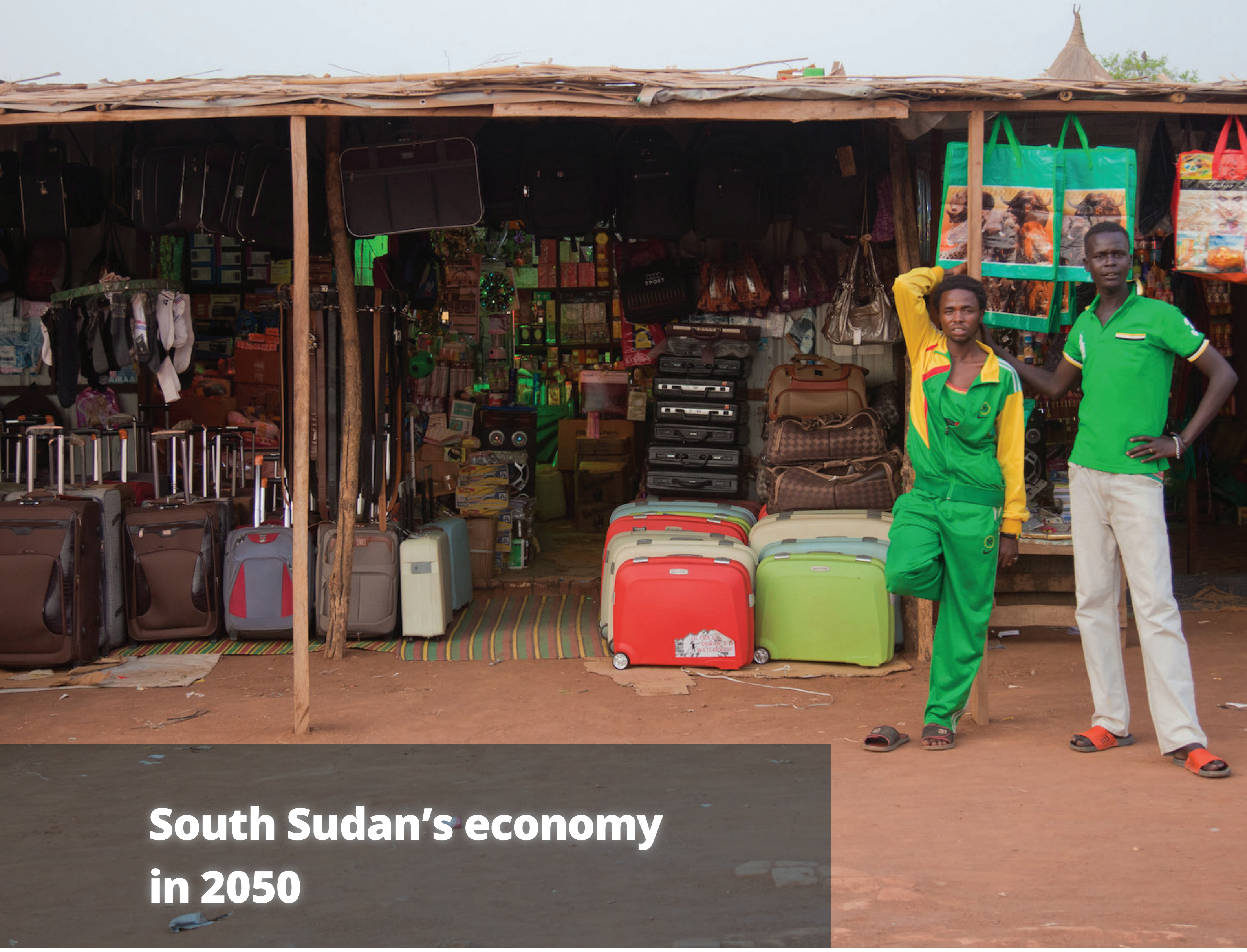

South Sudan's economy in 2050

Better Aid Forum Briefing Paper

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Introduction – why the economy matters

The Conflict Sensitivity Resource Facility's (CSRF) **Better Aid Forum** (BAF) is a series of events and discussions with different stakeholders to consider the long-term objectives and ambitions of the aid sector in South Sudan. It focuses beyond the timeframes of ongoing political and security dynamics in order to drive collective analysis about the approaches and principles that should underpin international engagement in South Sudan over the longer term.

In June 2019, a two-day event, the **Better Aid Forum Experts Meeting**, was held in Nairobi to reflect on findings from the Better Aid Forum process thus far, and debate how long-term trends may shape South Sudan's context over the coming decades – and what this means for aid. The CSRF commissioned a number of input briefing papers that consider long-term trends underway in South Sudan, regionally, and globally that are likely to play a role in shaping South Sudan's future. This BAF briefing paper on economy is the second publication of the BAF briefing paper series that also considers technology and innovation, climate change and demographics.

South Sudan faces three major and interlinked crises: a political crisis which is manifest in part in violent conflict and insecurity; a humanitarian crisis which feeds off the political crisis and; an economic crisis, which is fundamentally about how the resources available to South Sudan are allocated and used.

While it is possible to ruin an economy very quickly, sustainably growing and developing an economy in a way that benefits the majority of the people takes decades. It has been said, "that it takes as long to get out of a conflict as it took to get in"[1]. Given that South Sudan has only experienced 11 years of peace since 1955, 30 years into the future may not be enough time for South Sudan to have emerged completely from the devastation of violent conflict.

This note is necessarily speculative and aims to pose important questions, rather than seeking to provide firm answers. South Sudan's economy is poorly understood, and it is difficult to project forward changes even just a few years ahead, never mind decades. Nonetheless, a growing and diversified economy is essential for reducing income poverty and providing the greater resources needed for the South Sudanese to address other dimensions of poverty, whilst moving toward a more stable and peaceful future. Inclusive economic growth will be critical and distributive policies will matter.

CSRF acknowledges the contribution of Malcolm Smart to CSRF's development of this paper. The views expressed in this paper are entirely those of CSRF and do not necessarily represent the views of Saferworld, swisspeace or our donors.

1 John Paul Lederach.

The economy in 2019

South Sudan's economy is bifurcated, with the two niche sectors of oil and aid dominating the formal economy. The majority of South Sudanese, however, depend on other parts of the economy for their livelihoods; primarily some combination of agriculture, livestock, trading, exploiting other natural resources (timber, gold) and, critically, the public sector.

Oil and aid are critical because they are the main sources of both foreign exchange and (whether directly or via firms paid by aid) government tax revenues. They support a range of service industries, from banking and insurance through transport and security and some construction (e.g. of roads in the oil fields). Critically, however, the two sectors directly generate relatively few jobs.

While there are links between these niche sectors and the wider economy, these sectors alone are unable to spur broader economic development. Few people have access to financial services, for example. The public sector meanwhile delivers few services and even less of the infrastructure needed for economic growth.

The economy has shrunk in absolute terms most years since Independence with the consequence that in 2019 real incomes are about 70% lower than in 2011.[2] The public sector is not affordable in its current form and economic institutions – including the Ministry of Finance and the central bank – are weak.

The global and regional economies in 2050

We can expect South Sudan will remain integrated into regional markets and the global economy, as it depends on goods imported from its neighbours and has natural resources that are attractive to the emerging market countries, especially China. One study of the 32 largest economies by 2050 highlighted the shift in economic power to emerging markets, meaning the US and Europe will steadily lose ground to the likes of China, India, Indonesia, Brazil and Mexico[3].

Analysis by PwC indicates that, while per capita incomes will still be higher in the US and Europe by 2050, the emerging economies will have partly closed this gap. Rising emerging economy incomes typically means increased demand for resources that South Sudan could provide, such as meat, gold and quality timber. None of these needs have a complex supply chain so may not be unduly affected by current trends towards a slowing in globalisation. With stability, tourism could take off. Demand for oil may well be reduced, as considered later.

2 IMF (2019) *Republic of South Sudan – Staff Report for the 2019 Article IV Consultation*, available at https://www.imf.org/~/media/Files/Publications/CR/2019/1SSDEA2019001.ashx

3 PWC (2017) *The long view: how will the global economic order change by 2050?* whose Summary Report is available at https://www.pwc.com/gx/en/world-2050/assets/pwc-world-in-2050-summary-report-feb-2017.pdf

Whilst there remains much uncertainty, current projections indicate that East Africa should see a significant economic expansion between now and 2050. At a minimum, population growth and rapid rates of urbanisation in the region are likely to result in a significantly larger and more diversified economy[4]. Current efforts to improve cross-border infrastructure throughout East Africa, such as the LAPSSET in Kenya[5], should facilitate increased levels of intra-regional trade. If South Sudan is able to live up to its potential to become a net food exporter, then these regional developments open up opportunities for the country to generate significant revenue through agricultural exports, with particular potential in export of grains to neighbouring countries, and potentially higher value/lower volume produce further afield. Much will however depend on how the politics unfold, especially as climate change impacts start to bite, affecting and possibly even reversing economic growth in some locations.

Big questions around South Sudan's economy in 2050

The preceding section hints at some key economic uncertainties looking out to 2050. These uncertainties revolve around decisions taken by the elite, or myriad South Sudanese, that will affect their country's economic trajectory and the degree to which a peaceful South Sudan realises it economic potential. These questions are interlinked.

The answer to each question depends on how South Sudan's political settlement develops, the extent to which South Sudan's future leaders show a commitment to its peace and development, and their recognition that a growing and more resilient economy will play an important role in this process.

Q1

Will South Sudan be a post-oil economy by 2050?

Although South Sudan has the third largest oil reserves in sub-Saharan Africa[6] much of this remains unexplored. Its current fields are maturing; national production will peak in the 2020s without either the use of enhanced oil recovery techniques in existing fields or production starting in new areas, notably the huge B blocks that cover much of central South Sudan.

Although the Government has been actively courting oil investors, South Sudan remains a high cost and high-risk location. Without some surety of peace, it is possible that no oil major would be willing to make the huge investment needed to develop one of the B blocks. Production is not expected until at least five years after serious exploration starts, which means the mid-2020s at the earliest.

4 UN population projections comparing 2019 and 2050 indicate that the combined population of Uganda, Sudan, Ethiopia and Kenya can be expected to grow by about half to 377 million, based on the 'medium' estimate. See https://population.un.org/wpp/Download/Standard/Population/

5 The **LAPSSET** Corridor is a regional project to provide seamless transport and logistics infrastructure connectivity between Kenya, Ethiopia and South Sudan, connecting a population of 160 million people in the three countries.

6 World Energy Council https://www.worldenergy.org/data/resources/region/africa/oil/ accessed 7 June 2019

Moreover, investment decisions would not just be based on concerns about South Sudan but also wider market conditions. Here a key question concerns the expected level of demand for oil over the life of a field and much hinges here on climate change policies in the major economies: if the world is to avoid catastrophic climate change then the use of oil as a fuel must drop significantly[7]. The demand for South Sudan's oil should, therefore, fall dramatically over the next three decades.

Given the dominance of oil to South Sudan's economy, its absence would clearly have a big impact. This is not necessarily negative however, as South Sudan needs to diversify its economy away from its extreme dependence on oil. To the extent that the revenues from oil are spent locally, then oil tends to drive up (appreciate) the exchange rate, making it harder for other sectors (such as local food production) to compete with imports, meaning oil's dominance can make diversification harder. Although there is no single activity which could generate the same level of Government revenues as oil[8], a combination of other sources could help to partly fill the gap[9]. Moreover, if these entail GRSS' increased reliance on income taxes, this could be a good thing if the GRSS is both more responsive to citizens' needs and more accountable[10].

Q2

What sectors might be important to South Sudan's economy in 2050?

What might a more diversified economy look like? South Sudan is richer in natural resources than just oil. Most however, are not exploited or are being mismanaged.

- **Agriculture – production and processing** have the most immediate potential, as security improves enough to entice farmers back to their farms and if a transport network can be established to cut local transport costs. As the region's population grows, there could be a market for South Sudanese food exports. Simple processing may expand the markets and help retain more value locally, including for more commercial crops, such as coffee, sesame, shea butter and gum acacia.
- **Livestock:** the livestock sector is starting to commercialise. Ownership is becoming more concentrated[11]. But productivity is low with little local value added. There sector has big potential given rising global demand for meat, hides, skins and leather products.
- **Minerals:** there is scope for commercial mining of gold (as opposed to the current relatively small-scale alluvial extraction). In addition, the Ministry of Mining reports there is also iron ore, copper, diamond, gemstones, bauxite, marble and limestone for cement, however, how many of these are commercially viable to exploit is uncertain.
- **Timber:** by 2050 the current near-exhausted teak plantations (and other valuable tree-types) should be ready again for sustainable harvesting. There is scope for local furniture manufacture and harvesting shea nut (lulu) could also provide a regular export income.
- **Land:** climate changes are likely to place a premium on well-watered land.

Climate impacts are relevant here and we cannot just assume that the 2050 comparative advantage will be based on the same crops or total agricultural potential as present or that current livestock

7 By 2030 global CO_2 emissions, including from oil, will have to have fallen 45% from 2010 levels. See IPCC (2018) *Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C* available at https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/

8 Particularly once the severance payments to Sudan agreed in 2012 are fully repaid in about 18 months, which currently cost GRSS US$15 per barrel of oil. Though this assumes Sudan will not pursue Heglig compensation.

9 If, for example, South Sudan could procure and effectively operate an air traffic control system then it could claim control of its skies from Sudan and earn, by one estimate, up to US$350-400m a year from over-flights.

10 Moore, M (2015) *Tax and the Governance Dividend*, ICTD Working Paper 37 available at https://assets.publishing.service.gov.uk/media/57a08988ed915d622c000275/ICTD-WP37.pdf

11 See Thomas, E. (2019) *Moving towards Markets: Cash, Commodification and Conflict in South Sudan*, Rift Valley Institute (available at http://riftvalley.net/publication/cash-commodification-and-conflict-south-sudan#.XSxqdmx7luo) for a discussion of the implications of changes in livestock ownership patterns and the growing commercialisation of agriculture for kinship ties and resilience to shocks.

numbers can be sustained[12]. Indeed, if higher temperatures in other (possibly neighbouring) countries lead to water-stresses, then there may well be growing premium on land with irrigation potential. The South Sudanese economy may benefit from these shifts. However the degree to which the benefits are shared equitably across different communities, or whether a small number of political and economic elites dominate the sale of land and water rights, is likely to determine whether this contributes to sustainable peace, or becomes another grievance contributing to further escalation of conflict[13].

Urbanisation will create jobs in **construction** and in **services**, both of which tend to be more productive than traditional agriculture. **Trading** is likely to grow in importance as the economy grows and domestic markets deepen. The extent to which the Government and the South Sudan People's Defense Forces (SSPDF) are major employers in 2050 will depend in part on the strength of Government of the Republic of South Sudan's (GRSS) tax base and security objectives.

While there may be scope for some import-substituting industries, both South Sudan's land-locked location and the fact that it is developing later than its larger neighbours probably rules out industrialisation (outside of oil) beyond basic processing.

Q3

What will it take for South Sudan's economy to grow faster than its population? How can benefits of growth be equitably distributed?

The UN's medium estimate assumes that South Sudan's population will grow on average at 2.1% a year between now and 2050. This means that, unless the economy can grow by at least the same rate, and crucially benefit the poor at at least this rate, then people will on average get poorer over time.

Economic growth comes both from adding more inputs to an economy (workers, capital and e.g. bringing more land into cultivation or mining it) or using those inputs more productively. The latter could be from doing existing things better (e.g. improved animal husbandry or better seeds and agricultural practices) or doing new and more valuable things ('structural transformation', shifting into basic processing, construction or services). New technologies may also present opportunities for productivity leaps, e.g. the potential for mobile money to improve financial inclusion or for renewable technologies to bring electricity to locations unlikely to be served by a grid. With political will and better security, there is thus scope for each of these in coming decades in South Sudan.

However, ultimately the scope for doing entirely new and more highly productive activities may be limited, given South Sudan's landlocked status and the more developed economies of its neighbours. Much will depend on what sort of opportunities GRSS can create for private sector investors, be they domestic or international and who, ultimately, will need to drive the growth process.

Growth based largely on extractives is likely to be hard to sustain over the long-term. Oil-based growth requires that the revenues generated are reinvested into the wider economy, notably in infrastructure and in health and education, to aid diversification and spread the gains from economic growth. This has not been happening.

Environmental degradation is also limiting South Sudan's growth potential. Valuable timber is being cut down at an unsustainable rate while charcoal production is damaging other natural forests. Moreover, the informal and at times illegal nature of this timber production, as well as from other

12 See Philip Omondi's paper for this Better Aid Forum which notes likely climate impacts on South Sudan's agricultural, livestock and fishing potential.

13 See e.g. David K Deng's 2011 baseline survey of large-scale land-based investments in South Sudan, which estimated that around 9% of South Sudan's land had already been leased or bought by investors before Independence. Available at https://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/OI_country_report_south_sudan_1.pdf

extractives, notably gold, means they do not benefit the wider economy e.g. through royalties that are invested in future potential.

How inclusive the economic growth is will also be critically important. If the proceeds are just captured by the elite or by migrant workers from elsewhere in the region then the contribution of economic growth to poverty reduction will be far less effective. Distributive policies matter.

Indeed, there is a worry that, while South Sudan's immediate economic prospects may be enough to make a majority of people food secure in an average year and so a lot less poor, it may be insufficient to lift enough people above the poverty line to substantially reduce poverty. Moreover, changes within the rural economy appear to be reducing the effectiveness of traditional coping mechanisms, potentially leaving many more vulnerable to shocks including, by 2050, the impact of climate change.[14]

But the key thing that enables the poor to take advantage of growth is the jobs it creates.

Q4

Which sectors will create jobs – can South Sudan reap a demographic dividend?

The UN expects South Sudan's population to more than double, to over 25 million, by 2050. This figure assumes South Sudan can cut the number of children each woman bears. If so, then the ratio of dependents to 'working age' people will fall. This demographic shift was a major source of economic growth in East Asia, as each of the growing number of educated and productive workers had to support fewer dependents, and so had more resources to invest and otherwise boost demand.

The challenge for South Sudan will be in ensuring that there is enough productive employment for the growing number of young adults entering the workforce each year. While both women and men matter, the risk is that failure to provide young men with remunerative livelihoods can have more negative consequences (making it easier to lure then into militias). Whereas there have been about 112,000 young men entering the work force each year since 2015, this will increase to 128,600 over 2025–30 and rise to over 150,000 a year after 2040. Creating enough productive jobs or other livelihood opportunities will be a major challenge.

Regional experiences suggest the most likely sources of livelihoods and jobs may well be agriculture and urban services. The mineral and timber sectors, while potentially valuable in terms of future government revenues, are unlikely to create many jobs. Similarly, the potential for the livestock sector to employ more men is uncertain: while expanding meat, hides/skins production and trading would create employment, better security and more productive animal husbandry practices may actually cut the numbers of herders.

Regardless of how diversified the South Sudanese economy is by 2050, the experience of neighbouring countries, even 30 years after the end of their conflicts, is that the rural economy remains a, if not the, main source of livelihoods. Productivity improvements in agriculture are thus critical to lift rural incomes for the growing population. In turn, this requires an expansion in the number and reach of markets, so that surplus production can be sold on and to encourage farmers to grow new, higher value crops. The trend towards rural livelihoods' increasing dependence on markets will continue[15].

The huge expected growth in the urban population[16] will require a corresponding increase in urban employment opportunities. The private sector will be critical here given limits to the affordability of creating more public sector jobs. This requires that the Government does more to attract private investors.

14 See Thomas, E. (2019) *Moving towards Markets* and Philip Omondi's Better Aid Forum (BAF) paper on climate change.

15 Thomas (2019) *Moving towards Markets*.

16 See Muludiang, V (2019) *Demography: The Republic of South Sudan* prepared for the BAF.

Based on its current policies South Sudan is unlikely to benefit from a demographic dividend. This requires an educated, healthy workforce and a vibrant private sector. The Government should be prioritising its spending on basic services as existing donor resources are insufficient, while at the same time encouraging private investment and activity.

What does all this mean for politics and policy?

While 2050 may seem a long way off, if South Sudan is to realise even a modest potential in 30 years-time, it needs to start taking some key actions now. The following is far from complete but highlights a number of responses to the issues raised in this paper.

Essential for all is peace and security.

- **Expanding access to and improving the quality of education (and health)** – jobs, and more productive, better paid jobs, are more likely to be generated if the workforce is educated and healthy. Current school enrolment rates are pitifully low and the quality of learning is poor. This needs action.
- **Promote economic diversification** which in turn depends on a range of measures
  - **Macro-economic stability** – central to this is early economic reform, starting with moving to a single market-based exchange rate and putting the public finances on a sounder footing[17]. Care is needed to ensure oil revenues do not lead to this rate being inflated such that domestic activities struggles to compete with imports. Longer term economic policy challenges include how to ensure the greatest number of South Sudanese benefit from economic growth – that this growth is inclusive and does not simply benefit the elite. Besides distributional policies, this also entails considering threats to this growth and how they can be mitigated, including the impact of climate change. This requires a vision and long-term analysis. It will also require working with the private sector, so:
  - **Improving the investment climate** sufficiently to attract serious investors who are willing to make long-term commitments and not simply seek short-term extractive gains. This will be particularly important to help diversify the economy. It will take time – a decade or more – and require action in many areas, including building roads, a power grid and other key infrastructure.
  - **Strengthen economic institutions** and allow them to operate effectively.
- **Clarify riparian and land rights** in order to encourage investment and prevent a source of future conflict – there is a need to avoid well-watered land becoming the new oil.
- **Regional integration.** South Sudan's is and will remain a small economy. Integration into the wider region should bring larger markets (once agricultural and livestock production is able to response) as well as investment.

What all these points have in common is that **South Sudan's leaders need to start thinking and acting longer-term**.

17 The IMF's 2019 Article IV makes several recommendations in these areas, including stopping the practice of selling oil forward, typically on disadvantageous terms.

The Conflict Sensitivity Resource Facility (CSRF) develops and tests innovative approaches to helping the aid community in South Sudan better integrate conflict sensitivity into their work. The Facility, which is funded by the UK, Canada, Switzerland and the Netherlands governments, supports the building and practical application of knowledge around conflict sensitivity through research, analysis, trainings, mentorship and dialogue.

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Cover photo: Street scene in Kuajok.

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