

Regional Integration and The Republic of South Sudan: Progress, prospect and Challenges

In this presentation, data permitting I will focus on answering the following questions

1. What is the likely impact of RI on the economy of South Sudan?
2. What are the likely benefits to be had and challenges that the RSS will face in the process of integration? And
3. What approaches / measures are likely to minimize potential challenges and optimize possible gains?

1. Introduction

1.1. A brief Note on the economy of South Sudan

- Real GDP growth deteriorated since 2014/15;
- while projected inflation reached 336% by 2016/17;
- The jump in inflation mimicked the significant changes (depreciation) of the local currency (South Sudanese Pound);
- others indicators - external debt outstanding, government expenditure (as % GDP) relative to revenue, net foreign assets all show the vulnerability of the economy;

Table 1: Republic of South Sudan: Selected Economic Indicators¹

| | 2013/14 Act. | 2014/15 Act. | 2015/16 Prel. |
|---|-----------------|-----------------|------------------|
| Population (millions; 2015/16): | | 12.2 | Per capita GDP |
| IMR (per 1,000 live births; 2015/16): | 240 | | |
| MF Quota (current; millions SDR; % total): | 27 | 246; 0.05% | Literacy rate |
| Main exports: | -- | Oil | Poverty rate |
| | | | |
| Exchange Rates and Prices | | | |
| Real GDP growth (%) | -10.5 | 39.3 | -12.8 |
| Oil production (millions of barrels per year) | 43.4 | 66.8 | 57.8 |
| Inflation, average (%) | 336.2 | -5.6 | 14.8 |
| South Sudan's oil price (US dollars per barrel) | 41.4 | 97.8 | 62.4 |
| | | | |
| External government finances | | | |
| Revenue and grants (% GDP) | 34.4 | 26.4 | 28.6 |
| <i>Of which:</i> grants (% of GDP) | 0.9 | 0.0 | 8.3 |
| <i>Of which:</i> oil revenues (% of GDP) | 29.5 | 24.1 | 16.7 |
| Expenditure (% GDP) | 36.3 | 28.1 | 37.2 |
| Current | 33.7 | 24.5 | 34.7 |
| <i>Of which:</i> Payments to Sudan (% of GDP) | 17.2 | 6.2 | 5.9 |
| Capital | 2.6 | 3.6 | 2.4 |
| Errors and Omissions | -0.5 | 1.1 | 6.0 |
| Change in arrears | 0.0 | 0.0 | 0.0 |
| Fiscal balance (% GDP) ² | | | -2.9 |

¹ Based on data from the South Sudanese authorities; and IMF staff estimates and projections.

² Expenditure minus revenue and grants, excluding interest payments.

Table 2: Macroeconomic indicators

| Macroeconomic indicators | 2015 | 2016(e) | 2017(p) | 2018(p) |
|-----------------------------|-------|---------|---------|---------|
| Real GDP growth | -0.2 | -13.1 | -6.1 | -2.7 |
| Real GDP per capital growth | -4.2 | -16.7 | -9.3 | -5.9 |
| CPI inflation | 52.8 | 476.0 | 110.7 | 49.1 |
| Budget balance (% GDP) | -25.2 | -21.8 | -11.4 | 3.1 |
| Current account (% GDP) | -22.8 | -0.4 | -7.0 | -8.8 |

Source: AEO (2017); Original Data from domestic authorities; (e) Stands for an estimate, and (p) for projections.

- As shown in table 2, things will get worse before they get better as long as the conflict continues unabated;
- If the ongoing conflict is arrested and proper policies started to be designed and implemented, the prospect significantly improves beginning in 2018;
- For instance (as noted in Table 3 under two possible scenarios), GDP and export growth will probably register a positive performance, revenue and grants are also expected to significantly improve;
- But all these are contingent on arresting the conflict;
- Anyway instead of 'preaching to the converted' let me just say unless and until stability is ensured, the economy will deteriorate further.

Table 3: Macroeconomic Assumptions: Baseline and Alternative Scenario, 2018-2020

| | Scenario 1 | | | Scenario 2 | | |
|---------------------------------------|------------|------|------|------------|------|------|
| Baseline Postponed adjustment | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Real GDP growth (%) | 1.1 | 3.5 | 6.2 | 0.0 | 0.0 | 0.0 |
| Export growth (%) | 8.0 | 10.9 | 17.3 | 7.8 | 4.4 | 3.1 |
| Primary fiscal deficit (% of GDP) | 3.2 | 1.8 | 2.5 | 8.2 | 8.8 | 12.5 |
| Revenue and grants | 31.8 | 33.4 | 35.8 | 29.8 | 30.4 | 32.8 |
| Primary expenditures | 35 | 35.2 | 38.3 | 38.0 | 39.2 | 45.3 |
| New external disbursements (% of GDP) | 4.7 | 10.0 | 10.6 | 2.0 | 1.6 | 2.5 |

Source: <https://www.statista.com/statistics/727342/gross-domestic-product-gdp-in-south-sudan>

1.2. RI and the RSS

a. Why RI?

- Gains from trade emanating from: comparative advantage (classic argument) & market access;
- technology transfer;
- Fosters competition;
- Economies of scale from collaboration in: infrastructure –transport, communication, IT, health services etc.);
- Strengthens regional peace and security;

b. Requisites, Sequence & Stages of:

- RI is a process with delineated stages and corresponding requirements;

RI Requires:

- ✓ Full political commitment,
- ✓ preparation,
- ✓ clear guidelines,
- ✓ effective enforcement mechanisms, and overall collaborative environment as crucial ingredients for a success;
- ✓ In general it has the following stages:

Basic Elements of the Stages of Economic Integration and Its Protocols

| | |
|----------------------------|---|
| Free Trade Agreement (FTA) | Zero tariffs between member countries and reduced non-tariff barriers |
| Customs Union (CU) | FTA + common external tariff |
| Common Market (CM) | CU + free movement of capital and labor, some policy harmonization |
| Economic Union (EU) | CM + common economic policies and institutions |

- **RI started in Africa but mainly mushroomed recently;**
- The African Union (AU) has been active in promoting regional integration as one of the vehicles for Africa's economic future through close economic and political cooperation - particularly in trade;
- **It recognized eight Regional Economic Communities (RECs, namely the: (i) Arab Maghreb Union (AMU), (ii) Common Market for Eastern and Southern Africa (COMESA), (iii) the Economic community of West African States (ECOWAS), (IV) Community for Sahel-Saharan States (CEN-SAD), (V) East Africa Community (EAC), (VI) Economic Community of Central Africa States (ECCAS), (VII) Intergovernmental Authority on Development (IGAD), and (VIII) Southern African Development Community (SADC)".**
- And as an extension of that effort, **Recent weeks' signing of the continent-wide free trade area is a case in point** that show the intensity and enthusiasm that prevails in Africa regarding RI;
- **Such enthusiasm led to multiple RI agreements signed;**
- **But little collaboration on potential cross border projects;**
- Evidence: the number of RECs in the continent, the rate of recurrence of multiple membership and the haste to join before proper cost benefit analysis is carried out shows the enthusiasm;

- Yet, Africa is the least integrated in terms of most of the relevant indicators:
 - e.g. cross border projects such roads, electric city, communication, irrigation etc. among lowest;
 - Inadequate public commitment and private sector participation;
- Hence, **progress has been made but still action lags behind signed agreements;**
- The Abuja treaty of 1991 seemed to have injected some momentum but 27 years later it remains a lot to be desired in terms of practical progress.

2. Regional Integration & South Sudan's Economy

2.1. Background

- **Joined both the EAC & IGAD - applied to the EU & the WTO;**
- The speed, the level of commitment the RSS showed towards RI is huge, even by African standards which is considered high;
- **two issues worth emphasizing in the context of RI: the state of the economy and the commitment of the protocols:**
- The RSS is a young country;
- with little past experience in managing bilateral and multilateral economic trading arrangements;
- With very poor infrastructure;
- Mainly dependent on a single commodity (oil) for its exports;
- Totally dependent on imports for all consumer goods and its essential needs;
- Despite rich farm land and ample natural resources, none of the sectors are well developed;
- With ill-trained workforce, dysfunctional bureaucracy and unstable macroeconomic environment;

- In short, with relatively unsettled socio-economic and political environment and a disorganized management system, It joined a customs union bypassing the preceding stages;
- implementing customs union involves adhering to the following main protocols:
 - (1) a common external tariff (CET),
 - (2) establishing the rules of origin (RoO) which includes a simple certificate to verify authenticity,
 - (3) removal of tariffs originating from member countries; &
 - (4) elimination of non-tariff barriers (NTBs);

- the EAC is also embarking on establishing the common market - which aims at
 - ✓ (a) free movement of labor,
 - ✓ (b) capital; and
 - ✓ (c) some policy harmonization;

The impacts of these protocols on an economy described above is likely to be significant in both the short- and long-runs, probably in both directions (will be examined later);

2.2. Integration: Goal and Experience thus far

- The central goal of any trade policy:
 - expand trade,
 - attract foreign investment
 - allow free movement of people;
 - It could also facilitate cooperation in areas in infrastructure development;
- **the necessary conditions to**
- **expand trade or maximize gain are:**
 - **relative cost advantage, productivity, labor and endowment of resources; But availability of resources (endowment) does not guarantee gain if mismanaged or not optimized;**
 - **Theory also notes that regional integration could lead to both trade creation and trade diversion, with both positive and negative consequences, respectively;**
 - Hence, whether the RSS will maximize its gains from regional integration or not will be determined by these and related factors;

2.2.1. Potential and Actual Intra-Regional Trade of The RSS

- **Huge market access:** with an estimated EAC's IGAD's total populations of about 410 and a GDP of about 432 million, ignoring the overlap, this is a huge potential market;
- Hence. South Sudan expects to benefit from:
 - (a) export expansion,
 - (b) import facilitation
 - (c) infrastructure collaboration, and
 - (d) maintain peace and sustainable conducive regional environment creation; these are important benefits for a brand new country;
- Despite these potential, however, the actual Intra-regional trade with its neighbors (except that of Uganda) is limited;

Table 4: South Sudan Bilateral Trade Data with Selected Regional Countries

| Year | Country | Total Imports | Share in SS's Total | Total Exports | Share in SS's Total | Export / Import - % |
|--------------|----------|---------------|---------------------|---------------|---------------------|---------------------|
| | | From: | Annual -% | To: | Annual -% | |
| 2012 | Sudan | 4946116 | 21.8 | 69790 | 90.0 | 1.4 |
| | Uganda | 17739826 | 78.2 | 7792 | 10.0 | 0.0 |
| Total | | 22685942 | 100 | 77582 | 100 | 0.3 |
| 2013 | Ethiopia | 3701524 | 2.1 | 14007 | 5.0 | 0.4 |
| | Uganda | 1.75E+08 | 97.9 | 266428 | 95.0 | 0.2 |
| Total | | 1.79E+08 | 100 | 280435 | 100 | 0.2 |
| 2014 | Ethiopia | 3605133 | 1.3 | 409270 | 21.6 | 11.4 |
| | Uganda | 2.8E+08 | 98.73 | 1485691 | 78.4 | 0.5 |
| Total | | 2.84E+08 | 100 | 1894961 | 100 | 0.7 |
| 2015 | Ethiopia | 3908977 | 1.4 | 296769 | 26.2 | 7.6 |
| | Uganda | 2.65E+08 | 97.5 | 836313 | 73.7 | 0.3 |
| | Sudan | 2961120 | 1.1 | 1043 | 0.1 | 0.0 |
| Total | | 2.72E+08 | 100 | 1134125 | 100 | 0.4 |

Source: UNCOMTRADE <https://comtrade.un.org/data/>

- **Actual Trade: The RSS exports almost nothing** (note the share of exports to imports) to any of the member countries of the EAC and IGAD, while it imports some from few of the countries, particularly from Uganda relative to the other member countries (table 4);
- **There might be unregistered** ‘border trade’, but officially not much is exported from the RSS;
- The availability of consumer goods from Uganda is to be appreciated but the lack of competition and the possible transfer pricing might put some burden;
- This is in addition to probably huge transport cost given the poor infrastructure;
- **Its dominant export being an international commodity** (oil), it is traded globally and doesn't seem to figure prominently in the available data of EAC & IGAD countries;

2.2.2. Trade to the ROW

- **The RSS's export sector is very concentrated or less diversified** (Tables 4 and 5);
- **more than 95% of exports** (or close to 1) are dependent on the export of oil;
- Unfortunately, even the GDP and government revenue are also dependent on oil which makes not only the trade sector but also the whole economy dependent on oil exports;
- In a similar vein Lederman and Maloney (2003) argued **high export concentration has a negative impact on economic growth** a la vulnerability to external shocks and volatility emanating from changes in demand and /or **price**;

Table 5: Structure of South Sudan's External Trade

| Category | 2014/15 ^a | 2015/ 16 ^e | 2001 6/17 ^p | 2017 /18 ^p | 2018 /19 ^p | 2019/2 0 ^p | 2020/21 ^p |
|------------------------------|----------------------|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|----------------------|
| Goods exports- Total | 3880 | 2142 | 1825 | 1983 | 2198 | 2577 | 2798 |
| Oil | 3839 | 2113 | 1795 | 1948 | 2158 | 2513 | 2718 |
| Non-oil | 41 | 28 | 30 | 35 | 40 | 64 | 80 |
| Services | 35 | 37 | 40 | 45 | 50 | 60 | 84 |
| Imports-goods | 3286 | 1704 | 1466 | 1873 | 2108 | 2256 | 2482 |
| Import-Services | 936 | 757 | 581 | 627 | 668 | 709 | 817 |
| Of which non-oil | 306 | 265 | 184 | 218 | 237 | 224 | 295 |
| Exports - Relative share - % | | | | | | | |
| Total Exports | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Oil | 98.94 | 98.65 | 98.36 | 98.23 | 98.18 | 97.52 | 97.14 |
| Non-oil | 1.07 | 1.33 | 1.67 | 1.80 | 1.85 | 2.55 | 2.94 |
| Services | 0.90 | 1.73 | 2.19 | 2.27 | 2.27 | 2.33 | 3.00 |
| Imports - Relative share - % | | | | | | | |
| Total Imports | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Service- Imports | 28.48 | 44.42 | 39.63 | 33.48 | 31.69 | 31.43 | 32.92 |
| Of which non-oil | 9.31 | 15.55 | 12.55 | 11.64 | 11.24 | 9.93 | 11.89 |

Source: IMF, South Sudan, Article IV (2017);

'a' indicates actual, 'e' indicates an estimate; and p stands for projected values.

- Some claim (survey result) that South Sudan exports few items in addition to oil that include vegetables, gum Arabica and honey;
- but seems to be **very insignificant relative to the total volume of the trade sector**;
- Besides direct trade, **other benefits of RI are collaboration in infrastructure, FDI, elimination of intra-regional trade tariffs are also some of the benefits**;
- For instance, in the case of the EAC. South Sudan has the potential to take advantage of the new initiatives to construct the LAMU port and ‘the [EASSy cable](#), a 10,000km submarine fibre-optic cable along the coast of eastern and southern Africa (Haas, 2016”;
- Furthermore, Haas argued that about 70% of South Sudan land area is suitable for agriculture but the country has one of the weakest road transport and communication facilities;
- Hence joining the EAC is likely to help South Sudan develop the agriculture sector via mechanization and diversify its economy utilizing the infrastructure initiatives underway;

2.3. What we want to ask is, if not actual what does Trade in Terms of Trade Indices suggest? May be not so far but what does the for hold for Trade in the RSS?

- Available data doesn't lend itself to calculate all the trade indices to gauge the trade potential;
- Trying with what might be possible to gauge:

- Chief among **trade concentration index** or export diversification index;
- Hirschman (1964) noted, the export concentration index tries to measure the extent to which the export sector is diversified such that the country doesn't rely on few export items but a wide range of goods';
- **The index takes a value between 0 and 1**; an index value that approaches unity represents extreme concentration (low export diversification) & 0 signifies high diversification;

- **A related index that measures export concentration is what is referred to as the intensity index;**
- **measures a country's trade weight with a partner country relative to its trade with the world at large;**
- **But since The RSS exports mostly oil which is an international commodity usually pegged in dollars and traded at international markets, its intensity is likely to be determined by other factors (level of output, reserve capacity or in short by effective demand of each country;**
- **Hence this index may not shed much light in this case.**
- **Another useful index that could have shed light on the extent to which The RSS's trade potential with EAC and IGAD members is **the complementarity index;****
- **The index captures how the export and import structures of each pair of countries complement or compete with each other.** While the list of export commodities of most of the member countries are available, that of South Sudan, except oil, is not;
- **Hence computing this index was not currently possible. In general terms, however, rural and agriculture sector being the dominant sector in most of the EAC and IGAD countries, it is possible to guess that the future prospect of the RSS's exports are likely to be more competitive than complementary;**
- **And if that is the case, the ability of the regional integration to create trade will be limited, at least countries develop and product differentiation dominates the market as in DCs.**

- **Therefore, the structural shortfalls, the lack of preparedness & lack of experience, the burden of the various protocols and the non-existent export sector seems to suggest that the vigor, haste and full engagement of the RSS in pursuing RI has to be carefully re-examined;**

3.2. The Inter-temporal Aspects of RI

- But the available data also indicates and suggests the following:
- At least, in the long-run the RSS will benefit from the projects initiated by the EAC (like IT, port, train, road, and financial sector efficiency) by joining the RI;
- It will also benefit from the collaboration with IGAD in re-establishing stability, peace and harmony by joining;
- The RSS will also make its economy more competitive if it adopts, learns and assimilates its economy with more efficient production structures in neighboring countries;

- To make its economy competitive opening up, however slowly and carefully, is a prerequisite for its future development; Hence integration could foster that process;
- If the RSS has wisely identified, planned, and applied its comparative advantage, regional integration in countries with huge markets like IGAD and EAC are excellent niche markets for future growth.

3.3. What do south Sudanese say /Feel about RI?

- Beyond what available data might say, according to Akol's survey of 2015, most seem to be more skeptical of joining RI;
- Unlike the response of the selected experts in the government in this study, the response in Akol's survey was more against joining rather than in favor;
- 70 to 30 % believe that the RSS will not benefit from joining the EAC. The reasons they suggested range from internal factors within South Sudan to the unstable situation in the other partner countries.

The factors prominently reflected in the response are the following:

- inadequate skilled labor force, high level of illiteracy in South Sudan, and poor institutional capacity to implement the process of integration.
- the second reason cited against joining is that South Sudan does not have any industry and items to export to the EAC countries and hence it is too early to join;
- Cannot compete with the countries in the market place before the country puts its house in order;
- The EAC member countries also have their own issues that they have to address and hence not a time yet to join them;
- The free movement of labor and goods that is implied by joining will marginalize South Sudanese workers and any industry before it sets its foot;

- years before we join;
- We Given the gap in the level economic development, joining with countries that are relatively advanced is ‘an economic suicide’ since we are so far behind and cannot catchup with them - we need 10 to 15 have to first establish political stability internally before we join the EAC.

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- Some of the positive responses of joining are mainly related to:
 - Yes we could learn from them;
 - Gives the opportunity for us to move and visit those countries freely;
 - We have cultural similarity.
- As noted above, because of the complex impact that joining entails the response is diverse depending on which aspect of the impact people focus on; i.e. everyone will get something to zero-in and not the overall net effect (which is not easy even for experts in the field to discern).

4. Conclusions and Way Forward

4.1. Summary

- In summary, the following actual and potential likely effects of regional integration on the RSS could be highlighted.

a. Likely Benefits

1st, the RSS is to, at least, likely benefit in the future from pursuing integration by participating in the ongoing and planned projects (such as transport and communication etc.) initiated by the EAC;

2nd, as a member of IGAD it has already and will probably benefit more due to IGAD's active engagement to bring about reconciliation, peace and stability in South Sudan far beyond what could have been achieved in its absence.

3rd, the exposure to market competition and access to the supply chain in the partner countries is also potentially to benefit South Sudan;

4th, though it is a double-edged sword, factor mobility could also positively contribute to competition and filling a skills gap;

5th, Foster diversification of the economy, particularly expansion of the agriculture sector that includes forestry;

6th, Reduction in trade costs due to improvements in infrastructure.

b. Issues of Concern

But, pursuing regional integration too early, quickly and without the proper preparation is likely to raise some concerns for South Sudan, however useful these might be in the long-run. Chief among these includes the following:

1st, losing a tariff revenue at this early stage, particularly when oil exports are not doing well, should be of some concern for a young country like South Sudan;

2nd, Given how unprepared it is in terms of skilled manpower, infrastructure and institutions, it might have joined too quickly before any of these are in place to facilitate the EAC protocols;

3rd, It is also more likely that the market Will be dominated by regional powers before it establishes its basic economic structure and hence the possibility of being dependent on the others while not participating in the region's production process;

4th, Its main export item oil as an international commodity is not likely to be affected by being a member or not since international demand for it is what determines its revenue stream;

5th, Hence, actual and potential flow of trade in South Sudan seems to be a mixed bag of gains and losses that will continue to depend on partners without South Sudan making a breakthrough in any of the industries that the partners are already ahead.

4.2. A Way Forward

- For a smooth regional integration and to effectively maximize the gains from trade, the RSS should take the following steps and approach the whole issue as follows:

First, since it has already decided to join, it should attempt, if possible, to explore the ease with which the EAC could grant exemptions, waivers and a reasonable adjustment period as is usually the case for countries which join late;

Second, once such adjustment period is granted it should use this period to carefully examine how it could utilize this period to assess the impact of the protocols and the difficulty of implementing them with the aim of minimizing their impacts on the economy (particularly the loss of revenue and the required annual membership payment);.

- Third, the country should also actively dwell on analyzing its comparative advantage and how it could identify sectors that are likely to excel within the region and beyond before their growth is curtailed by completion by relatively advanced neighbors; Fo
- fourth, the country should think the pros and cons of all the initiatives it is making in order to join as a member, for instance the WTO, the EU etc. Its desire to join one group or the other should be guided by the long-term development goals of the country and its natural endowment in well sequenced and thought out development plan;

Fifth, whether South Sudan is likely to be a victim of the trade diversion or benefit from the possible trade creation may not be fully judged a priori, but given its inadequate preparation and current socio-economic volatility, one would suspect that it is likely to be more negatively affected by trade diversion with little or no impact on trade creation for some time to come;

- Sixth, maximize what it could get from both IGAD and EAC as relatively more peaceful and economically more advanced partners; That is, South Sudan may not have been ripe to be engaged in customs union as the EAC is but now that it has committed itself it should make the best of it by aiming higher irrespective of the difficulties since it is at its early stage of structuring its economy and going through unsettled political environment.
- The observation and analysis thus far seems to concur with what the Managing Director of The International Monetary Fund (IMF), Christine Lagarde suggested to all EAC member countries to go slow when pursuing the regional integration project. This is also more true of the RSS.

- **The Central messages of this brief note are:**
- **The RSS Will likely benefit in the long run but limited, if at all, in the short run;**
- This is mainly because it has not yet put in place the institutions, legal framework, effective bureaucracy, infrastructure, trained workforce and experienced management system to effectively expand exports and compete with economies that have relatively erected the required machinery to process such activities;
- **Trade theory puts these in terms of necessary and sufficient conditions to expand trade or maximize gain from it - relative cost, productivity, and endowment of resources are necessary conditions but availability of resources (endowment) does not guarantee gain if mismanaged or not optimized;**
- The fact that it has yet to start the identification of sectors with comparative advantage, and the attendant unstable political environment does not lend itself to quickly fill the gaps and catchup with rest does not help to expand exports either;
- Hence the advice could only be **STAY THE COURSE BUT GO SLOW.**