A Prism into Economic Woes: The Twin Evils of Resource Curse and Corruption in South Sudan

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Summary

South Sudan's economic crisis stems from two factors: the oil shutdown in January and high-level corruption. This commentary analyses how the external and internal political dynamics contribute to the economic crisis and concludes with possible remedies to resolve the economic impasse.

Key words: South Sudan, Economic crisis, Comprehensive Peace Agreement, Abyei, Sudan People's Liberation Army.

The new baby buckles

As South Sudan marks its first year as an independent state, it faces an unprecedented economic crisis manifested in a serious fuel and hard currency shortage and skyrocketing prices for basic commodities. This dire economic state of the newly established nation has raised the concern of the World Bank and the United Nations. In May 2012, a confidential report by the World Bank warned that South Sudan's economy was on the verge of collapse.[i] The United Nations has echoed similar sentiments, warning that despite the enactment of austerity measures to address the impact of the crisis, South Sudan will require more relief aid to keep its population alive in the coming months.[ii]

Two reasons are behind South Sudan's economic woes: a decision to stop oil exports through a pipeline controlled by its arch foe, the Republic of Sudan; and rampant corruption among the ruling elite.

This commentary reviews these reasons, situating them within the context and dynamics of South Sudan's socio-political factors with a broader outlook on the residual political hiccups arising out of the split of the Republic of Sudan into two countries in July 2011. Specifically, this commentary argues that although South Sudan's economic problems stem from the inability to reach a fair deal to ship oil through Sudan's pipelines, lack of foresight and planning for alternatives to address potential oil revenue shortfalls has contributed significantly to the current crisis. Additionally, this commentary emphasizes that the emergence of a powerful kleptocracy at the centre that is dependent on the avails of oil, has managed to create a corrupt system that is siphoning off billions of dollars, thus contributing significantly to South Sudan's current economic woes.

Unresolved Differences, the Curse of Oil and Kleptocracy

South Sudan's road to secession in July 2011 was plagued by several problems, primarily the failure to implement in full, stipulations of the Comprehensive Peace Agreement (CPA) that ended the war in 2005. Two of these problems are critical to understanding the genesis of the country's current economic crisis. The first problem is the failure to demarcate the 3,000-mile common border between South Sudan and the Republic of Sudan. Extant hurdles in addressing the status of Abyei, a contested enclave, and failure to address outstanding political issues in South Kordofan and Southern Blue Nile States, are other supplementary concerns compounding the border demarcation debacle.[iii]

The second problem regards both countries' failure to agree on the amount of transit fees for shipping South Sudan's crude oil through the Republic of Sudan's pipelines and port. South Sudan suggested the conciliatory above-market rate of US$ 1 per barrel, but Khartoum pegged the price at the exorbitant rate of US$ 36 per barrel. Subsequently, as a stalemate wore on, Khartoum unilaterally siphoned off a portion of South Sudan's crude flowing through its pipelines to compensate for what it called "unpaid" transit fees. In response, South Sudan shut down oil production and transfers, effectively cutting off the country's sole revenue source.[iv]

The stoppage of oil production and transfer through Khartoum's pipelines, however, must be viewed holistically within the context of extant latent political tensions with Sudan and the aura of mutual mistrust this created. The lack of political will by Khartoum to implement the full stipulations of the CPA (The Abyei Protocol, Popular Consultation in South Kordofan and the Blue Nile States, Wealth Sharing) forms the sublime context of this mistrust. This spirit of mutual mistrust is responsible for the failure to reach a deal on oil transit fees. Foot-dragging by Sudan on border demarcation and the decision to withhold a portion of South Sudan's oil in lieu of "unpaid" fees, only served to reinforce previous convictions of "unfair dealing" by the northern neighbour and formed the subtext of the emotions that motivated the oil shutdown in January 2012.

But it is only fair to note that South Sudan's economic woes are partially grounded in its inability to refine its own crude after independence. Such a capacity would have ensured enough petrol is refined for local consumption, a move that would have mitigated the current fuel shortage the country is facing. Nevertheless, a contextual understanding of how this scenario came to be is useful. Prior to secession, Khartoum ensured – whether by design or accident – that all labour inputs on oil production were connected to the northern Sudanese economy. Consequently, the oil infrastructure – refineries, pipelines, export terminals, airports, roads, and ports – were well-developed in the north, while practically nothing exists in the south where the oil fields are located. This move ensured Khartoum's dominance in the oil sector, even after secession.[v]

However, like many oil rentier states encumbered by the proverbial "resource curse," the crux of South Sudan's economic woes rests in the failure to diversify its economy, which relies solely on oil exports, which account for 98 percent of the national budget. The agricultural sector, which has a high potential as a revenue earner, remains underdeveloped despite the fact that 90 percent of the land is arable and 50 percent of it is prime agricultural land.[vi] Funding for agriculture has consistently been less compared to other sectors. For example, in the 2011-2012 budget, funding for infrastructure development trumped funding for agriculture.[vii] In the 2012-2013 budget, over 60 percent of the $1.3 billion budget is earmarked for security and rule of law sectors, while other sectors, including agriculture received a total of 17 percent of the budgetary allocation.[viii]

Similarly, rampant corruption is a significant factor contributing to the country's economic problems. Corruption has roots in the centrifugal dynamics surrounding the reorganisation of the country's political forces after secession and the question of resource allocation among political elites. Key in this dynamic is the installation of the Sudan People's Liberation Movement (SPLM) as the dominant political force after the secession. Within the SPLM, new power blocks and allegiances were forged, ostracizing some members and elevating others to positions of influence. Ethnicity and affinity to the power brokers ensures who gets political power and access to resources. Within this structure, a powerful kleptocracy has emerged at the centre, monopolizing power and resources. In the absence of a viable democratic pluralism and its accompanying modalities for checks and balances, this kleptocracy has had free reign to plunder public monies.

President Salva Kiir confessed in June that the country had lost US$ 4 billion to corrupt government officials. Subsequently, Kiir wrote letters to 75 government ministers and former ministers, urging them to return the looted money.[ix] Opposition leader Lam Akol however contends that this is a conservative figure when juxtaposed against US$ 20 billion earned in oil revenues since 2005.[x]

Significance of the Economic Crisis and Implications

As the South Sudan economy buckles under the strain of the oil shutdown, the local currency has declined considerably against the dollar, losing 40 percent of its value. The official exchange rate is 2.95 South Sudanese pounds to the dollar, but on the black market the rate is 5 pounds. Subsequently, the country has been gripped by a fuel scarcity; a litre of petrol now sells for 6 pounds compared to 5 pounds in January. Long queues for fuel are now a common phenomenon in South Sudan. Annual inflation has risen sharply, to almost 80 percent in June, compared to 29.6 percent in April. This rise is fueled by price hikes in the cost of food and non-alcoholic beverages. The inflation rate may be much higher in northern regions where supply routes were shut down by Khartoum following a brief border skirmish with South Sudan after the latter's capture of the oil-rich Heglig town in April. The rise in inflation is significant because it exacerbates an already fragile situation where more than half of the population lives below the poverty line.

At the moment, there is no end in sight to South Sudan's economic challenges. The 2012-2013 budget presented in June is a painful recognition of this fact. After the oil shutdown, the government relied on oil revenue reserves to finance its operations, but Finance Minister Kosti Manibe cautioned that these reserves will be depleted before the end of the year. Domestic and foreign loans are alternative means of financing the budget, but Manibe warned that there is no guarantee of getting these loans, nor is there a guarantee of accessing them at reasonable interest rates.

In essence, the persistence of the economic crisis may potentially lead to inability to pay salaries to the civil service and the armed forces. This is a significant concern because South Sudan's estimated 200,000-strong army still faces challenges as it transforms itself from a guerilla unit into a conventional army. Discipline and respect for the chain of command is still an issue because of the absorption of thousands of former militia soldiers who were a law unto themselves. Four years ago when South Sudan experienced salary delays, sections of the army mutinied in a number of towns. Armed rebellions, insecurity and a breakdown of the law at the hands of unruly soldiers are real concerns if there are delays in dispensing remuneration for the army.

The Way Forward: Thinking outside the Box

In the absence of a diversified economy, a rentier state dependent solely on oil export revenues that are governed by the antics of belligerence and mutual hostility with a neighbouring country, is a recipe for disaster as the oil shutdown has shown.

Although the quest for an alternative pipeline through Kenya remains a top priority for the South Sudan government, the prospects for this export channel dimmed considerably when China, which was expected to finance the enterprise, declined to do so.[xi] Furthermore, the 2012-2013 budget acknowledges that even if this option was implemented, it will not generate cash for this year nor for several years to come.

South Sudan needs to wean itself of dependence on oil as its sole revenue earner. The country should invest in its own oil infrastructure and develop capacities to produce fuel for local consumption to lessen dependence on imported processed fuel. Furthermore, accelerating the development of alternative revenue sources, especially in the agricultural sector, is of crucial importance to future economic viability. Boosting domestic production to ensure a food surplus for export is a possible way to earn cash for South Sudan. Similarly, reviving large-scale industrial agricultural schemes first mooted by the British colonial administration and its successor Sudanese state to ensure a cash flow through exports is also important.

However, it is important to note that oil will remain a significant contributor to the South Sudan economy. Because South Sudan is a landlocked country, access to external markets through ports in neighbouring countries is crucial. In light of the fact that a pipeline to the Kenyan ports of Mombasa and Lamu is unfeasible, the most viable and cost-effective means of accessing foreign markets is through Sudan's ports. Fostering friendly neighbourly ties with Sudan by building trust is an important factor in this configuration. South Sudan should utilize all the tools at its disposal, including diplomacy, to ensure good ties with Sudan.

As corruption is a major contributor to the country's economic woes, there is need to steer away from the current parochial system of government to a more egalitarian system that is tolerant of democratic pluralism. Democratic pluralism will create institutions for checks and balances that may curb corruption by ensuring government officials are subject to scrutiny and are held accountable for their actions.

End Notes

[i] South Sudan economy on the verge of collapse, World Bank warns. Available on: http://www.sudantribune.com/EXCLUSIVE-South-Sudan-economy-on,42512

[ii] Doki, C., 2012.Economic crisis hits South Sudan. *The East African*, No.919, pp.30.

[iii] D'Agoot, M., 2009. Energy politics and the South Sudan referendum: An anatomy of a resource curse. *Middle East Policy*, Vol. XVI (No.4, Winter), pp. 118-130.

[iv] Laessing, U., 2012. S.Sudan oil shutdown weighs as pound falls, tax hikes loom. Available on: http://www.reuters.com/article/2012/03/26/southsudan-investment-idUSL6E8EP1EN20120326

[v] See Energy politics and the South Sudan referendum: An anatomy of a resource curse, pp. 124.

[vi] See Agriculture in South Sudan. Available on: http://www.agfairsouthsudan.org/agriculture-in-south-sudan

[vii] Government of South Sudan 2011 budget speech, January 2011. The budget for agriculture was 65.5 million Sudanese pounds compared to 628 million for infrastructure development.

[viii] Government of Republic of South Sudan: 2012-2013 budget speech. June 2012.

[ix] Salva Kiir's letter dated 3 May, 2012 in which he laments that "most of these funds have been taken out of the country and deposited in foreign accounts."

[x] Position of the opposition on the president's letter to corrupt government officials. Letter by Lam Akol dated 17 June, 2012.

[xi] China non-committal on financing South Sudan pipeline as Kiir cuts short his visit. *Sudan Tribune,* 26 April 2012. Available on: http://www.sudantribune.com/China-non-committal-on-financing,42395