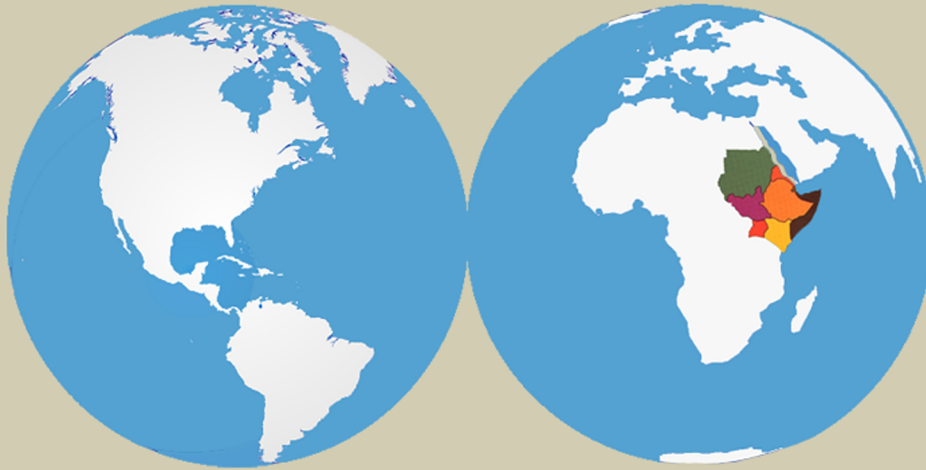




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# The Republic of South Sudan: Progress, Prospects and Challenges of Regional Integration

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## **The Republic of South Sudan: Progress, Prospects and Challenges of Regional Integration**

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## 1. The State of Regional Integration and the South Sudan Economy

### 1.1. Background

Belonging to one or more regional blocks is very popular in Africa as could be seen from the plethora of multiple membership of countries. South Sudan is no exception in such effort. Despite its short history as an independent country, it was invited to join the East African Community (EAC) and the Inter Government Authority on Development (IGAD). Even though both groups were not primarily formed as regional trading blocks, both have embarked on a path of developing into an emerging trading groups as recognized by the African union (AU). As elsewhere, the scope, pace, and intensity of attempts towards integration of the two trading blocks and the respective countries in each grouping vary; however both aim towards a common goal of closer cooperation in both economic and other aspects of bilateral and multilateral cooperation. Hence, the progress made towards joining regional blocks is fast and decisive, given its arguably ample natural resources; accordingly, the prospect of benefiting from such arrangements, at least in the long-run, may not be in doubt, while the challenges along the way seem to be plenty and daunting.

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, but particularly in trade, as witnessed in the recent signing of continent-wide free trade area. To put the intensity and enthusiasm in a recent report's words (ECA, 2016, P. 1) "In Africa in particular, there has been a clamor and trend towards integration with numerous regional blocs being formed in various regions of the continent. The African Union recognizes eight Regional Economic Communities (RECs, namely the: (i) Arab Maghreb Union (AMU), (ii) Common Market for Eastern and Southern Africa (COMESA), (iii) Community for Sahel-Saharan States (CEN-SAD), (iv) East Africa Community (EAC), (v) Economic Community of Central Africa States (ECCAS), (vi) Economic Community of West African states (ECOWAS), (vii) Intergovernmental Authority on Development (IGAD), and (viii) Southern African Development Community (SADC)".

As has been the case in many regions of Africa, Eastern Africa has also witnessed multiple number of regional integration arrangements. These include the East African community (EAC), The Common Market for Eastern and Southern Africa (COMESA), and the Inter-Governmental Authority on Development (IGAD). Not only are some countries members of all of the above but are also members of other regional blocks like Tanzania, which is also a member of the Southern Africa Development Community (SADC) in addition to being one of the founding members of the EAC. Hence, countries seem to believe that the benefits to be had go in parallel with their membership status with one or more of the Regional Economic communities (RECs). This is mostly done in the absence of a rigorous examination of the timing, level or stage of cooperation and the pros and cons of joining one group or another.

In that context, the purpose of this research is to assess the extent to which the Republic of South Sudan will likely benefit (in the short, medium and long-run) from joining any trading arrangements with the existing trading blocks in Africa, but particularly in one of those in Eastern Africa. This assessment is and should be anchored on the following salient features of the South Sudanese economy.

The Republic of South Sudan 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 almost all consumer goods and its essential needs;
- Despite rich farm land and ample natural resources, none of the sectors are well developed; and
- unskilled workforce, dysfunctional bureaucracy and unstable macroeconomic environment;

In short, with relatively unsettled socio-economic and political environment and a disorganized management system there seems to be, at least at the moment, the need to examine the pros and cons of joining a trading block in pertinent. In particular, what South Sudan is likely in a position to export, at the moment except for oil, is not apparent; and the marginal benefit of getting a market for such a product may not require a direct trading arrangement with any of the trading-blocks. This is mainly due to, despite a potentially rich country with abundant resources, the actual economic activity is at its early stage and the attendant management is probably ill equipped to navigate through and manage the daily detailed procedures of regional integration protocols.

This research, therefore, has three broad interrelated parts based on three main objectives;

- The first category focuses on the state of regional integration and the South Sudan economy. In this broad category, subject to data availability, it starts with a brief background of the subject matter, present a brief overview of the economy and then attempts to assess South Sudan's trade performance in general and integration in particular.
- The Second section evaluates the retrospect and prospects of regional integration in South Sudan; this will include reassessing when, under what conditions, and how a new independent country should pursue the integration process with its actual and potential partners. This section will also review the perception and actual gains of regional integration and its preparedness to carry out this task.
- The third and final section will address the possible contributions and challenges, and suggest the most optimal approach(s) that a country like South Sudan should follow in evaluating the inter-temporal pros and cons of joining such grouping given the state of their economies. This final category also includes a summary and a way forward of the paper.

## **1.2. The Economy of the Republic of South Sudan**

### **1.2.1. An Overview**

In recent years, owing to the political instability and due to both a decline and disruption of oil exports, the economy of the Republic of South Sudan (RSS) has been deteriorating sharply. In particular, ever since the conflict in December, 2013, the state of affairs in the Republic of South Sudan has been characterized by the consequent political turmoil, the economic deterioration and social dislocation. In particular, the deterioration in economic activity, dislocation of its citizens (which led to both internal and external migration) and the socio-political instability has been acute.

**Table 1: Republic of South Sudan: selected economic indicators<sup>1</sup>**

Population (millions; 2015/16):	12.2	Per capita GDP (US\$) (2015/16):	240
IMF Quota (current; millions SDR; % total):	246; 0.05%	Literacy rate (%) (2009):	27
Main exports:	Oil	Poverty rate (%) (2009):	51
Key export markets:	China, Malaysia	Paved road density:	2km/100k <sup>2</sup>
	2013/14 Act.	2014/15 Act.	2015/16 Prel.
			2016/17 Proj.
<b>Output and Prices</b>			
Real GDP growth (%)	39.3	-12.8	-6.9
Oil production (millions of barrels per year)	66.8	57.8	53.1
Inflation, average (%)	-5.6	14.8	158.7
South Sudan's oil price (US dollars per barrel)	97.8	62.4	34.7
<b>Central government finances</b>			
Revenue and grants (% GDP)	26.4	28.6	29.0
<i>Of which: grants (% of GDP)</i>	0.0	8.3	0.4
<i>Of which: oil revenues (% of GDP)</i>	24.1	16.7	22.0
Expenditure (% GDP)	28.1	37.2	38.4
Current	24.5	34.7	33.0
<i>Of which: Payments to Sudan (% of GDP)</i>	6.2	5.9	7.9
Capital	3.6	2.4	5.4
Errors and Omissions	1.1	6.0	-1.8
Change in arrears	0.0	0.0	23.2
Fiscal balance (% GDP) <sup>2</sup>	-2.9	-14.6	-30.8
<b>Money and Credit</b>			
Broad money (% change)	20.5	36.9	219.1
Reserve money (% change)	37.0	81.1	239.6
Credit to private sector (% change)	4.6	13.7	172.6
<b>Balance of payments</b>			
Current account (% GDP)	2.3	-4.2	-3.7
Net foreign assets of the central bank (in months of imports, end of period)	1.0	1.4	0.4
External debt (% GDP)	4.2	5.5	28.6
<b>Exchange rate</b>			
Official rate (SSP per dollar; period average)	3.0	3.0	16.9
Parallel market rate (SSP per dollar; period aver	4.3	6.6	23.8

Source: South Sudanese authorities; and IMF staff estimates and projections. <sup>1</sup> The data corresponds to fiscal year (July to June). <sup>2</sup> On an accrual basis.

As noted in Table 1, following the internal conflict, Real GDP growth has deteriorated since 2014/15 while projected inflation reached 336% by 2016/17. The rise in inflation reflected and moved in tandem with the significant depreciation of the local currency (South Sudan Pound). In addition to these relevant indicators, all other aspects of the economy, namely external debt outstanding, government expenditure as a percentage of GDP relative to revenue, and net foreign assets, all show the vulnerability of the economy and the extent to which the conflict has put pressure on the performance of the economy.

More specifically with regard to the main focus of this paper, the performance of the external trade sector has been disappointing due to the external shocks to international oil prices and the conflict that has engulfed the RSS before even celebrating its 2<sup>nd</sup> year of independence. Being dependent on oil for about 60 percent of its GDP, 95% of government revenue, and the entire export receipts, (AEO, 2017), the shock in the oil sector negatively affected the economy of RSS. As noted in Table 2, in addition to the overall



macroeconomic picture depicted in Table 1 in the last few years, the performance of specific macro aggregates estimated for 2016 and projected in 2017-18 has also been discouraging (as shown in table 2).

**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.

In addition to the weak performance of the South Sudanese economy in recent years it is also expected that its prospects will slightly improve, but it all probably hinges again on the extent to which it is able to curb the ongoing conflict. 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 start to be designed and implemented, the prospects significantly improve 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 resolving the conflict, which does not show any positive sign from the actors involved and the exodus, dislocation and movement of armaments in the country.

**Table 3: Macroeconomic assumptions: baseline 1 and alternative scenario, 2018-2020**

Baseline Postponed adjustment	Scenario 1			Scenario 2		
	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>

### 1.2.2. Integration: goal and experience thus far

The central goal of any trade policy in general and regional integration in particular is to expand trade, attract foreign investment and allow free movement of people. It could also facilitate cooperation in areas of infrastructure development.

International trade theory asserts that the extent to which countries expand trade or maximize gains from trade hinges on relative cost, productivity, labor efficiency and endowment of resources. These factors could be expressed in terms of necessary and sufficient conditions; for instance, 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. .

Aiming to reap such benefits, the RSS has joined the EAC and the IGAD regional integration communities almost immediately following its independence. As is the case in many African countries, the enthusiasm and zeal to join one Regional Economic Community (REC) or another is huge. This is usually done before and with less regard to the rigorous evaluation of the potential benefits of such collaboration. Consequently, membership is done in a haste usually in a multiple of communities covering wide areas.

In fact some of the constraints that regional integration initiatives in Africa face are multiple membership, loss of tariff revenue, lack of political commitment, less private sector participation and less attention and collaboration in infrastructure development among countries (Alemayehu and Haile, 2008). Though slightly improving, particularly in the road and energy sectors, this is also the case in both EAC but particularly the IGAD regional communities. That is, the regional economic communities in the EAC and IGAD face the same problems as do many of the communities in the African continent, if not more - namely, multiple membership, lack of rigorous pros and cons of initiatives to join a REC, and lack of compatible infrastructure collaboration.

The level of development in infrastructure, export diversification, government commitment, private sector participation and the other preconditions to realize and maximize the benefits of regional integration are precarious in South Sudan than most other country in Africa. Hence the benefits that the RSS is likely to secure, and the challenges it is likely to face in pursuing regional integration has to be viewed in this context, even if it is possible to be rewarding in the long-run

Both the EAC and IGAD were launched in the late 1990s (1999 and 1996, respectively). The membership of both groups has increased in time where the initial EAC members (Kenya, Tanzania and Uganda) have added Ruanda, Burundi and South Sudan. IGAD's membership now includes Eritrea and South Sudan who joined the original founders (Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda).

According to the 2016 UNCTADSTAT, the estimated total populations of EAC and IGAD communities is about 161.3 and 248.4 million, respectively, even though due to the overlap in membership the net size of each community is less. In terms of sheer size, this is a big market which will potentially help any economy in expanding its production base. The most likely constraint to that potential is the weak effective demand due to the relatively low economic capacity of the population owing to low GDP per capita. According to UNCTADSTAT, the total GDP in EAC in 2016 was estimated to be about USD 143,563 million which roughly indicates a GDP per capita per annum of about US 890; and according to IMF sources, that of the IGAD region is about 288,228 million, which indicates a GDP per capita of about 1,160, on average. This is partly because four of the member countries belong to the lower middle income group (Kenya, Uganda, Sudan and Djibouti).

As noted above, South Sudan has joined these groups presumably to advance (a) its economic objectives through export expansion, (b) import facilitation (c) infrastructure collaboration, and (d) maintain peace and sustainable conducive regional environment creation. For a brand new country establishing such an environment is more crucial than for a country with well-established institutional and political structures. South Sudan is therefore likely to reap some benefits from such effort. The crucial questions are what are the actual cost benefits of such an effort and are there time frames and level of engagement that are more optimal in deciding the degree or terms of involvement in such regional economic communities (RECs)?

These are some of the crucial questions that have to be explored in evaluating the extent to which a country's net benefits are optimized.

**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	4,946,116	21.8	69,790	90.0	1.4
	Uganda	17,739,826	78.2	7,792	10.0	0.0
	Ethiopia	N/A	N/A	N/A	N/A	N/A
	KENYA	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>22,685,942</b>	<b>100</b>	<b>77,582</b>	<b>100</b>	<b>0.3</b>
2013	Ethiopia	3,701,524	2.1	14,007	5.0	0.4
	Uganda	1.75E+08	97.9	266,428	95.0	0.2
	Kenya	N/A	N/A	N/A	N/A	N/A
	Sudan	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>1.79E+08</b>	<b>100</b>	<b>280,435</b>	<b>100</b>	<b>0.2</b>
2014	Ethiopia	3,605,133	1.3	409,270	21.6	11.4
	Uganda	2.8E+08	98.73	1,485,691	78.4	0.5
	Kenya	N/A	N/A	N/A	N/A	N/A
	Sudan	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>2.84E+08</b>	<b>100</b>	<b>1,894,961</b>	<b>100</b>	<b>0.7</b>
2015	Ethiopia	3,908,977	1.4	296,769	26.2	7.6
	Uganda	2.65E+08	97.5	836,313	73.7	0.3
	Sudan	2,961,120	1.1	1,043	0.1	0.0
	Kenya	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>2.72E+108</b>	<b>100</b>	<b>1.134,123</b>	<b>100</b>	<b>0.4</b>

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

Based on officially recorded and documented data as in Table 4, The RSS exports insignificant amounts (note the share of exports to imports) to the member countries of the EAC and IGAD, for which data are available. As regards imports, South Sudan imports from few of the countries, particularly from Uganda relative to the other member countries (Table 4). This is probably due to the relatively easy road access between the two countries and partly some merchandize trade is not registered since it is conducted as 'border trade'. The availability of consumer goods from Uganda is to be appreciated but the lack of competition and the possible transfer pricing (since Uganda does not produce most of the goods itself but imports them) that would exist is not likely to be sustainable. This is in addition to probably huge transport cost given the poor infrastructure. The important question at hand is what are the likely benefits of such an arrangement for the RSS beyond being the source of finished goods, which all countries are happy to supply irrespective of membership is important?

Despite the insignificant volume of exports, the RSS has been active in joining various trade related institutions in addition to the AEC and IGAD. The other institutions include membership in the World Trade organization (WTO) and an observer status in the Common Market for Eastern and Southern Africa

(COMESA). Recent reports (AEO, 2017) indicate that the RSS has signed and ratified between 50 to 75% of the regional economic integration protocols and agreements in these trade focused regional institutions. This means the RSS has not requested an implementation time frame as a new member of the EAC, instead it jumped to join as a member of the customs union (or the second stage of the protocol by bypassing the requirements of a free trade area or the first stage in the process of regional integration). This is despite the relatively long period that the EAC has been in existence in which most of its members have been engaged in developing the respective trade facilitation among each other in addition to product identification, awareness and experience of potential destination for their markets and testing their comparative advantage in the region. Beyond the already ratified membership in regional economic communities (RECs), The RSS is also negotiating with the European Union to take advantage of the opportunities under the African, Caribbean and Pacific states (ACP) treaty.

Probably the presumed rationale of South Sudanese officials is that the country is dependent on the export of oil which all its neighbors potentially need while it is dependent on imports for all its consumer goods and inputs for its investment. Hence, the RSS's strategy seems to have focused on expanding trade, and hence the need to join any available trading block in both the region and beyond to maximize this potential. On the face of it, it makes a lot of economic sense to focus on market destinations for excess resources to find a market for and import goods that are not produced at home, which are both the basic motives of trade.

The crucial question is, does the export structure of the country at the moment or in the near future provide significant gains of exporting goods to its partner countries? Is the strategic focus on static gains or dynamic gains of regional integration, which the latter is to depend on how much the other sectors have started to grow hopefully by fostering export growth in many or all the sectors of the economy? For trade to bring all the expected gains, how do the various trade indices that measure the relative strength of a country's trade sector stack against that of the partner countries? In short, how is South Sudan's performance to stand against the goals of trade expansion, attracting FDI and free movement of labor noted earlier as the main goals of regional integration?

## **2. Regional Integration in South Sudan: Retrospect and Prospects**

### **2.1. Trade in Terms of Trade Indices**

Unfortunately, the statistical data on South Sudan is limited in terms of both availability and period coverage to lend itself to a rigorous analysis of the various standard trade indices to assess the extent of progress in South Sudan's actual trade and its potential. But despite those limitations, the existing bilateral trade among adjacent countries sheds some light on some of the indices, as noted in Table 4.

In addition to that, there are also some clear indices that show the obvious limitation in the menu of commodities traded or export diversification index. The rationale of these indices is that (as Lederman and Maloney, 2003) noted, a more diversified (less concentrated) export sector tends to be more stable and more immune from trade instability and / or price fluctuations. Hence, countries prefer to have a diversified export sector to 'weather' international economic shocks. As 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) and a value close to 0 signifies high diversification.

A related index that measures export concentration is what is referred to as the intensity index. This index measures a country's trade weight with a partner country relative to its trade with the world at large. If the share of trade of a given country with a given partner country is larger than its trade share in the world, it is interpreted as biased in favor of that country; and the converse also holds. Hence, if this occurs between two member countries of a regional block it is usually interpreted as might be due to the membership of both in a regional block. However, since The RSS exports 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 shed light on the extent to which the RSS's trade potential with EAC and IGAD member countries could boost regional integration is the complementarity index. This 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, are limited. Hence computing this index was not currently possible. In general terms however, rural and agricultural 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.

## 2.2. South Sudan's Trade Performance: Actual and Potential

The RSS's export sector is very concentrated or less diversified (Tables 4 and 5). Without going into details, 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 that high export concentration has a negative impact on economic growth, on account of 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 <sup>a</sup>	2015/16 <sup>e</sup>	20016/17 <sup>p</sup>	2017/18 <sup>p</sup>	2018/19 <sup>p</sup>	2019/20 <sup>p</sup>	2020/21 <sup>p</sup>
Exports- Total	3,880	2,142	1,825	1,983	2,198	2,577	2,798
Oil	3,839	2,113	1,795	1,948	2,158	2,513	2,718
Non-oil	41	28	30	35	40	64	80
Services	35	37	40	45	50	60	84
Imports-goods	3,286	1,704	1,466	1,873	2,108	2,256	2,482
Import-Services	936	757	581	627	668	709	817
Of which non-oil	306	265	184	218	237	224	295
<b>Exports - Relative share - %</b>							
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
<b>Imports - Relative share - %</b>							
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.

Informal queries suggest that South Sudan exports few items in addition to oil that include gum Arabica, gold, vegetables and honey through informal channels and border trade. Anecdotal information suggests that a large share of gum Arabica exports through the Sudan originate from the RSS, and sizable gold exports are transit informally through Uganda. Based on the recorded and formal exports, non-oil exports seem to be very insignificant relative to the total volume of the trade sector, as the collapse of the economy following the decline in the demand and prices of oil a few years back. The relevance of any initiative / policy is judged by its net addition or contribution to the intended goal(s) in hand. The same principle applies to regional integration in that the net additions to the overall performance of the economy and improvements in the external sector in particular are litmus tests of viability. Hence, we should ask, what is the likely net contribution of regional integration to the South Sudanese economy? That is, how much would the South Sudanese economy benefit by pursuing regional integration?

The answer to this question is slightly complex because many issues to be identified have both positive and negative impacts; The multi-dimensional aspect in terms of its impact arises because it is (a) time variant in terms of when or at what stage countries adopt these policies and (b) depends on how it is adopted and implemented. Hence, the impact of regional integration is a mixed bag (with both benefits and losses). The bottom-line is which one dominates the outcome at a given place and time.

In that context, the collaboration, learning from neighbors' experiences, and access to their markets are some of the concrete benefits of joining a regional group. The spin-offs of collaboration in infrastructure, FDI, and 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 fiber-optic cable along the coast of eastern and southern Africa (Haas, 2016, p.1)". 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.

Despite such potential benefits of regional integration, there are factors that limit that benefit. For instance, the fact that the RSS has currently few other items that it could export (except the international commodity oil), and has no institutions that could facilitate such cumbersome undertakings as customs union, it takes time for the infrastructure to be up and running to bring the unskilled workforce up to speed and establish the required bureaucracy to facilitate the process. In such circumstances, immediately pursuing regional integration before such prerequisites are in place, is probably premature and probably of little value in the immediate future, whatever long-term value it might have.

But the most important question is, do weak (backward) economies and relatively advanced economies complement each other or compete with each other? The answer to this question is very crucial, because it determines whether the weak and new economies like South Sudan, will remain as the dumping ground of products sent by the advanced countries like Kenya and Uganda, while the weak countries could only provide raw materials at best and / or suffer from a sustained balance of payment deficit. This might be what is reflected between the northern and southern members of the European Union (EU) countries. It is also important to note that, how it affects the internal conflict is not clear, but focusing on sorting out its internal conflict must receive some priority than regional integration at the moment.

The essential message of the above argument is that (a) the net impact of regional integration is complex and has to be examined in terms of the time frame (immediate, medium and long-term), (b) stage of development (meeting the pre-requisites of infrastructure, trained workforce, institutional set up etc.) and (c) the overall comparative advantage of each country compared to its partners. In the absence of a thorough examination, a blanket conclusion on the positive and negative impacts of regional integration is untenable.

### **2.3. Actual and Potential Benefits of Membership: South Sudanese Perception**

Clearly, a more rigorous large commodity based numerical computation of the indices could have shed more light on South Sudan's prospect of improving its trade. Nonetheless, despite the limited scope of the indices (due to limited data availability), the available evidence seems to suggest that making a huge progress in expanding non-oil trade in the immediate future is unlikely, except may be related to some precious metals, if any. But in the long-run, given its presumed abundant natural resources, there is no doubt that South Sudan will benefit from regional integration as the other IGAD member countries seem to make some progress in that score (See Appendixes 2 to 5).

To supplement the published data compiled on South Sudan, the study also conducted a field survey targeting selected public officials and the private sector. The target group was asked to shed some light on the progress, challenges and prospects of the trade sector in South Sudan. Some of their responses are summarized in the Appendix. Just to sketch some of the responses of the target group, almost all seem to have a very positive attitude towards South Sudan's potential in expanding its export trade and the scope of its natural endowment, particularly in agriculture and precious metals. Accordingly, almost all responded positively to a question asking them whether Sudan will improve its gains in trade by joining all the trading blocs (RECs) in the region and beyond (Annex I).

The respondents further noted that though, unregistered and yet undeveloped due to the existing weak infrastructure, this is temporary and that South Sudan has the potential to benefit from the experience of joining many of the regional arrangements. The majority of the respondents believe that South Sudan is actively engaged in trade activities in commodities that the country already has a comparative advantage in. In fact, most even reached the conclusion that the RSS's trade engagement with both IGAD and the EAC has been fruitful to date and should be pursued vigorously. In this regard, when specifically asked whether the RSS should wait joining any of the RECs until it settles its issues, most say it shouldn't, and that it has to go ahead and pursue with free trade policies.

When asked what the main motives of pursuing regional integration are, both export trade expansion and technology transfer were cited as the main goals in pursuing regional integration. The economy is to focus on what respondents believe are the three main pillars of the economy, namely agriculture, mining and tourism. And when asked what the main challenges are, local experts believe that the main ones are weak infrastructure, political instability and unskilled workforce.

One of the motives that many governments in almost all developing countries focus on is tariff revenue that is usually collected from imports. Particularly for many countries in Africa, tariff revenue is one of the main sources in support of government budgets. In fact one of the factors that negatively affects effective implementation of regional integration is the need not to lose the existing revenue source as countries are expected to progressively reduce the tariff rates applied to imports. But, when South Sudan experts are asked

whether the forgone tariff revenue to be lost after joining the regional integration has been worth it or not, the majority believe that it is worth the revenue lost, largely based on the fact that trade taxes have been miniscule thus far.

And surprisingly, many respondents believe that the South Sudan economy is competitive in its international trade structure. One doubts whether the question is well examined in terms of cost structure, skill set and productivity, and on the bases of other efficiency dimensions or the response is just a patriotic attitude. Whatever the case, whether South Sudan has the potential to overcome all the shortcomings and the difficulties it faces to obtain net benefit in pursuing regional integration in the immediate to a medium term remains to be seen. Finally, when respondents are asked the impact of the conflict on the performance of the economy, there is a unanimous agreement that its impact has been negative.

But unlike the selected officials' response noted in Table 6, a more inclusive (in terms of size) and random survey of the general public seems to shed a different light on how respondents view South Sudan's pursuit of the regional integration process. In general, the views expressed by some surveys in South Sudan seem to reflect a more negative concern than those of the few officials noted above. A survey by Akol (December 2015) asked respondents "Should South Sudan Join the East African Community?" and compiled the response of about 101 individuals. Unlike the response of the selected experts in the government (discussed above), the response in this survey was against joining rather than in favor. Most (70 to 30 percent margin) 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.

More specifically, the factors that prominently came out from the response are the following:

1. Inadequate skilled labor force, high level of illiteracy in South Sudan, and poor institutional capacity to implement the process of integration.
2. 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;
3. Cannot compete with the countries in the market place before the country puts its house in order;
4. The EAC member countries also have their own issues that they have to address and hence not a time yet to join them;
5. 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;
6. Given the gap in the level of economic development, joining with countries that are relatively advanced is 'an economic suicide' since South Sudan is so far behind and cannot catchup; and that the country needs 10 to 15 years before it should join;
7. That the country should first establish political stability internally before it could join the EAC.

Some of the positive responses of joining are mainly related to:

1. For experience sharing;
2. Gives the opportunity for free movement of labor with the countries;
3. Cultural similarity.



As noted above, because of the complex impact that joining entails, the response is diverse depending on which aspects of the impact that 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).

### 3. Achievements and Challenges of Regional Integration

#### 3.1. How Should the Speed, Sequence and Process of Regional Integration Be Managed in South Sudan? A Critical Evaluation

The RSS joined the EAC and then IGAD following its independence. These engagements have definitely brought some actual and potential benefits to the Republic. However some concerns that remain include, the speed with which these are accomplished, the preparations that have went in to it and the need and scope of adjustment requested and granted to familiarize itself with the protocols. Before discussing the possible policy options that South Sudan may have to consider, it is important to highlight some of the main potential benefits, contributions, if any, that regional integration has brought to date, and the challenges that regional integration might have or will entail in pursuing the integration process. While South Sudan's current engagement with IGAD seems clear because it mainly focuses on peace and reconciliation, its engagement with the EAC is much more complex as it involves a multi-dimensional impact of an advanced trade relationships.

Sequencing of protocols of any regional block may vary, but the ultimate goal of any regional integration is to work towards forming a monetary union; the EAC is now at the stage of implementing a customs union (by passing the formations of preferential and free trade areas); it completed this stage in January 2005 and following that, finished negotiating for the formation of a common market area in 2009 and finalized its protocol in 2010. If indeed these are successfully implemented, it will move towards establishing a monetary union, which ultimately culminates in a political union. Hence, a typical process of forming a regional integration takes the stages and basic protocols depicted in Table 6. This is not to suggest that the process of the stages has been and will be without any setback, but the community seems to have survived thus far in pursuing its effort towards achieving its goals.

**Table 6: 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

The stage of implementing customs union involves adhering to the following main protocols. : (1) adopting 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, and (4) elimination of non-tariff barriers (NTBs). These protocols should facilitate both inter and intra-regional trade in goods and services among member countries. These are then the main protocols that the RSS has subscribed to adhere to when it signed to join the EAC's customs union (Makame, 2012). Beyond what has been in the process of being implemented under the customs union, the EAC is also embarking on establishing the common market

which aims at liberalizing the labor market and the capital market as the next step of regional integration process.

According to a study by the African Development Bank (AfDB), the Economic Commission for Africa (UNECA) and the African Union (2016), all EAC's efforts towards integration has made some significant progress. The report noted (AfDB, 2016, P1) "The East African Community (EAC) garners highest marks for regional trade integration among African Regional Economic Communities (RECs). According to the recently released Africa Regional Integration Index (ARII) Report," the index benchmarks eight RECs recognized by the African Union on five dimensions: regional infrastructure, trade integration, productive integration, free movement of people and financial and microeconomic integration....." Compared to other groupings in Africa, therefore, the EAC has made progress in terms of the above dimensions of regional integration indices. And being part of groupings that has relatively showed progress, South Sudan is likely to benefit from some of the achievements of regional integration like infrastructure, by joining the EAC.

But as was also pointed out, though the relative progress is encouraging, EAC has also faced some challenges in addressing some of the requirements of implementing the customs union protocols. For instance, except elimination of internal tariffs and rules of origin, EAC partner countries have had challenges in establishing a Common External Tariff (CET) and elimination of non-tariff barriers. As reported by Christable (2017), despite putting the customs union protocol, the EAC is yet to have a 'Single Customs Territory'. These being some of the cornerstones of a customs union, it shows that the EAC has a long way to go in addressing some of the disputes that arise in that context. As these are the challenges faced by some of the well-established partner countries, one could imagine how difficult that would be for a brand new country that has neither the institution nor the skilled manpower to implement the protocols.

In addition to the various concerns expressed by various respondents, the cost of enjoying the benefits of membership does not seem to be very cheap either. For instance, as Christable (2017, p.1) noted, the Republic of South Sudan "is expected to pay \$ 6.7 million for the 2016/17 financial year in arrears and \$8.37 million towards the 2017/2018 EAC budget like other partner states'. Such cost of course has to be weighed against the gains from trade and other benefits of membership.

With regard to joining the IGAD group, except for its intentions not much has been accomplished towards achieving the agenda of regional integration. Despite being recognized as one of the eight regional blocks by the African Union it has declared from time to time that it is actively pursuing regional integration but except some projects sponsored by groups such the AfDB and arrangements between natural neighbors, no formal protocols and achievable structured programs of action have been developed to realize some stages of regional integration, unlike the EAC. The main engagement of the RSS with IGAD has focused on peace and stability in South Sudan and political collaboration thereof.

There isn't any available opinion survey to gauge the extent to which South Sudanese in general respond to their country joining the IGAD group. The only glimpse available in that regard is the experts' opinion noted earlier which seem to go in tandem with the popular sentiments and response to the case of the EAC.

The response to the above posed question of "how should the speed, sequence and process of regional integration be managed in South Sudan?" seems to be not straight forward and hence could only be answered with a caveat. This is partly because, the answer will vary depending on: (a) what time frame is considered

(short-, medium- and long-term); (b) the impact of the political instability on the process, preparedness and outcome; and (c) the level of ignorance emanating from the lack of data and analysis related to the economy of the RSS, particularly the trade sector.

Hence, though difficult to ascertain because of the above factors, given the caveat, the tentative answer to the question seems to be as follows:

- (a) The RSS will likely benefit from the regional integration in the long-run but unlikely in the short to medium term due to the political environment and the state of the economy (weak infrastructure, low labor skill and hence low productivity and inefficient bureaucracy );
- (b) But in the long-run (as noted earlier), given its presumed abundance of natural resources, there is no doubt that South Sudan will benefit from regional integration as the other IGAD member countries seem to make some progress in boosting regional integration (See Appendixes 2 to 5).
- (c) It should approach the process carefully since it is too soon to optimize its net benefits without putting the requisites in place;
- (d) It attempt to resolve internal issues before joining the regional blocks;
- (e) it should request a slower accession as a newcomer to the group until it develops its institutional capacity, legal framework, train its workforce; and
- (f) Clearly identify its comparative advantage and assessing its overall net benefits of joining the EAC.

## 3.2. Conclusions and Way Forward

### 3.2.1. Summary

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

#### a. Likely benefits

- The RSS is likely to benefit in the future from pursuing integration since it will be able to participate in the ongoing and planned projects (such as transport and communication etc.) initiated by the EAC;
- 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.
- The exposure to market competition and access to the supply chain in the partner countries is also potentially to benefit South Sudan, as the others seem to make some progress;
- Though it is a double-edged sword, factor mobility could also positively contribute to competition and filling a skills gap;
- Foster diversification of the economy, particularly expansion of the agriculture sector that includes forestry;
- Reduction in trade costs due to improvements in infrastructure.

## b. Issues of concern

Pursuing regional integration too early, 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:

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

### 3.2.2. 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 subject to institutional weaknesses that should be enhanced through collective collaboration, 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;
- 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; and
- 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. That is, it is good to work towards joining partner countries a la regional integration. But it has to be slow, well planned, with proper sequencing, preparing the groundwork in terms of institution building, identification of product / sector specific sources of gains from trade, and most importantly proper planning not to chock the system with premature flood of imports and absence of export revenue irrespective of whether the country is endowed with potential exportable or not.

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, basic 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;
- 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 catch up with the rest does not help to expand exports either;
- Hence the policy advice could only be **STAY THE COURSE BUT GO SLOW.**

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## Annex 1: RSS's Experts View of the Country's Actual and Potential Trade Performance

1. What do you think is the RSS's trade potential beyond oil Trade potential	Almost 95% of respondents say huge;	
2. In what commodities	Gum Arabica, agric., cattle, mining	
3. Should it join the RECs	All said yes	
4. Which ones should it join?	Mixes for some but majority prefer All	
5. How do you evaluate the experience	75% think is +ve, the rest think not beneficial	
6. Is it benefiting from trade with IGAD, EAC?	Not benefiting since not exporting except oil	
7. If no, explain	Since Not exporting anything	
8. Main challenges	Financial obligations, lack of experience & infrastructure, instability	
9. Most important adjacent country	Uganda & Kenya.	
10. Should RSS wait joining any of the RECs until it settles its issues?	Most say No and go ahead with free trade	
11. Should it accept all protocols of the RECs?	No, should study first and slowly commit to it	
12. Should it expand membership beyond adjacent countries?	Yes starting with neighbors	
13. identify 3 sectors as pillars of the economy	Agric., mining & tourism	
14. Do you think the RSS increase it tariff rate?	All said no	
15. Is joining the RECs worth the forgone revenue?	Response is mixed almost fifty/fifty.	
16. What should be the main priority of joining?	Both Trade creation & technology transfer.	
17. Is the RSS's economy competitive enough?	Not now either due to the conflict or others	
18. Why is export a small share of import in RSS's bilateral trade?		
19. Why is trade with Uganda the highest?	Due to better road links	
20. Please the following in terms of their impact on the RSS International trade	Poor infrastructure	very important
	Current political instability	very important
	Low demand for exports	very important
	Tariffs & quotas	somewhat important
	Access to finance	very important
	Port charges & delays	somewhat important
	Foreign market costs	somewhat important
21. Has the ongoing conflict in the country resulted in:	Fall in imports	moderately
	Informal cross border trade	significantly
	Reduction in the production of Exportable items such as oil	significantly
	Deterioration in living standards	significantly
	Decline in economic growth	significantly
23. Is the conflict affecting RI efforts?	Yes,	negatively
24. How did the conflict affected trade with IGAD, EAC		Significantly

**Source:** This based on selected interviews that included experts in the Ministry of Domestic and Foreign Trade, EAC Affairs, Economic Statics, and the Private sector.

### Annex 2: Ethiopia's Exports to Selected IGAD Member Countries (USD, Millions)

	2012	2013	2014	2015	2016	2017
World	2,910.69	3,657.58	4,302.81	4,518.46	4,167.27	4,228.43
Djibouti	107.17	101.20	110.45	102.96	98.58	97.81
Somalia	259.83	255.41	299.73	289.58	282.17	282.46
Sudan	162.73	921.01	922.31	934.42	931.87	962.82
Kenya	13.31	14.90	15.80	15.65	15.48	36.52
Uganda	0.64	0.56	0.56	0.77	1.26	0.73

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

### Annex 3: Kenya's Exports to Selected IGAD Member Countries (USD, Millions)

	2012	2013	2014	2015	2016	2017
World	5,794.28	5,567.87	5,948.15	5,907.61	5,694.75	5,691.35
Djibouti	13.55	13.95	14.61	14.44	12.99	7.44
Somalia	213.84	193.71	150.90	146.09	176.67	184.91
Sudan	77.12	73.55	45.36	42.15	52.80	54.83
Eritrea	3.11	3.51	3.19	3.02	1.16	1.35
Ethiopia	53.17	55.91	86.14	85.58	79.34	73.18
Uganda	782.05	752.73	595.21	571.23	612.44	613.45

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

### Annex 4: Sudan's Exports to Selected IGAD Member Countries (USD, Millions)

	2012	2013	2014	2015	2016	2017
World	3,364.97	4,789.73	4,350.21	3,168.36	2,598.73	4,100.38
Djibouti	0.00	0.43	0.00	0.10	0.24	14.82
Somalia				0.05	0.52	5.28
Eritrea	57.85	46.90	19.26	21.43		19.07
Ethiopia	178.58	51.32	115.77	86.71	71.77	122.98
Kenya	9.76	20.38	0.99	1.19	0.19	21.80
Uganda	0.40	1.31	3.02	0.14	0.08	0.05

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

### Annex 5: Uganda's Exports to Selected IGAD Member Countries (USD, Millions)

	2012	2013	2014	2015	2016	2017
World	2,357.49	2,232.30	1,981.67	1,998.57	2,296.90	2,876.51
Djibouti	0.05	0.40	0.07	0.08	0.19	2.86
Somalia	13.71	7.78	4.48	2.26	2.79	1.66
Sudan	424.33	239.38	105.09	88.01	61.81	76.89
Eritrea	0.23	0.01	0.32	0.02	0.00	0.01
Ethiopia	12.18	4.11	1.22	1.72	0.36	7.18
Kenya	254.06	314.43	297.44	427.01	440.33	508.90

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



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