneurship, support of start-ups and public–private dialogue) and improving the investment climate. However, programmes were interrupted in 2016 due to the civil conflict.



*The World Bank has supported some aspects of private sector development and improving the investment climate.*

## *Sharply reduced development cooperation but beginning to focus on resilience*

*Due to the conflict, cooperation and coordination between international cooperation partners and the government is reduced and concentrates on the local level. Most of South Sudan's international cooperation partners have redirected funds earmarked for development cooperation to humanitarian assistance.*

The United Nations assistance framework emphasizes a necessary shift from humanitarian aid to assistance for recovery and resilience. Recovery and resilience-oriented assistance, led by the United Nations Development Programme (UNDP), is oriented at building absorptive, adaptive and transformative resilience capacities.

The 2019–2021 United Nations Cooperation Framework builds on sustained United Nations engagement in South Sudan since the signing of the 2005 CPA and independence in 2011. The framework builds on lessons from past approaches and expands and scales up the previous framework, the 2016–2018 Interim Cooperation Framework. It aims to build resilience, capacities and institutions to achieve key outcomes across four priority areas (building peace and strengthening governance, improving food security and recovering local economies, strengthening social services, and empowering women and youth) and to gradually scale up this support. The aims of the framework are to empower national partners and communities, in particular women, youth and other vulnerable groups, to be more resilient and better placed to withstand

the many challenging and complex impacts of the ongoing protracted crises. The United Nations Country Team will also provide support for strengthening capacities and institutions at the community, state and national levels, with particular focus on vulnerable areas with a potential for strong partnerships. The United Nations Cooperation Framework will be implemented by individual agencies through agency-specific programme documents, and jointly through joint programmes. The United Nations Country Team acknowledges the dependence of progress on the peace process.

The UNDP will focus geographically on conflict and disaster-affected communities in targeted areas where it has had a long-established presence and strong relationships with local authorities, communities and civil society organizations. The aims will be strengthened peace infrastructure and accountable governance; inclusive and risk-informed economic development; and strengthened institutional and community resilience.

The focus of trade for peace is trade and private sector support. This area includes strengthening the capacity of micro, small and medium enterprises to integrate with key agricultural value chains, particularly those run by youth and women, through enhanced access to business development services, credit, and vocational and livelihoods skills development, and help to improve trade competitiveness and access to domestic and regional markets, with support from the Enhanced Integrated Framework for Trade Related Assistance for Least Developed Countries (UNDP, United Nations Population Fund and United Nations Office for Project Services, 2018).

Most of South Sudan's international cooperation partners, including the African Development Bank and the World Bank, have redirected funds earmarked for development cooperation to humanitarian assistance. Many of these are for elements of livelihood support.

## **High conflict cost**

**The outbreak of armed civil conflict in 2013 and again in 2016 has led to a deterioration of an already critical economic situation and plunged the country into a deep economic crisis with a contraction of output, declining incomes, high inflation, loss of value of the national currency, depletion of currency reserves and increasing fiscal gaps.**

The conflict-induced crisis met a non-diversified and unbalanced economy with accumulated debt and low resilience to external shocks. The crisis has enormous human cost in terms of hunger and food insecurity, flight and deterioration of education.

The conflict devastated the lives of a majority of the population, killed tens of thousands and left a third of the population at risk of famine. In January 2019, 54 percent of the population (about 6.2 million people) were



The number of internally displaced persons in South Sudan stood at 1.87 million in December 2018.



classified as in ‘crisis’, ‘emergency’ or ‘catastrophe’,<sup>6</sup> showing a 13 percent increase compared to the same time the previous year. This indicates a steadily worsening food security situation – despite the humanitarian assistance (FAO and WFP, 2019). Household food insecurity reached record highs in 2018 when 74 percent of the population was estimated to be food insecure at post-harvest time. The poor performance of the 2018 cropping season was mainly due to below-average and erratic rains constraining yields, and persisting and protracted insecurity that disrupted agricultural activities. Despite a slight increase due to security improvements in some locations, in 2018 the harvested area remained well below the pre-conflict levels (i.e., before 2013) (*ibid.*, 2019).

The number of conflict incidents was estimated to be 60 percent less in 2018 than in the previous year, mainly as a result of the security improvements in some locations. Nevertheless, the situation remains volatile (see Figure 5: Location of violent events, Annex 1).

The number of internally displaced persons in South Sudan stood at 1.87 million in December 2018 and the number of refugees in neighbouring countries was close to 2.3 million (FAO and WFP, 2019).

The full effects of the conflict in terms of environment degradation; breakdown of social cohesion; psychosocial trauma generated by sexual violence; and child exploitation are difficult to capture in their entirety and are likely to be underestimated. One study estimates that if the conflict continues for 1–5 years, costs will amount to between US\$22.3 billion and US\$28 billion; including flow-on effects over 20 years, costs will amount to US\$122–158 billion, plus human and security costs (Frontier Economics).

The International Monetary Fund estimated a 2.4 percent real gross domestic product loss in 2017/18, adding to a cumulated decline of about 24 percent in the last three years (International Monetary Fund, 2019, p. 6).<sup>7</sup> Overall, real disposable income (adjusted for terms of trade) is estimated to have declined by about 70 percent since independence in 2011, contributing to an increase in the poverty headcount ratio from 50 percent in 2012 to about 82 percent in 2016 (International Monetary Fund, 2019). The year-on-year annual Consumer Price Index increased by 88.5 percent between June 2017 and June 2018 (World Bank, 2019b).

6 Integrated Phase Classification (IPC) phases (see FAO and WFP, 2019).

7 The fiscal year runs from July to June.



## 3 A legacy of conflict

*History is important. It plays an important role in determining the policy choices of a country. South Sudan's history is characterized by conflict and violence – a heavy burden for the young country. Conflict deepened its isolation. Precolonial trade and colonial rule by Egypt were exploitative and subjugating.*

The country suffered several phases of subjugation. The region was incorporated into the international system early. During the nineteenth century, the Egyptian empire exploited the territory for ivory and slaves. The slave trade crucially shaped the region's perception of self from a historic perspective (Woodward, 2011, quoted by Schomerus and de Vries, 2019, p. 426; Thomas, 2015).

The trade contributed to further animosity between the predominantly Arab and Islamic north and the patchwork of African tribes in the south. In 1881 a national Islamic uprising in Sudan ended Egyptian rule. Until 1898, Sudan was ruled from Khartoum, and the reach into the south was limited. But the exploitation of southern resources, including slaves, further contributed to alienation between the northern and southern parts of Sudan (Schomerus and de Vries, 2019, p. 426).

The Closed District policy of British rule provided shelter from cultural domination by Arab traders, but also strengthened isolation. It also brought minimal administration and development.

In 1898 a British invasion eliminated the Mahdist national rule and established the Anglo-Egyptian Condominium over all Sudan. From the early days of the Condominium, the British had an interest in limiting Egyptian and northern Sudanese influence in the south, including the spread of Islam (Holt and Daly, 2000, p. 119, quoted by Schomerus and de Vries, 2019). This approach was strengthened by the 'Closed District' approach that locked northern Sudanese traders out of the south in order



*South Sudan was included in Sudan without proper consultation and on promises of a federal system that were not honoured, leading to civil conflict.*



to eliminate the perceived exploitation by traders. However, together with minimal engagement and investment by the British in the south, this literally froze the development process in the south and isolated the region. As a result, the south remained essentially different to the north, and at a lower level of development.

The British colonizers left in haste, with Sudan being unprepared for independence. South Sudan was included in Sudan without proper consultation and on promises of a federal system that were not honoured, leading to civil conflict.

British policy options regarding South Sudan were to either include the country in its East African territories or in Sudan. The issue was left undecided until shortly before independence, when the area was merged with Sudan. Southern leaders, consulted at the last minute, agreed reluctantly to the condition of a federal system that would give it a high degree of autonomy. The northern independence movement had pushed for inclusion of the south, with assurances of fair treatment and fair representation. These assurances were not to be honoured. Unrest started in 1955 and continued as a civil war until 1972 (Johnson, 2003).

The peace period (1972–1983) brought stability, but economic development did not take off and economic integration did not progress. Abrogation of the peace agreement meant return to the civil conflict.

The Addis Ababa peace agreement gave the region a high degree of self-government and autonomy. Importantly, the three southern regions were unified – an important step, since larger unions and fewer borders are crucial for growth and economic development. However, there was very little investment in the region and economic development was minimal.

The infrastructure connecting the south to the rest of Sudan remained minimal and included no tarmac roads; irregular archaic steamships on the Nile from Kosti to Juba; one railway line from the national network to Wau in the west that became increasingly dysfunctional, and with irregular traffic; and some gravel roads. Both the railway and the road network were often interrupted during the rainy season.

When in 1983 the Addis Ababa Agreement was abrogated by Sudan's president, imposing Islam on the region, ending autonomy and splitting the region in the former three regions, the civil war broke out again that ended only in 2005 with the CPA.

The CPA brought stability and oil-based economic take-off in South Sudan, but the promise of a transformation of governance was not fulfilled.

An interim period of six years was to ‘make unity attractive’ before a vote was to be held in South Sudan to decide whether Sudan would continue to be one country or the south would become independent.

In effect, little was done during this period to make unity attractive. Obvious and visible improvement in living conditions were to be achieved, for which economic development and increasing economic



interconnections between the two parts of Sudan were vital. However, virtually no investment was made to achieve this. For southern leaders, ensuring a transition to independence in 2011 was the overriding aim, sidelining any other objectives (Schomerus and de Vries, 2019). Meanwhile, the key concern of the national government in Khartoum was retaining power, rather than implementation of the CPA stipulations concerning accountability, transparency, opening up and democratization.

Crucially, while the international cooperation partners supported materially the implementation of the CPA, they did not apply pressure for implementation of the transformative elements of the CPA. On top of this, the Darfur crisis, which had just broken out, led to a considerable diversion of funds, originally intended for support of development and the implementation of the CPA, to humanitarian aid for internally displaced persons in Darfur.

Two years after independence, in 2013, conflict broke out among political leaders that led to armed conflict.



# 4

## Trade and trade regime

### Structure and evolution of trade

*Data on trade are deficient and unreliable. Oil dominates exports. Oil income fluctuates due to partly conflict-induced production vacillations and to international price fluctuations. Non-oil exports are minimal and hardly increasing, but have great potential. They are currently unprocessed.*

Not much is known about the role and nature of informal trade, but it is believed to be substantial. Informal trade flows between Sudan and South Sudan are also reported to be significant, though no estimates are available.

The underdeveloped state of South Sudan's customs arrangements hampers the accurate collection of trade data. Available data on formal and informal cross-border trade flows are based on estimates compiled by the National Bureau of Statistics and the Central Bank, or reported by trading partners.

The Nimule border post to Uganda accounts for approximately 80 percent (by some estimates more) of merchandise trade by value. The data series compiled by the South Sudan National Bureau of Statistics extends back to 2008. The series depicts the extreme oil dominance of the structure of South Sudan's exports, and also illustrates the effects of disruptions to oil exports in 2012. Even accounting for a possible over-estimation of imports in 2012, the relatively stable value of merchandise imports in the face of economic contraction is noteworthy. This is probably a reflection of demand for imports generated by development cooperation projects, which are largely donor financed and less exposed to external shocks (RoSS, 2014).

Extra-African sources of imports dominate, with China and the United States of America representing more than half. However, cross-border trade with Uganda is increasing significantly. Trade with Sudan is greatly hampered by the aftermath of the separation of the two Sudans, with numerous issues being unsolved at independence.

Data shows that extra-African sources of imports dominate, with China (25.9 percent) and the United States of America (23.2 percent) representing almost 50 percent of total imports (*ibid.*). However, cross-border trade with Uganda, Kenya, and to some degree Ethiopia, is increasing (African Development Bank, 2013). There are numerous unresolved policy issues between Sudan and South Sudan arising from the latter's independence, such as border demarcation, water and oil distribution, attribution of debt, and others. In addition, Sudan accuses the government of South Sudan of supporting anti-government rebel operations in Sudan (Kordofan and Blue Nile), but South Sudan denies this. As a result, the border between the two countries was officially closed, and despite an ongoing process of negotiation to normalize trade relations, this has not changed to date.



*Trade with Sudan is greatly hampered by the aftermath of the separation of the two Sudans, with numerous issues being unsolved at independence.*

## Trade policy and institutions

**South Sudan has a draft trade policy with a liberal, market-oriented outlook. The policy was developed during the CPA period and marks a sharp departure from the restrictive trade policy of Sudan.**

The updated trade policy framework of the MTI of 2014 identifies six priority areas of interventions to achieve its mission to achieve its vision of a 'globally competitive South Sudan economy led by exports with an efficient domestic market' (MTI&EACA, 2018):

- Facilitate trade and promote markets
- Integrate into the global economy and enhance South Sudan's access to export markets
- Enhance South Sudan's business environment for South Sudanese firms to increase exports
- Improve trade-related infrastructure
- Build domestic trade
- Leverage international resources for the creation of South Sudan's diversified export base

The case for a liberal trade regime is recognized. High tariffs would reinforce the anti-export bias arising from the country's geographical location as a landlocked country. Studies show that the location alone, with the resulting high transport costs, provides a significant natural degree of protection (Milner et al., 2011).

The document commits to EAC as well as WTO integration. It recognizes the benefits of EAC integration, including the development of a modern government based on rule of law, a growing and increasingly confident private sector, and a vibrant civil society.

The policy appreciates the stringent requirements arising from the EAC integration process, as the EAC is ambitious, with strong and detailed rules. Arising from these requirements, the policy also acknowledges that comprehensive reforms in almost all aspects of economic life are necessary, as is in-depth technical knowledge and implementation. The policy also recognizes that trade policy mainstreaming in national development strategies and plans remains weak.

However, the trade policy document has not yet been adopted by Cabinet and passed by Parliament and is not reflected in actual trade policy. The de facto trade policy remains restrictive and includes numerous non-tariff barriers. A trade reform process was started early in this decade, but stalled due to the conflict-induced economic crisis.

As identified above, the existing trade policy has been evaluated as one of the most restrictive in the world.<sup>8</sup> Led by the draft trade policy, the government is undertaking a major review of its trade policy and institutions, so that these can contribute to the country's development objectives as articulated in the development plan (RoSS, 2014, pp. 22–34). It is recognized that trade policy reform can play a vital role in stimulating economic growth, helping to diversify exports, add value and create employment. The plans include, among others, tariff reforms, export promotion through a proposed special economic zone, limiting the scope of exemptions to that set out in the Investment Promotion Act, developing a trade facilitation framework, and elaborating options for services commitments under a General Agreement on Trade in Services-type framework.

Tariff reform is now being implemented, with customs administration being integrated into the newly established National Revenue Authority. A harmonized commodity description and coding system has been developed and is currently being tested (National Revenue Authority, 2018). The new tariff structure provides for four tariff lines of 3, 5, 10 and 20 percent. Most goods are taxed by 5 percent. This structure reverses a major anti-development bias of the previous structure: the high protection of food and beverages, and generally higher protection for unprocessed than for processed goods (RoSS, 2014, p. 24). This new system is currently being implemented and should improve the transparency of the tariff structure.

The import and export registry is meant to measure and regulate trade. It operates, but does not fulfil a regulatory task, and only provides a fiscal function. Its continued operation constitutes a significant trade barrier.

Although several new laws have been drafted, no regulations have been drawn up, so the laws cannot in fact be applied.



*A trade reform process was started early in this decade, but stalled due to the conflict-induced economic crisis.*



<sup>8</sup> See Trading Across Borders Index (part of the World Bank's Doing Business Index) in Annex 1.

## Trade policy institutionalization and coordination

The key body for implementation of trade is the Ministry of Trade and Industry. It is not yet in a position to deliver an effective trade policy. Its budget is not commensurate with its mandate, staff is not sufficiently skilled, and the institutional structure does not meet its requirements. Senior staff and political leaders change frequently, and this brings policy changes.

The structure of the MTI&EAC is highly complex and not in line with the numbers, qualifications and capacity of its staff. Equipment is also inadequate.

There is a draft definition of ministry department tasks, but this has not been translated into individual job descriptions and it is not actually used. Further, it has not been updated to take institutional changes into account (Ministry of Commerce and Industry, 2010).

The ministry also continues to undergo frequent task and institutional changes. According to the peace agreement, with the forming of a new cabinet the ministry was to be split into three independent ministries: one for trade, one for industry and one for EAC affairs.

Planning is not well developed. A strategic plan was developed for the years 2012–2014, but only few of its 68 activities considered to be priorities were on track (RoSS, 2014). No evaluation was done and no further plans were developed.

The investment functions have been removed from the ministry and an autonomous National Investment Authority has been created.

Important and notable shortcomings in the ministry are the lack of research and policy capacity. No research has yet been undertaken, and technical preparatory work on foreign trade agreements is non-existent. This is particularly important given the country's membership of the EAC, as well as WTO accession process. South Sudan must undertake a cost-benefit analysis of trade agreements it proposes joining, and join these on the basis of technical considerations rather than solely political imperatives.

Very little delegation of tasks is conducted, so that senior staff have a high workload. Junior staff are often not sufficiently skilled to carry out even simple tasks. Furthermore, there is little incentive to carry out the work, and management skills are weak.

It will be important to ensure that all staff, at all levels, are given the basic skills to do their jobs.



*Planning is not well developed. A strategic plan was developed for the years 2012–2014, but only few of its 68 activities considered to be priorities were on track.*



## EAC membership

In 2016, South Sudan became the sixth member of the EAC, with its most important trade partners being Uganda and Kenya, which are important markets and sources of qualified labour. Once the country has fully

**adopted the EAC policies, it will be part of a growing and deepening common market. The obligations to the EAC will also be of important assistance in deepening the role of law, driving reform, improving the business climate and enhancing investment confidence.**

The EAC is the most advanced and most promising regional integration body in Africa. It is in the process of implementing a customs union and a common market that includes integration of the capital market, services and labour market. A monetary union is envisaged. EAC membership is the most important reform process the government has so far committed to. By signing the Treaty of Accession to the EAC, the government made a legally binding commitment to implement business-friendly policies, improve governance and external accountability and undertake an extensive regional integration agenda.

South Sudan is a full member of the EAC and its various organs, such as the East African Court of Justice and the East African Legislative Assembly. The country is also part of programmes such as the EAC competition and financial inclusion laws; harmonization of higher education credit systems and curricula; and devising common strategies for key trade negotiations, freedom of movement of labour, and capital and services.

In order to fully benefit, not only should South Sudan fully and competently participate in these organs and programmes, but also the business community and the wider civil society need to understand and appreciate the benefits, risks and implications of EAC membership.

South Sudan has been given a three-year transition period in order to implement the required legal, regulatory and institutional changes. While the period ended in October 2019, some flexibility was provided, as the available institutional and personnel capacity did not meet the required pace and speed.

The region has ambitious plans to deepen integration and raise productivity and competitiveness. Ongoing support by the EAC heads of state will determine how rapidly these plans will come to fruition. The environment of a history of cooperation and integration of the three core countries (Kenya, Tanzania and Uganda), the small number of participants and the strong role of the business community with its regional links, in particular in Kenya, provide a strong impetus.

There are direct and indirect benefits of EAC membership for South Sudan, amongst which is that it will secure easier and cheaper access to its imports. This is vital, as the country produces only a few of the goods and services it consumes. It is important to note that once peace returns, this will not change. More importantly, once it develops its agricultural resources, including animal, fishery and forestry products, to an exportable quality, the neighbouring countries will be a huge market. This is in particular true for food products, as the region is regularly affected by drought and food shortages. Moreover, the EAC is important as a transit



route for South Sudan as nearly all imports and non-oil exports are transported through that region.

Government and the business community will gain from increasing interaction with the region. Integration and cooperation with regard to economic, political and social policies and institutions will help South Sudan to improve the quality of its policymaking and implementation processes considerably. It will also provide a basis for foreign investment. Last, but not least, the integration process will help drive the domestic process of economic policy reform and wider strengthening of transparent democratic and economic governance – major policy objectives of the government.

With the assistance of the European Union and TradeMark East Africa, advice and training have been provided and a training plan has been formulated, but it is clear that the necessary training cannot all be finalized within 2019.

Regional integration may also entail short-term costs for South Sudan. Currently, tariffs are lower in South Sudan than in the EAC, and therefore there might be some degree of trade diversion and increase in costs of imports for selected goods. This will need to be carefully managed by the government if costs are to be contained. In the long run, however, efficiency gains related to the extensive EAC trade facilitation programme and trade liberalization are likely to outweigh the short-term costs.<sup>9</sup>

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9 This is discussed further in Chapter 6.

## **WTO accession**

South Sudan started the process of accession process to the WTO in 2018. This will be a further step to integration into the global trading system and it will further strengthen the rule of law and regulations. The EAC integration process is an important step in the WTO accession process.

The EAC integration process is an important step in the WTO accession process. The progress in EAC-induced policy reform will be carefully observed by the members of the Technical Working Group (TWG) established by the WTO with interested WTO members that will pursue the accession discussions with the government. The government had already presented its memorandum on the country's trade policy regime when the TWG held its first session in March 2019. The impressive speed was possible with the engagement of outside expertise. At this stage, more than 100 questions have been raised by TWG members on the memorandum, and it will take considerable effort to respond satisfactorily to these and to implement the necessary changes. The progress of the accession process will depend on the time this next step requires.<sup>10</sup>

As with the EAC membership, the accession negotiations and membership will bring major benefits through learning effects, momentum for the domestic reform process and the improvement of overall governance.

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<sup>10</sup> UNDP will engage a consultant to work on this with support from Enhanced Integrated Framework for Trade Related Assistance for Least Developed Countries funds.



# 5

## The nexus between trade and conflict

### Resource curse

*South Sudan's dominant income derives from its oil, complemented by foreign aid. These sources of income could be a boon in jump-starting the process of development that will bring rising productivity.*

However, in the absence of the strong institutions that are needed to manage development, they have turned out to be a resource curse (as for many other resource-rich countries). Oil benefits have not been distributed to the population, they fuelled the armed conflict within Sudan since the late 1990s, and they provide the basis for the current armed conflict in South Sudan.

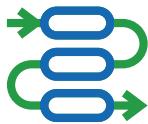
Easily exploitable mineral resources and foreign aid are forms of rent. They have in common that they are available to the state at no or little cost and they create 'rent', unearned income, at the disposal of the state and/or its agents. However, in the absence of the strong institutions that are needed to manage development, they have turned out to be a resource curse (Ross, 1999; Auty, 2001). They have raised the value of the local currency and made domestic production uncompetitive. Furthermore, oil incomes undermine accountability and are not distributed to the citizens. As a result, the state is separated from the population. Oil production also has negative distribution effects, as it employs few domestic staff.

South Sudan, with its very fragile institutions, is a textbook example of a country with a resource curse. Oil is by far the most important export

commodity. Revenue derived from oil has fuelled the armed conflict in Sudan since the late 1990s and provides the basis for the current armed conflict in South Sudan.<sup>11</sup> While oil has not been the original cause of the civil conflict, it has certainly fuelled the it.

## Conflict-prone political economy

Protracted wars create a conflict economy that is not quickly altered by a peace agreement (Kamphuis, 2005; Collier, 2003). Those that profit from the conflict economy have a strong interest in continuation of the conflict situation.



*Peace processes often fail because they often do not provide a basis for the social transformations necessary for sustainable peace, resilience and growth.*



Prolonged conflicts lead to fractured and non-inclusive politics, unstable governance institutions, weak state capacity, and growing numbers of rebel groups and institutional corruption. South Sudan fits this pattern. The current crisis emanates from the political economy of rent-seeking and the heavily militarized political and bureaucratic public administration.

Issues of political economy are absolutely pivotal to the form and functioning of peace processes. Their understanding is vital. Peace processes often fail because they often do not provide a basis for the social transformations necessary for sustainable peace, resilience and growth. This has been the case in Sudan and it is the case now in South Sudan. This is also the key criticism of the current peace agreement (Zambakari, 2019; and in particular Nyaba, 2019).

However, the conflict economy also drives social change. While protracted conflict destroys institutions, it may contribute to the creation of others. In South Sudan, the conflict contributes to the emancipation of women by redefining and expanding their roles. There are now more vocal women's groups. The same conditions lead to youth organizing themselves.

## Negative impact of conflict on trade

The negative impact of conflict on trade and the wider economy is obvious. Armed conflicts choke trade, as shown by the dramatic interruption of trade and destruction of the trade infrastructure during the 2013 and 2016 outbreaks of conflict in South Sudan.

But the conflict also encourages other informal kinds of trade, as it shields illegal trade and creates market imperfections that promote monopolies and shortages. Studies show that trade destruction due to civil wars is very great and persistent and increases with the severity of the conflict (Martin, Mayer and Thoenig, 2008). This is definitely the case in South Sudan, as stated above: the crisis not only destroyed large parts of the trade

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<sup>11</sup> As explained in Chapter 2.

infrastructure and interrupted trade, but also had high related economic and human costs (Frontier Economics; FAO and WFP, 2019; International Monetary Fund, 2019).<sup>12</sup>

## Negative impacts of conflict on the wider economy

Beyond its impacts on trade, conflict has wider impacts on the economy, as evidence from many countries shows. It increases market weaknesses, contributes to economic recessions, has negative fiscal effects and may result in debt distress. South Sudan is a case in point.

The most important impact of conflict is its wider effect on the economy. Empirical studies have found that low per capita incomes and slow economic growth are both robustly linked to civil war (Blattman and Miguel, 2010; Hansohm, 2014). Violent conflict has a strong adverse effect on national incomes and government revenues. The main reason for the poorest countries failing to catch up with middle-income and rich countries is their much greater likelihood of being involved in wars and civil conflicts. This factor alone accounts for an income loss of about 40 percent over 20 years (Milanovic, 2005).

Conflicts lead to the interruption of production and trade, to massive capital flight, and to the destruction of physical capital. Workers and entrepreneurs – the human capital – are maimed, killed or flee. Infrastructure for education and health care is destroyed. A growing body of empirical literature estimates the magnitude of these effects of war on later income, poverty, wealth, health and education (Blattman and Miguel, 2010).

Conflict has also had an enormous impact on the skills base in South Sudan and northern Uganda, where most of the population is under 18 years old, with limited or no education or marketable skills. Many have either grown up as refugees, internally displaced or fighting in different armed groups. They are unfamiliar with farming, despite it being the region's main means of livelihood. From a peacebuilding perspective, their current economic hardship could trigger future conflict, as they are likely to be lured into armed groups or criminality. Harnessing their capacities and energy is key to peace and prosperity (Carrington, 2009).

The pervasive impact of conflict on the economy, even in areas that are not affected by armed conflict, is illustrated by the Aweil region (see Box 1).

Trade of non-minerals can help to prevent conflict as it increases resilience of the economy and the people. Trade in goods increases incomes of producers and consumers through the expansion of markets and by lower prices via more competition.



*Trade of non-minerals can help to prevent conflict as it increases resilience of the economy and the people.*

12 Details are reported in Chapter 2.

By diversifying incomes and supply sources, trade strengthens the resilience of the population. As importantly, it creates trust through cooperation, reduces cultural barriers and promotes cross-societal understanding. Thus, it contributes to resilience and peace. However, trade can also coexist with conflict and extend conflict.

### **Box 1: The effects of conflict on Aweil**

Aweil is situated in the former state of Northern Bahr el Ghazal, which was divided into three states in 2015. The state borders Sudan, with whom it had been economically integrated through trade before South Sudan's independence. Although the state has remained peaceful, it has paid heavily for its isolation and division.

Due to outstanding border demarcation matters, other unresolved issues between the two Sudans and Sudan's accusation that South Sudan supports rebels, Sudan has officially closed the border. Some products, mainly food, are smuggled, but informal taxation renders the goods expensive and scarce. Notably, all smuggling is carried out by Sudanese traders, mainly from Darfur. No South Sudanese are able to cross to the north.

Goods from the south are expensive, as the trip from Juba is long (800 kilometres) and the road is in very bad condition. In addition, illegal taxes are raised at numerous roadblocks. In sum, the conflict has raised prices, created scarcity of goods and impoverished the population.

The region is also suffering from extreme and worsening climate conditions. Much of 2018's crop was lost due to heavy rains. During the rainy season the region is difficult to access by road, and flight connections are also more difficult.

With the simple agricultural technologies used in the region, the area is not food self-sufficient. The insufficient incomes are supplemented by transfers from family members in Juba and other parts of the country. A sizable part of the youth has migrated, temporarily or permanently, in the search of jobs, mainly to Khartoum in Sudan.

Aweil has long been a receiver of aid. This has ensured livelihoods, but the drawback is that dependency on aid has developed, and this has encouraged the lack of entrepreneurship. There is a need for increased emphasis on employment and income generation measures.

The region has natural wealth in cattle, which is however traditionally not seen as capital but is kept for dowries.

*Source: Various, including field research*

## Coexistence of trade with conflict

While the past and current conflicts are best described as fights over resource control, oil and natural resources are traded. The current trade pattern fuels the conflict and reduces resilience, rather than bringing peace.

Trade can have contrasting effects on the risk of civil conflicts. It may act as a deterrent if trade gains are put at risk during civil wars, but it may also act as insurance if international trade provides a substitute for internal trade during civil wars. A study finds support for the presence of these two mechanisms and concludes that trade openness may deter the most severe civil wars (those that destroy the largest amount of trade) but may increase the risk of lower-scale conflicts (Martin, Mayer and Thoenig, 2008). Context matters. While international trade with oil was not the origin of the discord between Sudan and South Sudan, it is certainly a key engine to finance the continuing conflict. In this way, it has prevented the development of non-oil trade and other economic development. Agricultural-based development and trade would counter conflict. High fluctuations in world market oil prices also contributed to the fragilities of the fiscal income and the overall economy.

Trade may also destroy opportunities and jobs in declining sectors, and the people affected by these losses may, under certain conditions, turn to violence for a source of income. Changes in real incomes generated by trade are particularly important in fragile states, where trade flows tend to be larger and more volatile than other external flows, such as aid, remittances and foreign investment. This volatility is partly due to such countries' limited diversification and their high dependence on primary export commodities, which may exacerbate the effects of abrupt changes in exports on conflict.

As discussed above, grievances were a key source for the conflict in South Sudan. The country has large numbers of foreign traders: mostly Ugandans but also Kenyans, Ethiopians, Eritreans and Congolese. Sudanese traders visiting Uganda are fewer in number and mainly buy manufactured goods or farmers' produce. They play an important role. There are, however, concerns that this trade is not mutually beneficial and has also imported problems such as prostitution, which has grown since South Sudan opened up. This inevitably brings increased risk of HIV and other sexually transmitted diseases at a time when health and support services are struggling to cope.

In the medium to long term, growing frustration among some groups, particularly youth, about limited economic opportunities could result in resentment towards foreign traders and business people. South Sudan's government, the business community and others can help build stronger relationships between local communities and foreign traders by encouraging foreign businesses to employ more nationals in line with the Investment Promotion Act of 2009, and by providing training schemes and apprenticeships. It will be crucial to build the productive capacity of

South Sudan to enable export. Agriculture will be most important – both to replace some imports, and for export.

Cross-border trade has boomed since the CPA was signed in 2005 and the Lord's Resistance Army withdrew from northern Uganda. The importance of this trade for the region's recovery and long-term prosperity, peace and stability cannot be overemphasized. It has created jobs, increased government revenue, provided goods and services in South Sudan and given small-scale traders and farmers much-needed cash. It is also providing a platform for reconciliation between Ugandan and Sudanese communities that were cut off from each other for years or found themselves on opposing sides because of the conflict.

### **Box 2: Amieth market in Abyei**

Abyei is a contested area between Sudan and South Sudan. Amieth market was established in 2016 and was thriving in less than a year. Long-distance traders with trucks do business there, as do small-scale traders from local communities. The rapid growth of the market results from the scarcity of trading corridors between the two Sudans. While regular goods, mainly agricultural, dominate, weapons and other contraband are also sold.

The market is also a meeting place for the local peace council. Peacemaking and trade go together. Nevertheless, the linkages between the market, security and peacebuilding are complex and the impacts of the market on different actors differ. Misgivings and unaddressed challenges exist. While the market alleviates shortages, adds value and enhances the welfare of both the locals and external traders, it also results in an upsurge in violent crimes, traffic accidents and prostitution. More importantly, conflict actors are deeply embedded in the market, reaping profits from trade as well as tax revenues, and the market has been attacked by armed gangs and militias who wish to shut it down. The private sector is heterogeneous and has differing interests concerning conflict and trade: while some businesses need stability and want conflict to diminish, others thrive in war zones and drive conflict.

The conclusion of this case study is that while such markets impact the political–economy calculus in the areas in which they are established, they are not intended as vehicles for peacebuilding. Rather, they are products of weak and hybrid governance structures and may engender not only peaceful coexistence, but also conflict. However, facilitation and operation of these markets can be adjusted to reduce violence and enhance their impact on peace and stability. This analysis resonates with the observation that hybrid governance of the kind evident in Abyei is ambiguous and might engender both benefits and problems (Meagher, 2012).

*Source: Rolandsen (2019)*

South Sudan's access to the East African market is essential for its food security. Some groups, however, suggest that the volume of imports may discourage local production and cause 'micro-inflation' elsewhere. In Gulu in northern Uganda, for example, prices of most foods have risen sharply since 2007. Some people blame cross-border trade and have called for tighter regulation, saying it is a potential cause of food insecurity. Care is needed, however, in attributing price increases solely to cross-border trade. Global and regional increases in food costs are also responsible.

Markets in Abyei region illustrate the dependence of markets on underlying governance (see Box 2).

## Conflict changes gender roles

**South Sudan's conflict redefines gender roles. While the direct actors and victims of conflict are mostly men, the indirect costs fall heavily on women and children.**

While women traditionally play a limited role in public life and their economic contribution is largely invisible, conflict also promotes their emancipation. Women play an active role in peacebuilding and an increasing role in the society. Their role in trade promotes their economic and social emancipation.

Women are on the lower rungs of the social hierarchy ladder than men and have fewer resilience assets and rely more on natural resources. Their high rates of illiteracy, limited skills and limited access to professional employment, make them more vulnerable to climate change calamities than men, and households headed by females are more vulnerable to disasters such as famine (Mai, Jok and Tiitmamer, 2018).

As a result of conflict, South Sudan has a high number of female-headed households. This creates a central role for women in post-conflict economic recovery (Kamphuis, 2005). Traditionally, women play a limited role in public life and their economic contribution is largely invisible. More importantly, their role is clearly inferior according to the traditional moral and legal codes.

While these traditional gender roles are still very much in evidence, shifts in power between men and women are visible in South Sudan. Women are becoming a driving force for socioeconomic development in conflict areas, play a growing role in public life and have an amplified voice. This has brought tangible changes to community perceptions regarding permissible roles of women.

The burden of women's paid and unpaid work seems generally to be heavier in wartime. Women's domestic burdens tend to increase during conflict, and their opportunity to engage in paid work outside the household rises as well. The conflict-driven empowerment of women has redefined new roles and responsibilities for them. Women under the



*Women play an active role in peacebuilding and an increasing role in the society. Their role in trade promotes their economic and social emancipation.*





pressure of widespread conflicts become providers, decision makers and peacebuilders, potentially contributing to building a lasting peace and restoring reconciliation (Abdel Rahim, 2018; Adeogun and Muthuki, 2017; Mayai, 2018; UNDP, 2019). A study on the shea butter value chain and cross-border trade in South Sudan shows how women have been empowered (Kut, 2018).

### Climate change exacerbates the conflict

Climate change is increasingly visible in South Sudan. Data show that temperature anomalies strongly affect the risk of conflict. The relationship between temperature anomalies and intergroup violence is particularly strong in pastoralist and agro-pastoralist areas in Sudan and South Sudan. [Women are particularly vulnerable to the effects of climate change.](#)

Climate change contributes to the causes of floods and droughts and thus food insecurity and conflict. Climate change affects the quantity and quality of food produced, and requires measured resilience and adaptation. South Sudan needs to adopt 'climate-smart agriculture' in order to mitigate climate-induced food shortages and improve food production (Mayai, 2018).

A 2015 study shows the direct link of climate change to conflict (Maystadt, Calderone and You, 2015). The study suggests that the

relationship between temperature anomalies and intergroup violence is particularly strong in pastoralist and agro-pastoralist areas in Sudan and South Sudan. Understanding why these areas are more prone to climate-induced violence has implications that go far beyond the borders of South Sudan. The high vulnerability of these areas could potentially explain why several countries in the Greater Horn of Africa (e.g., Kenya, Somalia and Sudan) experience conflict (see Figure 5, Annex 1). Recent evidence suggests that coping strategies traditionally adopted in arid and semi-arid regions are progressively breaking down due to different mutually reinforcing factors.

Many studies are increasingly converging in identifying temperature shocks as a major driver of violence, but quantifying the climatic impact and underlying mechanisms still remains a challenge (*ibid.*).

Initiatives aimed at reducing vulnerability in the Horn of Africa should include support in destocking and restocking processes at times of drought through improved access to markets; development of insurance and credit markets, especially weather insurance schemes and supply of income diversification opportunities through investment in irrigation (when profitable); and in education services adapted to a mobile population (*ibid.*). Many of these elements boost trade.

Conflict-affected economies are different from those in peace. Governments and international cooperation partners need to be sensitive to their characteristics.

It must be recognized that strongly development-oriented states are largely absent amongst FCAs – they need to be built up. It is therefore not appropriate to plan for comprehensive plans and programmes. Rather, programmes and actions need to be prioritized and sequenced, starting with those that address binding constraints.

It is important for international cooperation partners and other external actors to be conflict-sensitive: they must be aware that interventions are not external to the conflict, but become part of the conflict context. Therefore, they may contribute to alleviating conflicts, but may also exacerbate them (Haider, 2014).

A conflict and post-conflict environment calls for adapted approaches. Concepts for peace time are not adequate as they assume a strong state with sound capacity. One requirement for conflict environments is careful execution and continual monitoring. Engagement of the private sector is important, but it should not be assumed that the private sector will play a peacebuilding role. Small and medium enterprises are deeply entangled in the political economy created during the violent conflict, and this raises doubts about their peacebuilding potential (Grawert, Hansohm and Nusrat, 2017; MacSweeney, 2008).

There is evidence that actors need to be careful with applying assumed ‘best practices’ from other countries. Each conflict-affected country has its own very specific characteristics.



*Conflict-affected economies are different from those in peace. Governments and international cooperation partners need to be sensitive to their characteristics.*





# 6

## How can trade support peace and prosperity

### Positive effects of trade on economic development and resilience

The basis for sustainably overcoming fragility and increasing resilience is raising incomes of the broad population, best done through employment.

Higher incomes from trade opportunities and lower prices resulting from trade are associated with reduction in conflict intensity and greater resilience.

Experience from other countries suggests that higher income from trade opportunities and lower prices are strongly associated with a reduction in conflict intensity. The patchy evidence available also indicates a significant association between reduced conflict intensity and increased trade.



Higher incomes from trade opportunities and lower prices resulting from trade are associated with reduction in conflict intensity and greater resilience.

Trade helps to connect areas long isolated by conflict with the rest of the economy and expands opportunities beyond subsistence. Connecting isolated communities is a direct way to raise incomes by enlarging output markets and providing cheaper and more varied consumer goods and production inputs through trade. Given the relative isolation of many of the conflict-affected regions, this may be particularly important for South Sudan, as trade integration within the country and with other countries has great potential to raise incomes and reduce consumer prices. The areas near the borders to Uganda and the Democratic Republic of the Congo, to Sudan (the longest border with a traditionally highly integrated economy and border trade), and to the booming economy of Ethiopia have long-term potential, as the development of infrastructure will allow these remote areas to access these national economies.

**Relatively closed borders and inward-looking trade policy contribute to concentration of economic activity in large cities.** South Sudan's present trade regime further deepens the country's isolation by raising the cost and time of trading. Increasing international trade will lead to dispersion of economic activity and encourage such activity in the border areas. This will help to reduce spatial inequalities and the present excessive agglomeration around Juba. International experience shows that international trade leads to spatial deconcentration of economic activity (World Bank, 2009).

**Encouraging local and ethnic communities to trade with other groups through better connectivity will help increase resilience and build peace through increasing trust.** Evidence from other countries, including Sudan, corroborate the fact that trade depends on trust, and that trade also stimulates mutual trust.

Welfare and trust are also increased when groups from the economic peripheries are more involved in trade with the economic centres, in particular with Juba. Better connectivity results in lower transport costs.

**A peace-oriented trade policy includes macro- and micro-level interventions. It also needs to combine a short-term with a long-term perspective and to address both technical and political challenges.** At the micro level, in safe areas where security is provided, local development can be stimulated through developing transport infrastructure and markets, supporting production and developing value chains. Market and trade development can be included in subsistence-oriented livelihood projects. However, markets may engender not only peaceful coexistence but also conflict. In border areas in particular, the development of markets may need security guarantees.

**At the macro level, continuation and activation of the trade policy reform is vital.** Trade reform was given impetus by work done in connection with the Diagnostic Trade Integration Study (RoSS, 2014) and was boosted by the processes associated with attaining EAC membership and WTO accession. However, these comprehensive processes need continued political support and engagement, as well as wider acceptance by society and a growing capacity for negotiation and implementation.

**Stronger engagement in trade needs a stronger capacity to produce non-oil goods in order to buy imports.** Products in which South Sudan has a comparative advantage need to be developed. These will be predominantly agricultural (including animal, fishery and forestry resources).

## **Making sure that impacts of opening up of trade are inclusive**

**Trade creates new economic opportunities, but its benefits are not automatic, as markets are not perfect.** Trade-related infrastructure, such as for restaurants, hotels, banks and insurance and transportation services,

benefit other businesses that depend on transportation networks. Many are not able to produce, even if new opportunities arise because of trade, because they face various constraints. Actual and potential producers in secure areas face numerous constraints that need to be addressed. The constraints more often reported are access to finance and transport. Others include access to inputs (in particular, improved seeds and fertilizer), technology and markets.



*Producers are often in a weak position and only receive a small percentage of the consumer price of the goods they sell.*

Producers are often in a weak position and only receive a small percentage of the consumer price of the goods they sell. In contrast, well-established political and economic elites earn sizable incomes. It will be difficult but important to change this state of affairs. Establishment and strengthening of producer associations, cooperatives (some of which have existed for a long time) and women's groups will be ways to improve the producers' position. It will also be important to organize and train youth for production and trade. Increasing market transparency also has considerable potential to contribute to market deconcentration and unbundling, and to lower prices.

**Domestic traders need to be capacitated to play a stronger role.** Trade is strongly dominated by traders from the neighbouring countries, in particular from Sudan, Uganda, and Ethiopia, and only in petty trade do female South Sudanese traders dominate. The reasons for this are cultural and historical. The foreign dominance has potential for grievances to emerge. In order to share the benefits of trade, inclusive consultative processes are vital. It is not wise to create barriers for foreign traders but rather, the capacities of local traders and business should be strengthened.

**Effective trade policymaking needs broad and transparent consultative processes with meaningful influence of private business, consumers and workers over the decision-making process.** The range of tradeables in international trade has expanded, as has the issue base of the trading system and the range of instruments that countries can negotiate. As a result, bilateral and regional options are proliferating and the issues in trade policy are now analytically more challenging. In this context, policymaking requires trade ministries to engage in active communication with a much wider range of public entities and private interests, and they must be prepared to engage in multiple and concurrent negotiations in a variety of forums. Trade policymaking has become vastly more complicated (Van Grasstek, 2008).

**Overall gains of opening up of trade are accompanied by losses for some producers, who may need to be compensated.** Opening up of trade results in the import of more goods and services. Some of these will replace local goods and services that are more expensive and/or of lower quality. The producers of these commodities are losers in the opening up of trade and may be needed to be retrained or compensated.



## *Enhance the quality of trade policymaking*

**South Sudan is engaged in multiple trade and regional integration agreements and negotiations.** These include the EAC, the Common Market for Eastern and Southern Africa (COMESA); the Tripartite Free Trade Area between COMESA, the EAC and the Southern African Development Community; the Intergovernmental Authority on Development; and the WTO. This requires parallel engagement and coordination.

**The number of issues around trade negotiations have increased greatly, from tariffs alone to policy areas that were formerly purely domestic.**

These issues include trade in services, trade facilitation, technical barriers to trade, standards, sanitary and phytosanitary measures, rules of origin, infant industry protection, anti-dumping, and others.

**In this context, further progress in negotiation and implementation requires a well-staffed and capable trade ministry and effective coordination mechanisms.** So far, the engagement has been dependent on the focused participation of external advisors. As engagement and commitments deepen, this needs to be accompanied by building of capacities for research, negotiation, monitoring, evaluation and implementation.

**Trade policy reform needs continuing political will and energy to reform.** Continuity in leadership for trade policymaking will be important.

**Capacity-building for trade policymaking is a long-term process.** Trade policy is increasingly complex and continually evolving. Effective and successful engagement needs a cadre of well-qualified individuals with solid understanding of the issues.

**Research and analytic capacity are vital for successful trade policy.** Negotiations of trade and integration agreements need a basis of

information and analysis about the economic and social effects of changes in trade policy. Capable units at the Ministry of Trade and Industry and key economic sector and regulatory ministries and agencies should be complemented by independent research bodies on trade, economic and agricultural policy issues. South Sudan has a few capable units that produce quality research, but on a minimal scale. The scale should be increased, accompanied by training of research and administrative staff and wider dissemination of research results.

**Public–private communication on trade policymaking and implementation needs to be strengthened and institutionalized.** The South Sudan Business Forum might be a basis for this, and could be developed into a capable body for systematic involvement of the business community in trade policymaking.

**Society-wide awareness and buy-in will be required for deeper integration.** Until now, the integration of South Sudan with the international economy has hardly been an issue in public discussion. This is a mismatch with its importance, and will be increasingly problematic as integration deepens. There needs to be an understanding of and discussion about benefits and trade-offs, risks and opportunities. Interaction with the National Assembly should also be intensified; Parliament has hardly been involved.

## *Regional integration: The EAC and beyond*

**Neighbourhood effects are important for any country. What happens in neighbouring countries has strong spillovers.** Positive economic and political developments and events such as business expansion, economic growth and political stability will have positive results. Negative developments and events such as drought, political crisis and economic contraction, will have negative results. Extensive trade with neighbours reduces the duration as well as the intensity of conflict (Cali, 2015).

South Sudan has particularly strong interrelations with Sudan through its oil pipeline, cross-border trade, the secession aftermath, unresolved issues and mutual accusations of support for the opposition. These problems have a considerable cost for both countries. The recent political changes and current reform in Sudan opens a potential window for improvement.

Relations with South Sudan's southern neighbours, Uganda and Kenya, are increasingly important, and those with Ethiopia are evolving. All the neighbours have a strong interest in peace in South Sudan. However, there is also rivalry among the neighbours that complicates reaching solutions. Regional bodies such as the EAC and Intergovernmental Authority on Development played and continue to play an important role in mediating and moving towards solutions.

**Regional integration has considerable direct and indirect economic potential.** Market size is decisive for economic success. All rich countries have either a very large domestic market (the United States of America),

or they are highly economically integrated (the European Union). A larger regional market provides lower prices and higher efficiencies through competition. Trade with neighbouring countries under trade agreements is associated with a lower risk of conflict (Cali and Mulabdic, 2014).

Domestic policy reform as a result of regional integration gains credibility as it is locked in. This is important in a context of weak and fragile states with low accountability and high risks of policy reversal. For the same reason, regional integration will strengthen the rule of law and the quality of governance. Regional integration also amplifies the voice of small countries on the international policy level.

Besides economic and governance effects, regional integration also has a track record in the fields of security, stability and peacemaking. It also contributes to the building of trust.

**The EAC, in particular, has a strong record of effective regional integration with its customs union and common market – it is ahead of other bodies in the rest of Africa.** It also has strong reform momentum, is supported by broad technical assistance and provides learning effects. The region has a growing market with high population growth and rising incomes. Recurring droughts in East Africa provide, in particular, a large potential market for South Sudan's food production.

**The only potential drawback of EAC integration for South Sudan may be the bloc's custom tariffs, which are higher than those of South Sudan.**

Rather than increasing tariffs, South Sudan should envisage lowering them. However, in its context of high non-tariff barriers and high transport costs due to distance and deficient transport infrastructure, as explained above, a tariff increase is a minor issue. The gains from being part of the common market outweigh this cost. In the medium term, the EAC will also reduce tariffs as it is committed to a more liberal trade policy.

The planned monetary union in the medium term should be addressed with caution. Before the region's national economies are highly economically integrated – a process that will take years to bring about, and whose length will depend on measurable results – a monetary union would not be beneficial for all the countries.

South Sudan is a full member of the EAC, but is still in a three-year period for implementation of the respective laws and regulations – the EAC membership entails the need for comprehensive economic and regulatory reform.

Apart from that, the EAC is itself also in a continuing process of deepening integration in its move towards a customs union and common market with integration of the goods, services, capital and labour markets. The sooner South Sudan enters actively into this process, the better for the interests of the country.

It is important that South Sudan's EAC integration policymakers ensure that besides the general advantages of membership, there are benefits for its



economy. There are fears that EAC membership may not be advantageous and/or be premature for the country because it is far less developed than the other EAC members. While concerns have to be taken seriously, the fact is that South Sudan and the other EAC member states are symbiotic, rather than competing partners. South Sudan imports largely what it cannot produce or cannot produce at a favourable price and quality. Once it produces food and other agricultural products in an increasingly competitive manner, these will increasingly successfully compete with or even replace imports.

To raise the price of imports further through increased tariffs or other obstacles would result in additional costs to be borne by domestic consumers and producers (for production goods and inputs). Such a policy would be anti-developmental. The EAC agreement provides policy space for the member states by provisions for restrictions and delayed entry. However, it is important to be aware that delayed entry or protection at this stage would be costly. Rather, it will be important to continue negotiating the terms of common market implementation in a well-informed manner. In the longer term, the objective of regional integration is in any case income equalization in the region (World Development Report, 2009).

## WTO accession

In addition to its result, WTO membership, accession to the WTO is an ideal process to accompany the economic reform process that is needed to reach sustainable and broad-based growth, peace and resilience.

The process provides learning processes for technical participants, political leaders, the business community and civil society. Like the EAC integration, WTO membership will provide lock-in processes for policy reforms. This will increase the opening up to international investments that is indispensable for increasing the technological level of agricultural and other economic sectors. Investors need confidence in future stability and political continuity.

At the centre of WTO accession are two categories of issues. First, the laws and regulations of the acceding country need to meet the standards of the WTO. It is in the interests of South Sudan fulfil this criterion. Second, the WTO TWG members are interested in gaining access to the markets of the acceding country. The products that South Sudan produces (i.e., mainly oil) do not compete with those that it imports; they are complementary. With its status as a least developing and post-conflict country, South Sudan can hope for advantageous conditions as a safeguard.

South Sudan has progressed in its accession with the early submission of a memorandum on its trade policy regime. In order to maintain this momentum, it will need to provide continuing high-level leadership in its evolving position in responding to the numerous questions about the memorandum, and in the related elements of policy reform. In parallel, it needs to build its technical capacity step by step in analysing, developing negotiation positions and negotiating.

The experience of Sudan, which has been in the accession process since 1994, provides a warning that starting an accession process is far from a guaranteed path to membership. The process needs high-level commitment, enhanced capacity and strong engagement all the way.



*With its status as a least developing and post-conflict country, South Sudan can hope for advantageous conditions as a safeguard.*



## Agriculture and local economic development

**Agriculture, with its crops, livestock, fisheries and forests, is the mainstay of the vast majority of the population.** It has great potential for the creation of employment, income and foreign exchange needed to finance imports. In order to use this potential, the sector's neglect needs to be reversed. It needs budget support to provide public goods and investment needs to be attracted.<sup>13</sup>

There are examples of successful technical assistance for agricultural and local economic development in peaceful areas that can be built on.

The creation of a favourable environment needs, in the first place, security, then infrastructure, access to finance, access to inputs (including fertilizer, improved seeds, insecticides and improved technology), and access to markets in order to unlock investment.

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<sup>13</sup> The Diagnostic Trade Integration Study (RoSS 2014) provides an analysis of agricultural and mineral potential, but an update of its analysis is required.



*The exploitation of minerals and timber and the production of charcoal, presently largely informal with no benefits to the local communities and public finance, need to be regulated for sustainable exploitation.*



The exploitation of minerals and timber and the production of charcoal, presently largely informal with no benefits to the local communities and public finance, need to be regulated for sustainable exploitation. Involvement in the Extractive Industries Transparency Initiative would be a useful mechanism to help to improve governance in this sector.

Tourism is among government priorities (RoSS, 2014). Indeed, the sector, with its wildlife, rivers and lakes, as well as cultural heritage, has potential in the long term. The sector is labour-intensive (with jobs requiring low or medium levels of skill that can be attained in a relatively short period) and has strong backward and forward linkages to other sectors. However, this potential will need stable peace and security. Once these are established, the sector needs time to be developed.

## **Private sector, small business and manufacturing**

The private sector is the key driver of economic development. To unlock its potential, numerous constraints, as identified above, need to be addressed to improve the business environment. Its representative organizations – particularly the Chamber of Commerce – need to be capacitated, especially in the rural and remote areas.

The support structure of the sector is very weak and needs to be strengthened. The entrepreneurial culture is also reported to be weak, mainly as a result of the low level of economic development for a long time, combined with the domination by traders from Sudan and aggravated by the effects of the oil boom.

Experience from other countries provides strong evidence that productive employment can play a major role in securing stability in a fragile country. Unemployed youth are central to the recent and current violent conflicts in the country. In fact, employment and stability have a mutual effect on each other. An increase in employment affects stability by providing a larger tax base, along with growing legitimacy and reduced poverty, inequality and grievances. It also leads to changed perceptions and expectations that bolster stability.

Stability and peace increase employment through improved services stimulating demand, and social capital raising productivity.

Of particular importance is the development of value chains around the agricultural sector that allows the production and export of marketable goods. There are some experiences of emerging value chains supported by international cooperation partners, including rehabilitation of support projects and pilot projects in peaceful areas.



# 7

## *Principles for trade for peace policy*

For government and its development partners, it is important to apply the following principles in order to enhance resilience and peace:

- **Continually engage in implementation of the peace agreement for stabilization and transformation:** The peace agreement is the basis for any successful sustainable peace in South Sudan. Its implementation faces multiple challenges and needs continual engagement.
- **Prioritize and sequence interventions:** Many interventions are necessary to transform the country. However, it is not promising or even feasible to attempt all of them at the same time. Rather, priorities need to be set and interventions need to be sequenced. Interventions that create employment and support private sector development should proceed, even before the regulatory environment is fully ready.
- **Be conflict-sensitive in trade interventions:** Freeing and liberalizing trade promises overall gains. However, increasing competition will also bring failures. Conflict-prone economies such as South Sudan are fragile and the risk of falling back into and increasing conflict is high. Actors need to be sensitive to the potentially negative impacts of interventions.
- **Strengthen rigorous internal and external monitoring and evaluation of government and development interventions:** The experience of policies to bring peace is at best mixed. There is a high risk of interventions to increase rather than reduce conflict. In this context, a rigorous mechanism of monitoring and evaluation is vital.
- **Increase information and transparency to reduce pervasive information asymmetries:** In South Sudan the information flow is weak and transparency is limited. Vested interests are guided by holding back information. The lack of information also contributes to the low level of trust.

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# Acronyms

CPA	Comprehensive Peace Agreement
EAC	East African Community
FAO	Food and Agriculture Organization
FCA	fragile and conflict-affected
MTI	Ministry of Trade and Industry
MTI&EACA	Ministry of Trade, Industry and EAC Affairs
R-ARCISS	Revitalized Agreement on the Resolution of the Conflict in South Sudan
RoSS	Republic of South Sudan
TWG	Technical Working Group
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
WTO	World Trade Organization



# *Annex 1: Data on the economy, governance and social development*

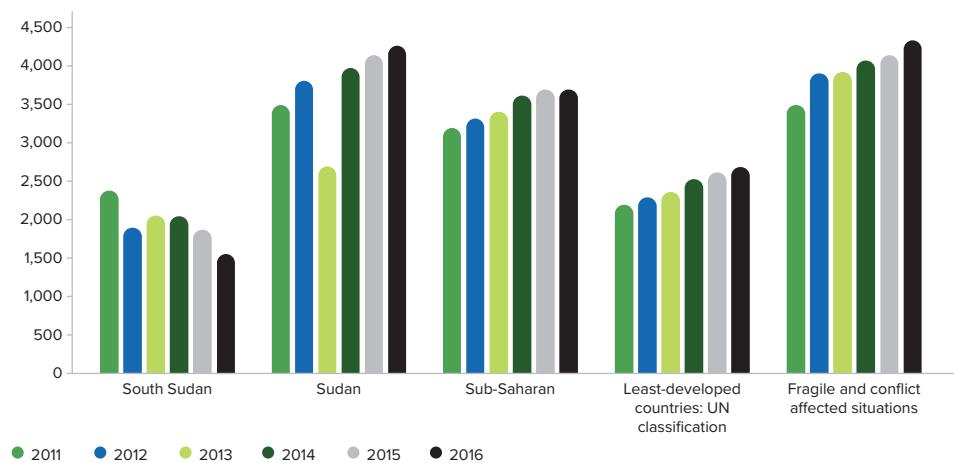


Figure 1: Gross national income per capita, purchasing power parity (current international US\$)

Source: <https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD>, accessed 23/8/2019

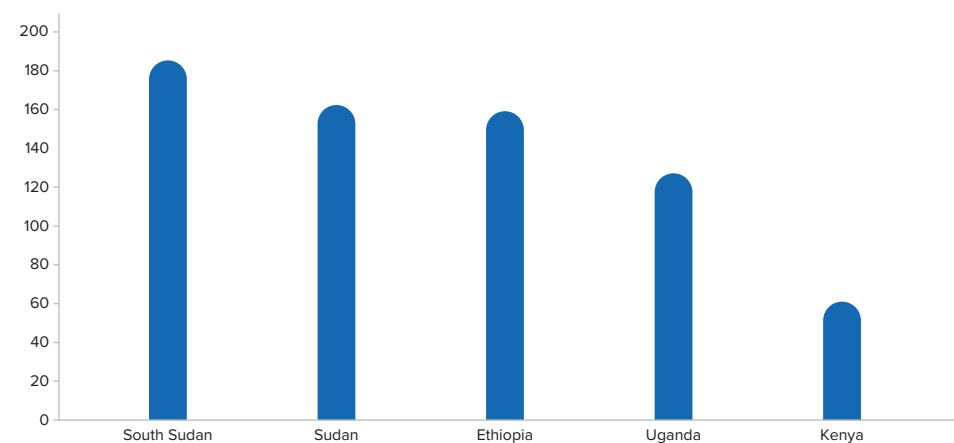


Figure 2: South Sudan's business environment compared to its neighbours

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

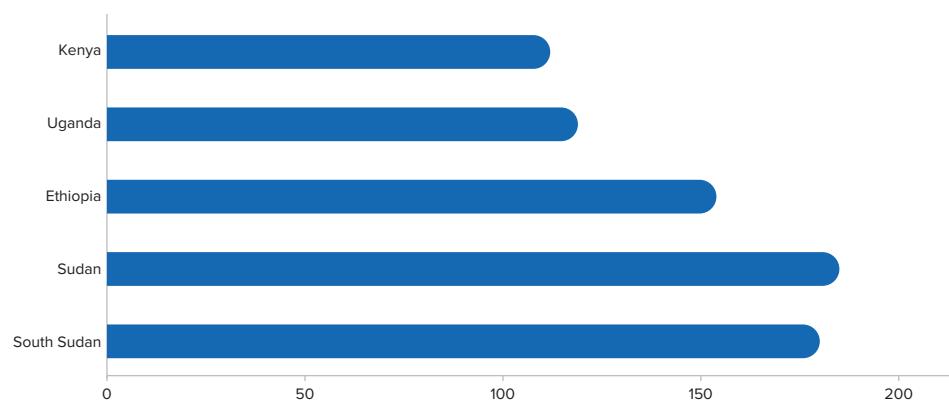


Figure 3: South Sudan's Trading Across Borders Index compared to its neighbours (2019)

Source: World Bank (2019a)

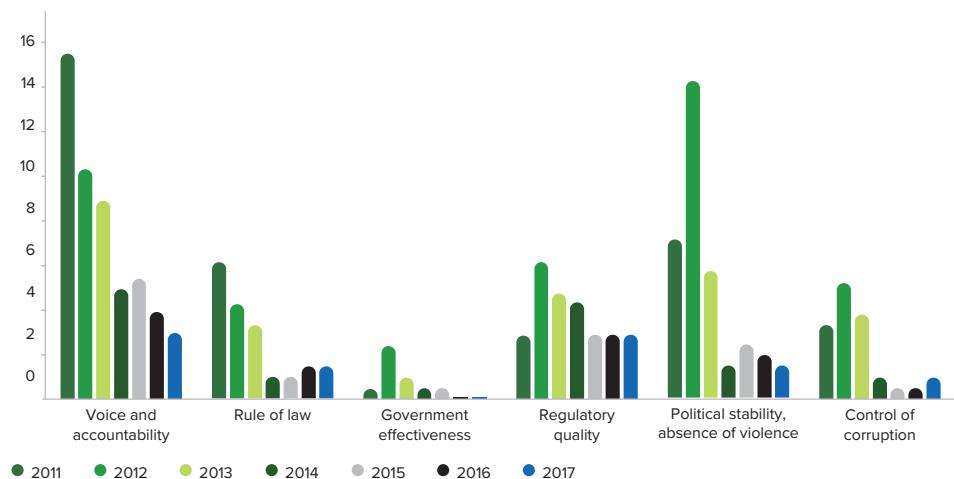


Figure 4: World Governance Indicators for South Sudan (2011–2017)

Source: World Bank (2019c)

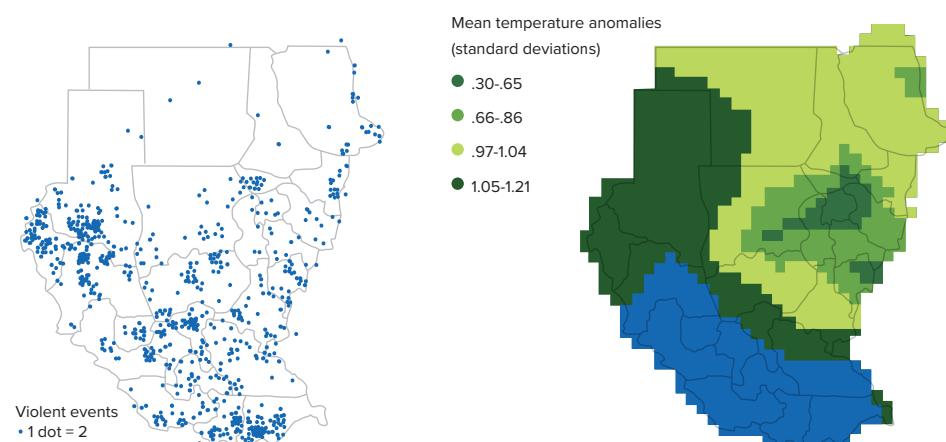


Figure 5: Location of violent events

Source: Maystadt, Calderone and You (2015)

## Annex 2: Interview partners

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