

# disaster studies



# South Sudan One Year On

A Social Understanding of the  
Country's Economic Crisis

Rens Twijnstra

**RESEARCH BRIEF #5 (JULY 2012)**

Wageningen University | Netherlands Ministry of Foreign Affairs | International Institute of Social Studies  
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## A Social Understanding of the Country's Economic Crisis



*A market salesman in Wanjok, Northern Bahr El Ghazel hands a woman her change for a bundle of dried fish. Few items in South Sudan are produced domestically, dried fish is one of the few exceptions.*

### **Rens Twijnstra**

This research brief is based on findings yielded from roughly 20 months of fieldwork for the PhD research project entitled 'Returnee Entrepreneurship and Economic Governance in South Sudan'. The fieldwork took place between October 2010 and July 2012. For further inquiries please contact the researcher Rens Twijnstra at [rens.twijnstra@wur.nl](mailto:rens.twijnstra@wur.nl) or +211 955 290 369

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## Introduction

This research brief provides an alternative perspective regarding a number of economic challenges faced by South Sudan exactly one year after its secession from Sudan. It explores how a State in its infant stages and the people comprising it frame and cope with such economic challenges. This exploration departs from the analytical framework of a 'sociology of economic life' in a context of state fragility on which the IS academy on Human Security in Fragile States is predicated. The brief is based on policy documents, media resources, qualitative interviews and focus group discussions with donor and government officials and members of the private sector, entrepreneurs and traders especially, and an academic literature review of recent<sup>1</sup> publications in the field of economic sociology.

## South Sudan, the world's youngest economy on the verge of collapse?

Exactly one year ago this July 9th 2012, the world witnessed the birth of the Republic of South Sudan. After 23 years of war and extreme hardship, the people of South Sudan were finally awarded their own free and autonomous state; a state comprised of a people filled with hope and expectations to fulfil their potential. Endowed with plentiful natural resources – primarily large reserves of crude oil and an abundance of fertile land suitable for agriculture – and with an increasing number of well-educated returnees repatriating from East Africa, North America, Australia and Europe eager to do their part, South Sudan was thought to bear the promise of becoming the 'bread basket' of East and Central Africa. On that epic 9th of July in 2011, South Sudan's nationhood seemed imminent; 'We are all Southerners now... South Sudan oyeee'<sup>2</sup>

Yet barely one year later, the world's youngest country faces draconian economic challenges that seem almost insurmountable. A failure to reach consensus over the usage of Sudan's oil pipeline to Port Sudan resulted in a decision by the government of South Sudan to shut down all oil exports in February 2012 which account for 98% of the government's budget and 82% of the country's GDP (see box 1). Considering that the oil receipts comprise all of South Sudan's US Dollar incomes, the shortage of foreign currency required to sustain the country's import dependency has resulted in a massive depreciation of South Sudan's brand-new currency and an exponential rise in inflation.

### Box 1: Oil Disputes

After the South seceded from Sudan in July 2011 it inherited the majority of the old united Sudan's oil reserves. At roughly 350,000 barrels per day, the oil revenues between July and late February are estimated at 3 billion. However, the South has no refineries and the only pipeline runs through Sudan. When the contentious negotiations failed in mid-February – the North demanded a transit fee as high as 36\$ per barrel while the South was not prepared to pay more than 1\$ – the South unilaterally decided to shut down all oil production. South Sudan plans the construction of an alternative pipeline through Kenya or Djibouti, but many experts are sceptical about the feasibility of such a project in the short term.

Market prices of the most basic food items have doubled or even tripled over the past year; almost half of South Sudan's food stuffs are imported, which considering South Sudan's ranking as the third most unfavourable country to import into (only rivalled by Afghanistan and the



Central African Republic, based on number of days, cost and administrative requirements to import from the nearest port<sup>3</sup>) renders the market extremely volatile and susceptible to economic shocks. With looming deepening food insecurity and an unprecedented risk of GDP collapse, prospects for South Sudan appear gloomy. In a leaked confidential memo from March 1st 2012 that the World Bank later distanced itself from, the bank noted it ‘has never seen a situation as dramatic as the one faced by South Sudan.’

Along this backdrop, the research brief will explore a number of premises that may contribute to a more thorough understanding of this precarious and volatile situation, both from the perspective of the State and from the perspective of business owners and traders in South Sudan.

## **Fighting an ‘economic war’: Economic governance and militarist rhetoric**

When the political leadership of South Sudan announced that the negotiations with Khartoum had failed in February 2012 and that they had decided to shut down all oil production indefinitely, it was portrayed as the culmination of an epic economic war between the two foes. This rhetoric of ‘economic warfare’ first started immediately after independence in 2011 when the two countries both adopted new currencies. Within weeks, neither the old currency nor the new ‘foreign’ currency was legal tender, sending the two economies down a spiralling skirmish for US dollar incomes. Since then, most economic decision-making has been framed more as a weapon to harm the other or protect oneself rather than to tend to domestic reconstruction and development needs.

Donors have repeatedly stated they ‘do not understand nor support the way in which the government is behaving’ regarding the decision-making logic behind the oil shut-down and the government’s subsequent approach to dealing with the harmful impacts and risks involved for the country. It is asserted that the government has not ‘internalized nor understood the consequences of the decision’<sup>4</sup>. The decision is generally portrayed as rash and without alternatives in place.

From an international statebuilding perspective based on a neo-liberal economics discourse of economic governance, the appropriate strategic measures to counter South Sudan’s ‘imminent economic implosion’ would include:

- severe austerity measures to cut government spending
- preparing for emergency relief and safety net programmes for the most vulnerable populations
- rapidly diversifying the economy through government schemes to establish alternative modalities for oil import and meeting local demands through increased incentives to expand agricultural production

***“It’s pie in the sky... Everybody is telling them ‘Do the deal’ (with Sudan). Plan B? There isn’t one. State shutdown.”***

(foreign development expert<sup>5</sup>)

In this research brief however, rather than understanding economic action from a normative perspective as contained in the universe of rational actors and efficient economic institutions, it is the author’s intent to review decision-making processes by adopting the ‘sociology of economic life’ approach. This means analysing the economy empirically as ‘a cultural and political phenomenon from its dialectic interrelation with other societal spheres’ (Beckert 2007:16). This brings us to the notion of the ‘embeddedness’ of economic decision-making, a concept that is not new, but sheds a different light on the decision-making process under scrutiny here.

Embeddedness means that economic action can never be understood outside the social structures and networks within which it takes place. In the words of the scholar who introduced the concept into modern economic sociology, embeddedness refers to the extent to which economic action is linked to or depends on action or institutions that are non-economic in content, goals or processes (Granovetter 2005:35). This embeddedness of economic action in turn, is the unstable result of social and political struggle (Polanyi 1957:71). In other words, the conditions for economic decision-making to take place are contingent on historic, cultural, and institutional networks. This pertains to a simple market exchange between a seller and a buyer of a bucket of onions as much as it does to complex decision-making processes such as to shut down a country’s primary source of income.

Understanding the decision to shut down oil production within the rhetoric of ‘economic warfare’ that is so often cited by the South’s leadership can only be understood from within the (informal) institutional context of a guerrilla movement. The historic antagonism and sentiments of exploitation, the value systems from within the movement and the militarist command structures all dictate how economic decision-making is framed, or ‘embedded’. Thus, the explanation provided by many government officials interviewed for this research: ‘we have suffered for many years and are prepared to suffer again’, as well as the unquestioning compliance with the decision ‘it has been decided, we will make it through this as we always have’ must be understood from within a discourse of veneration of struggle, resistance, suffering for a just cause and an unquestioning loyalty for direct command.

***“It’s another kind of war, but it’s war. And we will fight as we always have, with our heads raised high and prepared to suffer.”***

(Upper Nile State government official)

It should be noted that economic decision-making processes in the industrialized modern parts of the world are equally embedded in their own unique historic, political, religious and cultural networks and institutions. As such, arguing that differences in economic decision-making between modern industrialized states and emerging states are a result of more-or less embeddedness would be inaccurate. Instead, how economic decision-making is framed in this regard is a dynamic process of oscillation between embedding, disembedding and reembedding (Beckert 2007:19). This is not an argument for cultural relativism, or even a normative justification of the government’s decision to embrace economic collapse. It is a perspective that helps us to better understand the economic outcomes of the governance that characterizes the State of South Sudan during its first year of independence.

***“The decision to halt production of crude oil was not made in anger. It was made in practical terms to protect the interests of the people and to defend the foundations of independence for which many people have paid with their lives.”***

(H.E. Salva Kiir Mayardit addressing the National Legislature on the 11th of June, 2012)

## **Entrepreneurship and the informal economy: The engine of economic diversification?**

As has been argued, the manner in which the leadership of the novel republic frames and copes with the economic challenges can perhaps be best understood from the institutional context of a guerrilla movement in transition. Notwithstanding, what characterises state fragility are the myriad of parallel, overlapping and alternative institutional arrangements beside the State. An understanding of how South Sudan is coping and will cope with this economic adversity can thus not disregard the ‘informal economy’ where up to 80% of economic activity takes place<sup>6</sup>.

In the past decade we have witnessed a paradigm shift in how scholars and policymakers approach the informal economy. In this regard, informality does not refer to an absence of regulation but to an array of alternative regulations operating outside the formalized framework of the State. This informal economy is thought to be more flexible and efficient under conditions of economic instability, even described as a force of liberalization and regional integration ‘from below’ (Meagher 2005:223). Interventionist logic in fragile states has also shifted towards working ‘with the grain’ of informality for more equity and opportunity for the poor<sup>7</sup>.

So how exactly would the informal economy, based on the premises of a social network, form a viable alternative for coping with the imminent economic challenges? First of all, the informal economy in South Sudan has grown exponentially since 2005; one of the benefits of being largely cut-off from the regional and global economic flows for decades is that ‘pulling together previously unconnected resources for a new economic purpose<sup>8</sup>’ is easier than in the more connected and developed parts of the region. This links to what Granovetter refers to as ‘the strength of weak ties’ and the advantage of bridging ‘structural holes’ (2005:35). South Sudan’s informal economy is not as connected and established as other informal economies in the region, but what is important is not the quality (or strength) of the ties, but rather the way different parts of the networks are bridged.

Because the South’s manufacturing and productive capacity is so limited, most of the economic activity in the informal sector revolves around import and trade. As such, most traders and entrepreneurs – many of whom have spent years living abroad – maintain linkages with the informal sector in Sudan, Uganda, Kenya, Ethiopia, Egypt, Dubai and elsewhere. Based on experience from other regions (Meagher 2005:227), it can be argued that these trans-local networks render South Sudan’s informal economy much more resilient to economic shocks. In addition, this informal regional network, connecting a multitude of resources and capacities, could foster the economic diversification needed to meet the dire food security needs.



*Trucks bringing goods from Uganda to Aweil, Northern Bahr El Ghazal. Since the trade routes with Sudan have been closed supplying goods to the areas bordering Sudan has become very difficult. The most basic food commodities such as flower, wheat, maize and sugar have almost doubled in price since July 2011.*

However, while informal economies are associated with diversification, this is not quite the case in South Sudan. Preliminary qualitative data from in-depth interviews and extensive focus group discussions with traders and entrepreneurs at various sites in South Sudan including Nimule, Juba, Malakal, Wau, Aweil and Bor indicate that the informal economy is not likely to be a driver of diversification towards higher agricultural productivity to supply local markets, or foster inclusive stability for that matter. Many traders and local business owners seem to have little interest in innovating or altering their modes of economic engagement, and although the country’s economic adversity and the local impacts of the decision-making process at State-level are devastating, the informal sector appears inert.

***“Business has never been this bad, there are no (US) dollars, our (South Sudanese) pounds are loosing value and the roads we used to bring goods from the North are all closed. I have enough for one more trip to Uganda, after that I will have to close my business.”***

(market wholesaler and trader in Aweil)



Yet the preliminary data also suggests that attributing this lack of dynamism in the informal sector to a simple lack of entrepreneurial capacity is unwarranted. In fact, most traders and entrepreneurs in South Sudan display extraordinary competences in finding creative solutions and dealing with risk and uncertainty outside the protection of the State. Examples include informal insurance arrangements or pooling resources to hire underpaid policemen to secure the feeder routes used most frequently from ambushes and banditry<sup>9</sup>. Still, there are cultural, historic and institutional constraints that prevent this creativity from translating into the kind of diversification required for sustaining local reconstruction and increasing food security. The aforementioned ‘sociology of economic life’ approach offers a number of viable explanations for this gap.

- **Short vs. long term security**

Is it possible that the kind of entrepreneurship and trade that comprises the informal economy in South Sudan is predicated more on mitigating uncertainty in the short run than it is to invest in long-term prospects through creative innovation? Woods (2003) argues that people living under conditions of perpetual economic flux and a lack of protection from the State have less control over relationships and events around them. Preparation for the future is continuously postponed for survival in the present; he refers to this as the ‘Faustian Bargain’ (ibid 2003:468).

- **Network fragmentation**

The informal economy is embedded in a mesh of social networks. In South Sudan, decades of war and displacement have in many instances lead to a degree of network fragmentation that is consequently unlikely to provide fertile ground for economic activity and entrepreneurship (Fukuyama 1995b:94 in Meagher 2005).

- **Network content and the (informal) institutional relationship with the State**

The informal economy cannot be regarded as separate from – or defined by its autonomy from the state, but is critically shaped by the nature of its relationship with the state at the local as well as the national level (Meagher 2005:226). Consequently, even in parts of South Sudan where state authority is elusive and contested, the embeddedness of economic action within the informal economy is still to a degree contingent on the clientelist value systems of a guerrilla movement.

- **Networks of survival vs. networks of accumulation**

The informal economy works along connections and nodes of a social network. Understanding how such a social network can drive economic diversification and eventually foster the emergence of equitable socio-economic institutions (state or non-state), requires distinguishing between social networks of accumulation and social networks of survival (Lourenco-Lindell 2002). Social networks of accumulation bridge ethnic divides and foster the development of market-oriented economic institutions, but are predicated on the notion that individuals have the choice to diversify and configure their networks. This logic also underpins most donor and NGO interventions geared towards vocational and entrepreneurship training (see box 2). In South Sudan, the heavily entrenched norms of redistribution that have evolved among almost all tribes inhibit this individual choice. Thus, survival networks allow redistributive networks to overwhelm efforts at accumulation, which paralyzes economic action to diversify and become more innovative (Meagher 2005:229).

As these four considerations regarding the informal economy as a social network suggest, its diversification potential does not manifest automatically. It depends on the kind of social network (accumulation or survival), the level of interconnectedness or fragmentation of that

network, the value systems that provide the institutional content of that network (guerrilla clientalism), and finally, the goal of the network (short-term security rather than long-term investment).

### Box 2: Entrepreneurship training in South Sudan

Business and entrepreneurship training is usually an integral aspect of vocational training and capacity building initiatives by donors and INGOs in South Sudan. These programs are mushrooming in all parts of the country and appear to be the ‘intervention of choice’; they do not foster the aid dependency that conventional humanitarian aid does and are compatible with the popular private sector development (PSD) -driven approach to post-conflict development. Yet the ratio of graduates that successfully alter their life to become a successful entrepreneur is remarkably low. Rather than to attribute this to the content of the trainings, it appears the difficulties are rooted more in a fundamental mismatch between programmatic assumptions of promoting individual success, ‘accumulation’ and growing a business through re-investing one’s profits wisely on the one hand, and the rigid expectations and norms embedded in local networks of redistribution on the other.



A young boy working as an apprentice in a tailoring workshop in Bor, Jonglei State. Tailoring is one of the most common vocational training courses together with carpentry, masonry, welding and agriculture. Many graduates struggle to transform the knowledge and tools they acquire into a viable income-generating venture.

**“Many people go home with confidence, a set of tools and a good business idea. But if you visit them 6 months later, they sold their tools and are at home idle. Their potential just dissolves into the community.”**

(teacher at a vocational training school in Western Bahr Al Ghazal, South Sudan)

## Conclusion

This research brief has tried to offer an alternative perspective regarding how and why people within different spheres of governance – both the State and the informal economy – are framing and coping with the economic adversity that South Sudan faces barely a year into its existence as an independent state. Trying to apply concepts from within the ‘sociology of economic life’ and state fragility, this research brief and the IS academy in general strive not to offer explanations or intervention prescriptions, but empirically and theoretically founded propositions that can help stimulate a debate. The main argument we like to raise is that economic norms, theories and rationalities do not sufficiently capture the realities of South Sudan, and as a consequence may not be of much help in improving the economy. Economic interventions should be based on trying to understand economic life, including the economic decision-making processes and actions from the State level all the way down to small informal trade networks in the novel republic of South Sudan as embedded in various networks; historical, military, cultural, ethnic, etc. That embedding is not static but constantly in flux, which renders it even more difficult to understand. Yet it promises a more fruitful understanding and appreciation of the country’s capacities, its potential and the willingness of the people that comprise it to see South Sudan succeed and flourish as a nation.

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## Notes

1. Including publications from 2001- 2012 from various authors including Krippner, Swedberg, Granovetter, Meagher, Beckert, Callon, Hart and Portes
2. From the speech made by H.E. Salva Kiir Mayardit, President of the Republic of South Sudan, during the inaugural ceremony on July 9th, 2011 in Juba.
3. Doing Business in Juba 2011, IBRD
4. Briefing by the World Bank for Economic Policy and Poverty Reduction Programmes in Africa, March 1st 2012 (This briefing was distributed under “close hold”. After it’s leaking to the international media, the World Bank officially distanced itself from its content
5. From ‘South Sudan independence still comes at a price’, Reuters, Monday 28th of May 2012 <http://www.reuters.com/article/2012/05/28/southsudan-economy-idUSL5E8GS6KW20120528>
6. Doing Business in Juba 2011, IBRD
7. From World Bank Seminar, ‘promoting inclusive growth and employment in fragile states’ Cape Town April 2010
8. The classic definition of entrepreneurship as termed by Schumpeter (1934)
9. Documented both in Bor (Jonglei State) and Kapoeta (Eastern Equatoria State)

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