Sudan Integrated Framework
Diagnostic Trade Integration Study (P090244)
Concept Note
October 2, 2006

1. The signing of the Comprehensive Peace Agreement (CPA) in January 2005 ended Africa's longest-running civil war and launched Sudan on an ambitious program of recovery and economic development. Peace presents Sudan—and especially South Sudan—with the opportunity to re-establish regular international commercial linkages that were inhibited during wartime. Indeed, foreign investment and international trade are critical for the development of a dynamic private sector capable of providing. livelihoods for former combatants and those displaced by war

2. Apart from the recent expansion in oil exports, however, Sudan has lost ground in international markets. Products that once provided stable export earnings for the economy, such as cotton, livestock, oilseeds, or gum arabic, have lost market share over the past decade and fluctuate in value from one year to the next. Exporters seem unable to take advantage of Sudan's participation in international trade agreements.

3. Ongoing conflict in the Darfur region, has caused the displacement of over two million people, with some 200,000 estimated by the United Nations to have died because of the violence. The recent signing of the Darfur Peace Agreement in May 2006 sets the stage for the quick initiation of recovery, reconstruction, and development efforts to sustain and consolidate peace.

4. Sudan's recent oil boom creates opportunities for recovery and development, but as many countries have discovered, these opportunities can be difficult to exploit. On the one hand, revenue finances the CPA's program of political decentralization, wealth-sharing, and expanded public services. But with few linkages to other productive sectors of the economy, growth in the oil sector has not raised incomes for the poor, even if it has boosted aggregate GDP growth. Furthermore, the oil boom exposes Sudan to the risk of Dutch Disease, eroding the economy's capacity to generate income from other exports.[1] In the short-run, avoiding Dutch Disease entails consideration of trade competitiveness effects of macroeconomic policy, including a trade-off between inflation and currency appreciation. In the long run, Sudan must boost productivity in non-oil export sectors, first and foremost traditional agriculture. It must develop new export industries, for example in higher-value agriculture, manufacturing, and services. It must create a business climate that facilitates investment in new activities and lowers the cost of doing business throughout the economy.

5. Realizing the CPA's vision of equitable growth and poverty reduction also requires both the public and private sectors to collaborate in a comprehensive trade strategy. Trade needs to be mainstreamed into broader strategies for poverty reduction and economic growth. Business and government must work together to overcome barriers to international economic integration. Trade diagnostic studies conducted in other countries find that most constraints lie outside the traditional policy domain of trade ministries—

[1] Dutch Disease refers to experience of Netherlands in the 1960s, when the economic boom following natural gas discoveries led a decline in manufacturing and real exchange rate appreciation. It has been characterized as a phenomenon where a boom in one export sector, typically a windfall discovery of a new natural resource, draws factors of production from other sectors of the economy and boosts demand for non-tradeables relative to tradeables, which in turn appreciates the real exchange rate. Traditional exports collapse, due both to the internal reallocation of resources and the real exchange rate appreciation. W.M. Corden, "Booming Sector and Dutch Disease Economics: Survey and Consolidation," *Oxford Economic Papers* 36 (November 1984): 360–62.

transportation bottlenecks, tax policies, low productivity, or institutions that discourage entry into the formal economy. Even negotiating international trade agreements requires Sudan's core trade-related bodies to coordinate extensively with other ministries. Sudan's membership in regional agreements such as COMESA, accession to the WTO, and negotiation of an Economic Partnership Agreement with the European Union all involve commitments on a wide range of "domestic" policies, from banking to food safety standards to audio-visual services.

6. This concept note outlines a diagnostic trade integration study that is designed to help Sudan harness trade to meet the country's growth and poverty reduction objectives. The study will evaluate the main constraints on and potential for Sudan's integration into the world economy. What explains the declining competitiveness of traditional agricultural products? How important is Dutch Disease relative to foreign market access barriers on the one hand and weaknesses in the domestic business climate on the other? How can trade integration best support poverty Sudan's poverty reduction strategies? The study will propose priority areas for technical assistance and policy reforms that can help Sudan ease these constraints, laying the groundwork for increased collaboration between Sudan and its external partners on trade issues. After providing background on the Integrated Framework program, the note presents the main points of analysis that the study will pursue.

The Integrated Framework program and relationship to other donor activities

7. The Government of Sudan has requested this diagnostic trade integration study (DTIS) as part of its participation in the Integrated Framework for Trade-Related Technical Assistance (see Box 1). The DTIS analyzes the constraints and opportunities facing Sudan as it seeks to promote economic development through deeper integration into the world economy.

8. The study's conclusions and recommendations are to be endorsed by the government, following broad-based consultations with all stakeholders in the context of a national workshop. The action matrix emerging from this workshop will subsequently be mainstreamed into the country's development strategy as well as donors' support programs.

9. Several donors and international agencies are actively supporting trade issues:

- FAO has worked with Ministry of Agriculture and Forestry on a number of studies on export potential of various crops plus requirements for implementing the WTO agreements on agriculture and sanitary and phytosanitary measures.
- Sudan Customs has received technical assistance from the IMF, Kuwaiti Fund for Arab Development,

Box 1. The Integrated Framework program

The Integrated Framework for Trade-Related Technical Assistance was established under the WTO in October 1997 to facilitate the coordination of trade-related technical assistance to LDCs, and to promote an integrated approach to assist these countries in enhancing their trade opportunities. The IF is a joint effort of six international institutions: the IMF, International Trade Centre, UNCTAD, UNDP, World Bank and WTO.

In late 2005 the World Bank undertook a technical review of Sudan's request to participate in the IF program. In January 2006 the IF Working Group approved Sudan's request based on the findings of this review. A preparatory mission with staff from IF core agencies visited Khartoum and Juba in June 2006 to identify topics for the DTIS. The mission met with the officials of the IF focal point agency, the Commission on WTO Affairs, and members of the National IF Steering Committee—authorities from other agencies, members of the business community, and representatives from Sudan's trade and development partners. After the mission concluded, the focal point agency requested that the World Bank serve as the Sudan IF donor facilitator.

The UNDP manages a trust fund that co-finances the diagnostic, building capacity of the IF focal point, and initial work to formulate projects from the action matrix. An initiative is underway to expand funds available to IF countries for converting the action matrix into concrete project proposals. It is expected that the Enhanced IF will be in place by mid-2007.

World Customs Organization, and WTO.

- The EC, Islamic Development Bank, UNIDO, WIPO, WTO, and others have organized seminars and commissioned background papers on WTO accession.
- The Ministry of International Cooperation has carried out, with support from the EC, assessments of the impact of Economic Partnership Agreement.

10. After the signing of the CPA, a number of donors have stepped up work in areas closely related to trade, such as transportation, livestock marketing, and private sector development. Investment projects in these areas are being launched through the two Multi Donor Trust Funds. Some donors are funding technical assistance projects directly. The Sudan IF program takes these activities as a starting point, and will seek to build on existing donor programs and coordination mechanisms.

International integration and Southern Sudan

11. As improvement of conditions in Southern Sudan is a fundamental goal of the CPA, it is worth noting some of the unique challenges for international integration faced in the South. The southern region of the country was politically and economically marginalized even before Sudan gained its independence from the United Kingdom. In 1956 the South had 27 percent of the population but 13 percent of GDP. There were no secondary schools. Civil war over the past five decades discouraged new investment and construction. The JAM reports that paved roads and access to electricity largely non-existent outside of paved roads outside of the Juba, Malakal, and Wau. Health and education indicators are among the lowest in the world. For example, the maternal mortality ratio in Southern Sudan is estimated at 1,700 per 100,000 live births, more than triple the estimate of 509 for Northern Sudan and well above the average of 1,100 for all of Sub-Saharan Africa.[2]

12. The CPA provides for considerable political and economic policy autonomy for the South. The Government of Southern Sudan has been created, as has an autonomous legislature and judiciary. Although the National Government has sole authority to levy import tariffs, VAT, national income tax, corporate profit tax, among others, the GOSS can collect additional personal income taxes, taxes on small businesses, excise taxes on luxuries, and other charges. These critically shape the incentives facing exporters and importers. Monetary policy is the domain of the National Government, but the CPA calls for conventional banking in the South, regulated by the Bank of Southern Sudan. To bring Southern Sudan up to socioeconomic levels enjoyed in the North, the CPA's wealth-sharing provisions call for sharing oil revenues. The Government of South Sudan will also receive 50 percent of non-oil revenues collected in the South by the National Government.

13. New governmental institutions must be built in the South, largely from scratch, to give practical meaning to the autonomy provided under the CPA. At the time of the preparatory mission, GOSS institutions were still being constructed. Only the ministers and a handful of senior staff positions in key ministries had been officially created. New commercial and investment codes, called for under the CPA had not yet been promulgated. There is confusion about which existing laws prevail in their absence, which itself discourages trade and investment.

14. The DTIS will give attention to the special needs of Southern Sudan. Sector studies will include export products of interest to Southern Sudan. Chapters on cross-cutting issues will focus on the espe-

[2] Joint Assessment Mission, "Framework for Sustained Peace, Development and Poverty Reduction," volume 1, March 2005, page 22

cially challenging infrastructure constraints. The trade policy section will investigate implications of "one country, two systems" for making trade policy.

Tentative outline of the study

15. The IF terms of reference provide a general framework for the DTIS.[3] The proposed outline below attempts to address the main areas of interest presented by the authorities and stakeholders during the preparatory mission.

- I. Socioeconomic Setting
  - A. Trade integration and poverty in Sudan
  - B. Macroeconomic policy and Dutch Disease
  - C. Trends in international trade flows
  - D. Foreign market access barriers and preference utilization
- II. Trade Policy and Institutions
  - A. Anti-export bias in Sudan's tariff structure
  - B. Negotiating WTO accession and regional agreements
  - C. Trade promotion institutions
  - D. Sudan's trade policy-making capacity
- III. Sectoral Studies of Constraints to Competitiveness
  - A. Agriculture
  - B. Manufacturing
  - C. Tourism
- IV. Cross-Cutting Constraints to Competitiveness
  - A. Investment climate and foreign direct investment
  - B. Trade facilitation
  - C. Standards
  - D. Services inputs
- V. Conclusions: Recommendations for a Pro-Poor Trade Strategy

16. Following the outline proposed for the DTIS, the remainder of this note will present the key issues that the DTIS will address.

Socioeconomic Setting

Trade integration and poverty in Sudan

17. Sudan is classified as a least developed country and ranks in the bottom quartile of countries in the United Nation's human development index. Matching its physical location, Sudan's average income and social indicators lie between the wealthier countries in North Africa and less developed ones to the south.

18. National averages obscure wide internal variation. The JAM cites estimates that 60–75 percent of people in the North survive on incomes of less than $1 per day, while poverty rates in the South are as high as 90 percent. Most of the poor are rural and engaged in rain-fed farming and pastoralism. War in Darfur and in the South has exacerbated the rural poor in those regions' isolation, leaving them with

[3] UNCTAD, "An IF Manual: Integrating LDCs into the World Trading System," United Nations, 2005.

minimal access to infrastructure that can link them to national and international markets. Despite rapid GDP growth over the past decade, income inequality has likely increased. In urban areas, rising inequality results from the influx of displaced persons, increasing informalization during the 1990s, and the absence of linkages with the oil sector.

Table 1. Selected Indicators for Sudan and Neighboring Countries, 2004–2005

	Sudan	Kenya	Tanzania	Ethiopia	Egypt	Sub-Saharan Africa	Middle East & North Africa
GDP per capita, PPP (US$)	2,151	1,165	730	1,002	4,455	2,068	6,155
HDI rank (of 177 countries)	141	154	164	170	119		
Female adult literacy rate	52	70	62	..	59	..	62
Male adult literacy rate	71	78	78	..	83	..	82
Female life expectancy	58	47	47	43	72	47	71
Male life expectancy	55	49	46	42	68	46	68
Aid as share of GNI	4.4	4.0	15.5	18.9	1.9	5.2	1.7
GDP growth rate (annual)	8.0	2.8	7.0	8.7	4.2	4.9	6.9
Inflation rate (annual CPI)	8.5	10.3	8.6	11.6	..	4.9	13.5
Exports as share of GDP	21	25	17	16	32	35	35
Imports as share of GDP	25	31	26	39	32	34	34

Sources: Human development index rankings are from UNDP *Human Development Report* 2005; World Development Indicators for other indicators

Notes: literacy rates, life expectancy, and aid inflows are from 2004 data; GDP, trade, and inflation indicators are from 2005 data

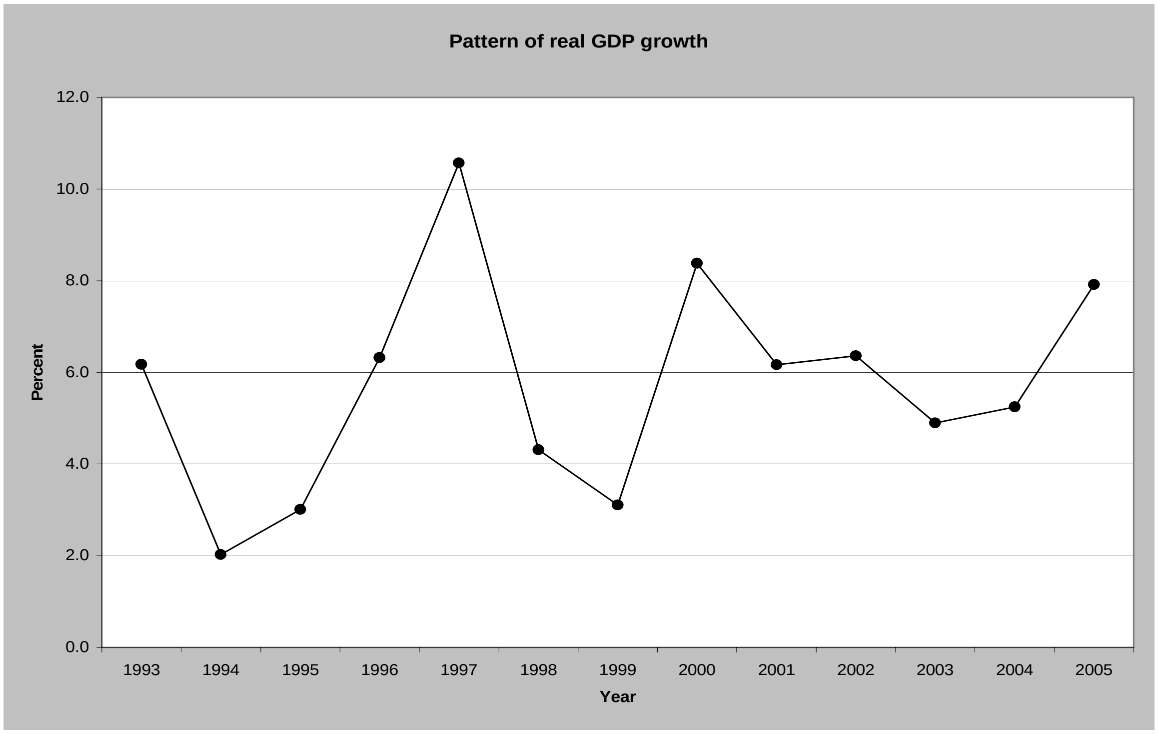
19. The DTIS will identify the main channels by which trade and FDI can reduce poverty. As mentioned above, raising incomes of the rural poor is seen as the key to reducing poverty in Sudan, so expanding exports of livestock, fruits and vegetables, and gum arabic are likely to play an important role. The incidence of import tariffs on products consumed disproportionately by the poor will also be explored. The DTIS will, to the extent that data are available, conduct simulations assessing the distributional impact of key policy reforms proposed in the action matrix and suggest complementary policies that can mitigate costs to the poor of adjusting to these policy reforms.

Macroeconomic policy and Dutch Disease

20. Sudan's macroeconomic performance over the past five decades has been mixed, a history of alternating periods of decline.[4] The growth episode that began the 1970s corresponded to a time of increasing capital inflows, in the form of both non-concessional loans from oil producing countries and development assistance. Sudan experienced a debt crisis as real interest rates spiked in the 1980s. In 1992 the Sudanese government launched a package of monetary, fiscal, regulatory, public enterprise, and international trade reforms. Initial results were mixed, but towards the end of the decade, the program began to achieve positive results. Inflation and fiscal deficits were brought under control. Since 1999, the country has enjoyed fairly stable real economic growth of 6–8 percent.

[4] These episodes are described in Ali Abdel Gadir Ali and Ibrahim A. Elbadawi, "Explaining Sudan's Economic Growth Performance," AERC, May 2002. This section also draws on World Bank, "Sudan: Stabilization and Reconstruction Country Economic Memorandum," World Bank, June 2003.

Figure 1. Real GDP growth 1993–2004



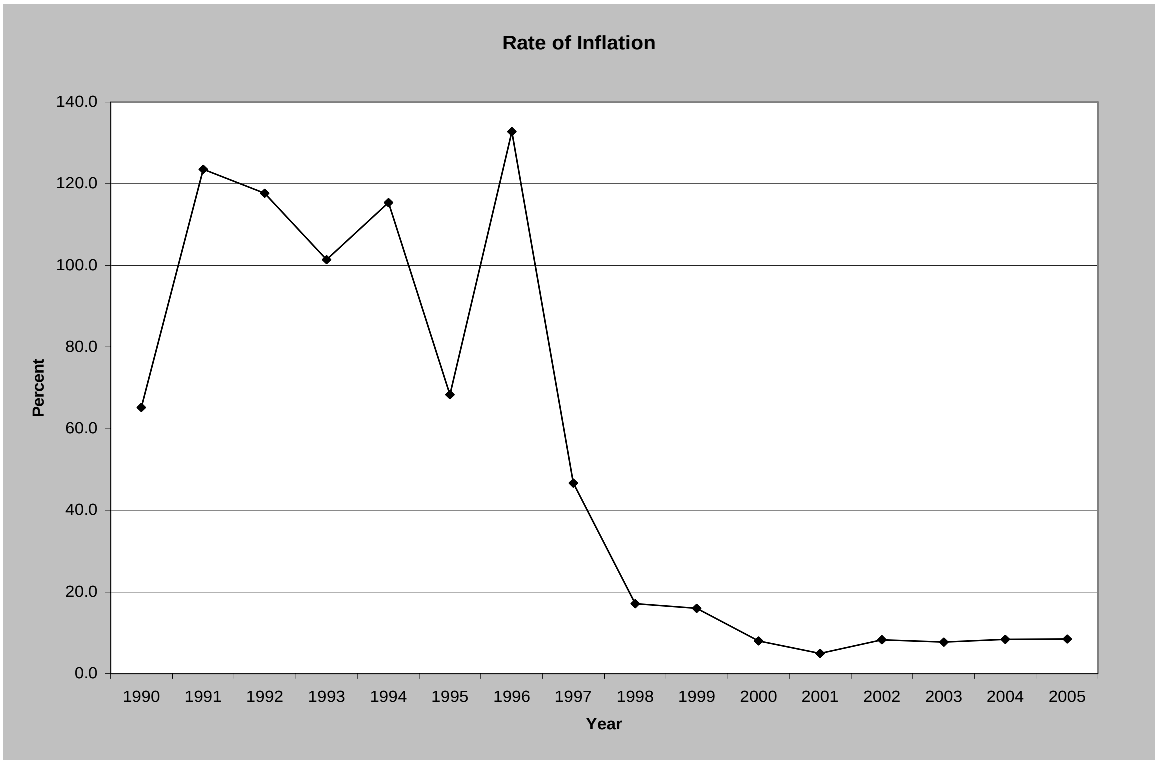
Source: World Development Indicators

21. The signal event in recent years has been the rapid development of oil exports, which in the span of a few years grew from non-existent to over 80 percent of total merchandise exports. Production is expected to continue to increase to 150 percent above current levels over the next five years, when measured in terms of physical quantities, and the oil industry's share of total value-added is expected to double, growing to around 20 percent of GDP from its current 10 percent.[5]

22. The oil boom has important implications for inflation, the real exchange rate, and the viability of other sectors. The government risks inflation if oil revenues are channeled primarily into domestic absorption. Alternatively, the government can let the nominal exchange rate appreciate, which in turn risks collapse of import-competing and exporting sectors. In addition, the government faces challenges of managing volatility of oil revenue.

[5] IMF calculations.

Figure 2. Inflation, 1990–2005



Source: IMF *International Financial Statistics* and Article IV reports

23. Sudan has largely chosen to control inflation and let the exchange rate adjust. The IMF's computation of the real effective exchange rate—an index that takes into account differences in the size of trade flows with different partners, as well as difference in inflation rates—shows a steady, gradual appreciation since 1999.[6] When the real exchange rate index assigns more weight to Sudan's biggest trade partners, China and Saudi Arabia, the extent of real appreciation appears quite stark, as shown in Figure 3 below.

24. Rapid real appreciation, in and of itself, does not prove that the dinar is overvalued relative to its equilibrium. It does provide cause for concern, however. During the preparatory DTIS mission, a number of government officials and businesspeople identified Dutch Disease as one of the key factors affecting the competitiveness of non-oil sectors. Others objected that traditional exports were in decline long before the oil boom and pointed to a variety of factors that have been undermining non-oil exports: low productivity, high taxes, high transport costs, unfavorable investment climate, etc. A key objective of the DTIS, therefore, will be to shed light on the relative importance of Dutch Disease and other macroeconomic factors to declining non-oil exports.

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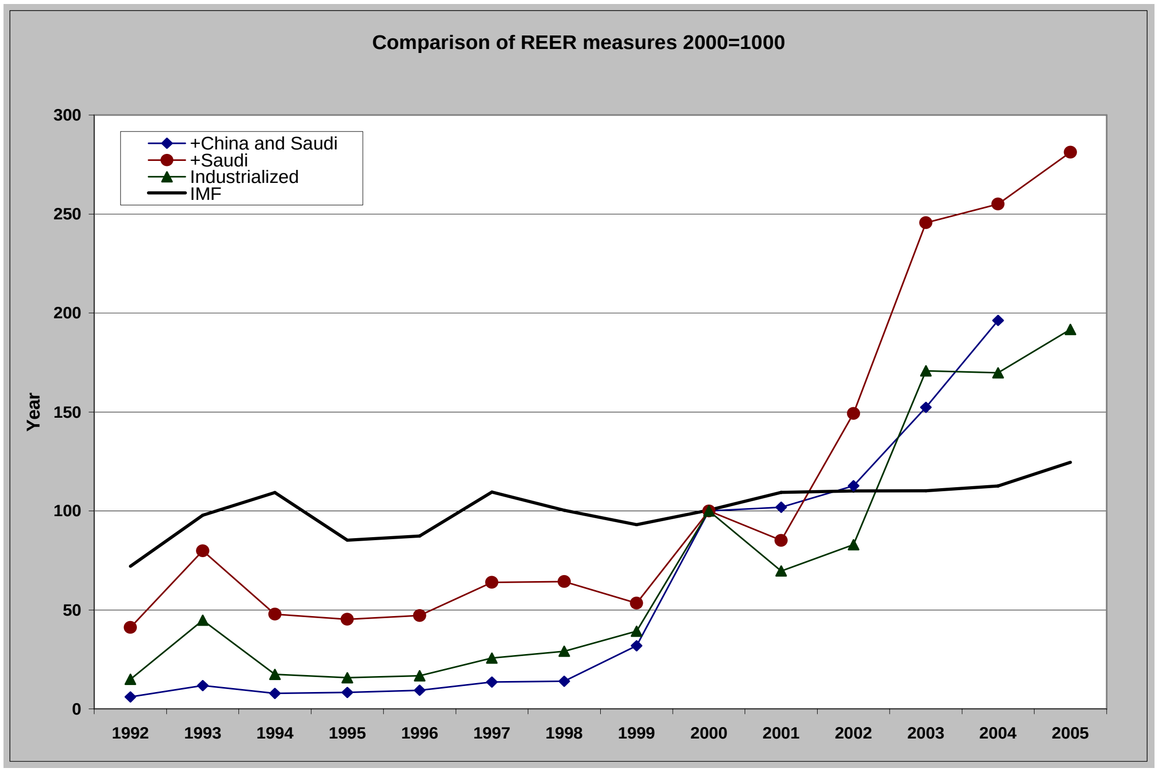
[6] The IMF computes the real effective exchange rate for home country *i* relative to a set of foreign countries *J* as

$$REER_i = \prod_{j=1}^{J} \left(\frac{P_i \cdot E_i}{P_j \cdot E_j} \right)^{W_{ijt}}$$

where *P* represents the consumer price indices, *E* represents the nominal exchange rates of *i* and *j* currencies in U.S. dollars, and W_{ij} are the shares to total trade (exports plus imports) with respect to the total trade of the trading partners considered for the given year.

Figure 3. Real Exchange Rate Appreciation



Source: World Bank staff calculations
Note: All calculations use the formula defined in footnote 6 but with different weights corresponding to the different sets of trading partners. IMF computations are based on a comprehensive list of trading partners. The other three estimates are based on a smaller subset including only UK, France, Germany, Italy, U.S., China, and Saudi Arabia. The weights attached for these countries in the alternative REER computation are then higher than the assigned weights by the IMF.

25. In the macroeconomic context, the DTIS will focus on the following issues:

- What are the primary channels that link Sudan's macroeconomic policies to its trade competitiveness? Are oil revenues going to government consumption, debt reduction, accumulation of reserves, etc.? How is the government managing the trade-off between inflation and currency appreciation?
- How is exchange rate appreciation (real and nominal) affecting different sectors of the economy?
- To what extent is the dinar currently or likely to become overvalued relative to its equilibrium value?
- Based on international experience with resource booms, how can the Sudanese authorities best monitor and manage Dutch Disease?

Trends in international trade flows

26. In the decades since its independence from the United Kingdom, Sudan has steadily shifted its trade away from the Western Europe and towards the Middle East and Asia. China is now Sudan's biggest trade partner, in terms of both exports and imports.

27. Primary commodities dominated Sudan's export basket until 2000. Sudan began to export crude oil on a large scale in 1999, and within one year oil grew to make up the majority of exports. It now represents over 80 percent of total exports. Non-oil exports declined in real terms from 1997 to 2001, ac-

cording to IMF calculations, but have since revived somewhat. During the first two decades after independence, cotton consistently made up 50–60 percent of Sudan's exports, followed by oil seeds (sesame and peanuts) at around 20 percent, and gum arabic at around 10 percent each year. Livestock began to grow in importance in the 1980s and sugar in the 1990s. There have been substantial annual fluctuations in the composition of non-oil exports during the past decade, which stands in sharp contrast to the structure of exports during the 1960s and 1970s.

Table 2. Principal Trade Partners in 2005

Sources of Imports		**Destination of Exports**			
Country	**Share**	**All exports**	**Share**	**Excluding oil**	**Share**
China	18.2	China	62.9	Saudi Arabia	22.0
Saudi Arabia	8.1	Japan	12.9	Canada	8.8
Japan	6.7	Saudi Arabia	4.7	U.K.	8.0
Egypt	5.5	U.A.E.	3.3	Egypt	7.6
U.A.E.	5.5	Canada	1.9	China	6.9
India	4.3	U.K.	1.7	France	4.4
Italy	4.0	Egypt	1.6	India	3.9
U.K.	3.6	France	0.9	Germany	3.6
Germany	3.5	India	0.9	Bangladesh	2.8

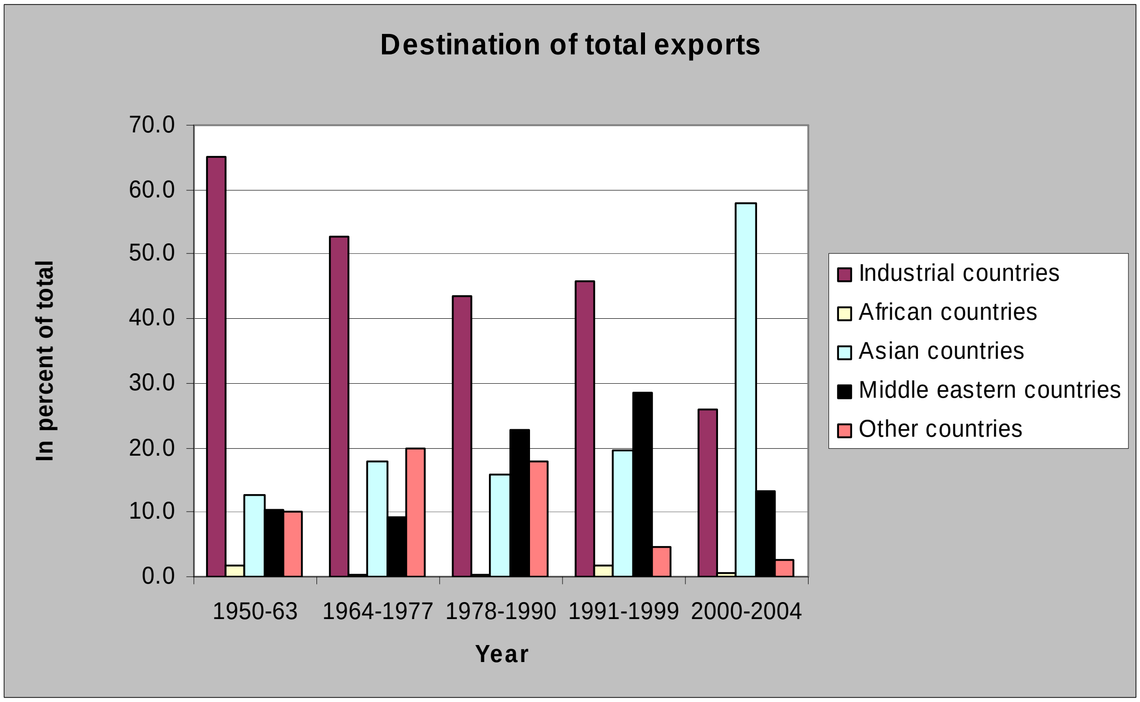
Source: commodity data provided by Sudan Customs.

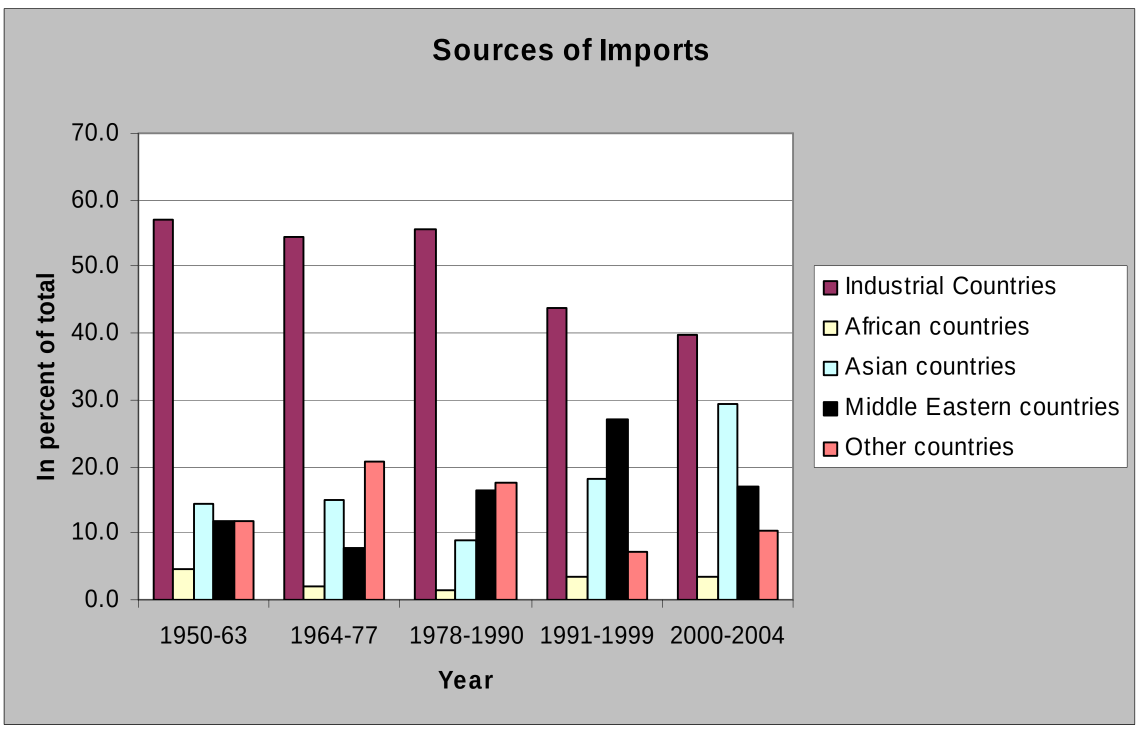
28. Capital goods and other manufactured products have dominated Sudan's imports. Imports of machinery and industrial supplies (notably cement, but also textiles and agricultural machinery) grew rapidly in the late 1990s, and comprise the majority of imports. Wheat often represents the largest food purchase, fluctuating with local harvests. Coffee, tea, fruit and vegetables are other food items imported in large quantities.

29. The literature on Dutch Disease calls attention to how a country spends its windfall export earnings. Countries that invest their new wealth in ways that raise productivity of tradeables are less likely to suffer from Dutch Disease. An initial examination of import and current account data suggests that Sudan is spending the bulk of new oil revenues on the oil sector itself, in the form of imported inputs, transportation services related to oil, and payments to oil companies. The DTIS will examine import data at less aggregated levels to determine whether the oil windfall is fueling a consumption boom, supporting investments in the oil sector itself, or financing investments into greater productivity more broadly.

30. Initial assessments of trade flows reveal declining performance in a number of traditional agricultural products. The DTIS will analyze Sudan's trade performance in greater detail as part of an investigation into why competitiveness has declined. The DTIS will look at trends in the commodity composition of trade, including variation over time in trade in individual products and the concentration of non-oil exports.

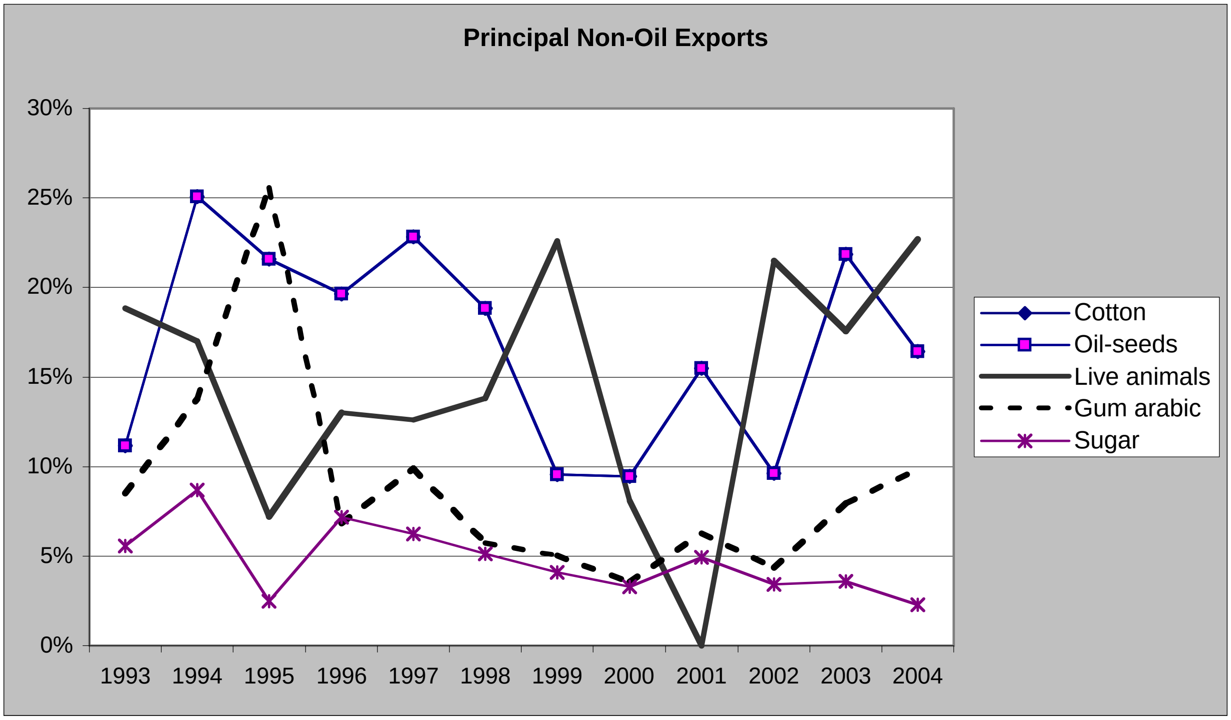
Figure 4. Changing Direction of International Trade, 1950–2004

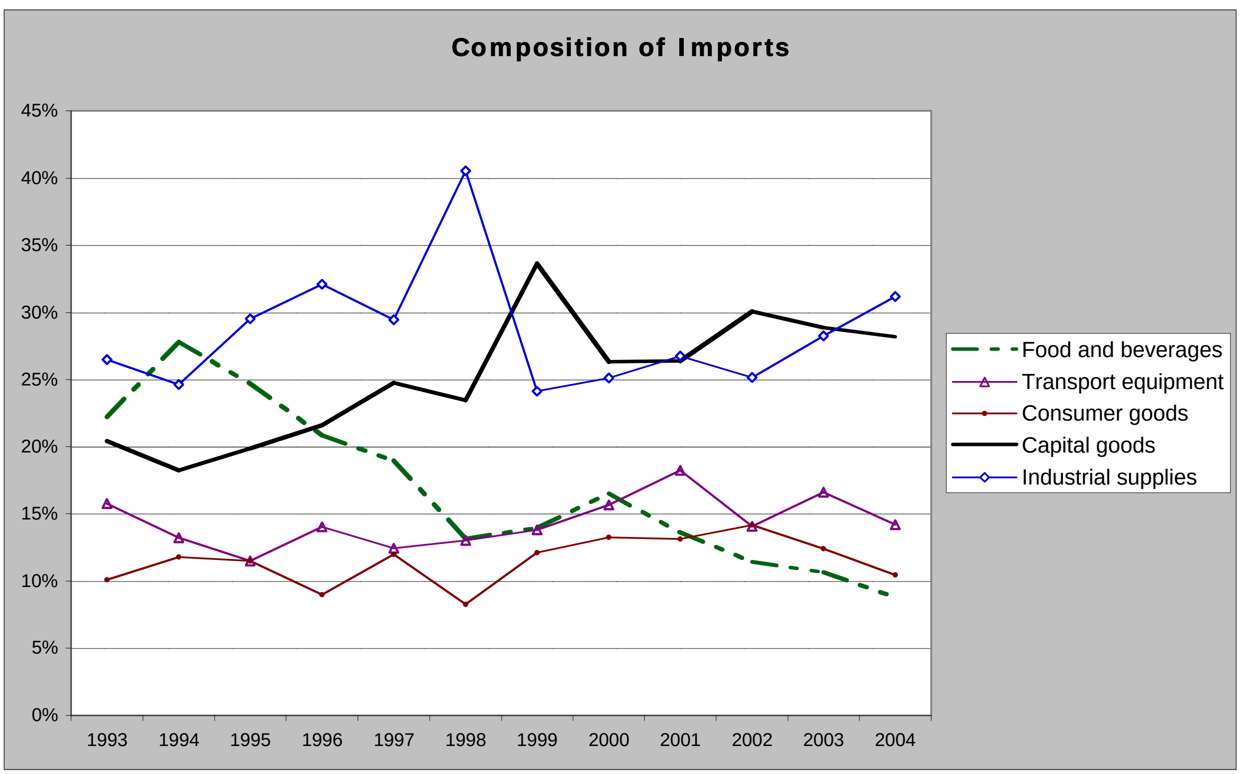




Source: IMF Direction of Trade Statistics
Note: Japan is included only in the category of industrial countries

Figure 5. Commodity Composition of Trade, 1993–2004





Source: UN Comtrade
Note: Exports are defined at the 3-digit level of SITC, Rev. 1; imports are classified according to Broad Economic Categories

Foreign market access barriers and preference utilization

31. Sudan's exporters presently face relatively low tariffs in foreign markets, as seen in Table 3 below. This is due primarily to the structure of its exports. Most countries impose low or no duties the on crude oil and most primary agricultural commodities that Sudan exports. The glaring exception is Korea, which imposes 630 percent duties on oil seeds, its principal import from Sudan.

32. Sudan's biggest market access constraint is not high tariff rates, however, but the almost complete lack of access to the market of the world's largest importer. The U.S. imposed an economic embargo on Sudan in 1997, which remains in place for all products except gum arabic. Although the U.S. was never Sudan's most important trade partner before 1997, the ban reportedly caused serious dislocations for air transport and the national railway by shutting off access to spare parts. The embargo also extends to financial services and investment.

Table 3. Sudan Faces Mostly Low Tariffs in Major Export Markets

Importing Country	Simple Average	Weighted Average	Maximum Rate	Coefficient of Variation	Share Non-dutiable	Tariff Year
All countries	7.1	9.1	630	226	56	2005
China	7.7	0.4	40	97	97	2005
European Union	0.2	0.1	14	717	93	2005
India	13.5	15.4	30	49	5	2005
Indonesia	3.3	0.1	20	169	98	2001
Japan	1.8	0.1	40	647	1	2005
Korea	52.2	111.7	630	153	1	2004
Saudi Arabia	3.3	0.4	20	117	91	2003
MENA average	10.6	3.8	100	154	43	2005
SSA average	9.5	4.3	40	113	51	2005

Source: WITS calculations using UNCTAD TRAINS and UN Comtrade databases
Notes: EU tariffs include ad valorem equivalents of specific duties. Averages are taken over only traded products only. Calculations assume that all available preferences are utilized. They do not take into account tariff exemptions, duty-drawbacks, etc.

33. As an LDC, Sudan is eligible for preferential access to the European Union, Japan, and other industrial country markets. Apart from sugar sold to the EU, Sudan benefits little from industrial country preferences, however. The value of foregone tariffs in the EU represented only 2.35 percent of exports to the EU, over 90 percent of which was derived from the sugar protocol.[7] This is low in part because most of its current exports face low MFN duties in industrial country markets. The value of preferences may also be low because administrative procedures, such as overly restrictive rules of origin, impede the ability of Sudanese exporters to take advantage of preferences.

34. The DTIS will update calculations of the value of preferences Sudan receives. It will pinpoint factors that limit the value it receives from preference programs, and suggest ways to address these problems. It will also attempt to estimate the economic benefits of regaining access to the U.S. market.

[7] Paul Brenton and Takako Ikezuki, "The Value of Preferences for Africa," in Richard Newfarmer, ed., *Trade, Doha, and Development: A Window into the Issues* (Washington: World Bank, 2004).

Trade Policies and Institutions

Unilateral liberalization

35. In 1992 the government abolished most export and import licensing requirements. Foreign currency surrender requirements were eliminated in 1998. Export taxes have been largely eliminated.[8] The number of import tariff bands has fallen from 13 in 1992 to 4 in the current schedule. The maximum rate is currently 40 percent, compared to 2,000 percent in the 1996 schedule.

36. Despite these steps, Sudan has one of the most restrictive tariff schedules in the region, as shown in Table 4 below. High tariffs undermine Sudan's competitiveness by creating a bias against exporting. They reinforce appreciation of the dinar. They raise the cost of tradeable inputs used to produce exports. They make it more profitable for producers to sell in the domestic market rather than exporting.

Table 4. Sudan's MFN Tariffs are the Highest in the Region

	Simple Average	Simple Average: Agriculture	Weighted Average	Maximum Rate	Coefficient of Variation	Share international peaks	Tariff Year
Sudan	20.2	31.6	15.1	40	75	52	2006
Egypt	20.0	64.1	12.5	3000	741	27	2005
Ethiopia	18.8	24.3	13.5	40	71	50	2002
Kenya	12.9	22.0	8.5	100	93	41	2005
Tanzania	12.9	22.0	9.9	100	93	41	2005
Uganda	12.9	22.0	13.5	100	93	41	2005
Yemen	12.9	16.4	11.8	90	57	13	2000
MENA average	19.9	44.2	14.2	3000	203	39	2005
SSA average	13.5	17.5	8.9	320	90	37	2005

Source: data from UNCTAD TRAINS and Sudan Customs
Notes: weighted averages for comparator computed using UN Comtrade trade data at the six-digit level of the HS; international peaks are tariff rates 15 percent or higher

37. The DTIS will examine Sudan's tariff schedule to assess the importance of anti-export bias, relative to other factor that affect Sudan's competitiveness. It will provide recommendations for priority steps for introducing a lower and more uniform tariff schedule, suggesting ways that future tariff liberalization should be sequenced with changes to other trade-related policies.

Negotiating accession to the WTO

38. Sudan applied to join the WTO in 1994. It has completed the basic fact-finding stage of negotiations, submitting the Memorandum of the Foreign Trade Regime in 1999; check-list documents on agriculture, services, standards, and intellectual property rights in 2003; legislative action plans in 2003 and 2004. Working party meetings to discuss these documents were convened in July 2003 and March 2004. In Sudan submitted its initial offers of the maximum restrictions it would impose on trade in goods and services from WTO members. The goods offer was updated in February 2005. Negotiations have been in hiatus since 2004, although the government is continuing its work on legislative reforms needed to comply with WTO rules.

[8] A 15 percent duty on hides and skins is the exception.

39. The Sudanese government has identified WTO accession as a key theme for the DTIS. The study will focus on two broad questions related to WTO accession:

- *How can Sudan accelerate accession to the WTO?* What changes must be made to legislation, policies, and institutions to comply with WTO rules? What capacities need strengthening? Are mechanisms in place to coordinate work across ministries involved with trade issues, between the National Government and the Government of South Sudan, and between the government and the private sector
- *How can Sudan best use the accession process to advance its trade objectives?* Are there ways to use the accession process to leverage other economic reforms (e.g., customs modernization)? How should the government sequence policies needed to comply with WTO rules?

Regional agreements

40. Sudan participates in several regional trade agreements. It is a member of COMESA and participates in the COMESA free trade area.[9] Sudan is a candidate member of the Greater Arab Free Trade Area. It signed a bilateral FTA with Iraq in 2002, and has opened negotiations with Kenya to ease visa requirements and other non-tariff measures in an effort to expand bilateral trade. It is negotiating an Economic Partnership Agreement (EPA) with the European Union as part of the Eastern and Southern Africa regional configuration. Authorities have expressed concern that Sudan has benefited little from existing regional arrangements.

41. The DTIS will update information on the status of negotiation and implementation of preferential agreements. It will identify ways of increasing the benefits from regional integration agreements.

Trade promotion institutions

42. A number of public sector bodies provide support to firms looking to export. For example, the Ministry of Industry attempts to act as an intermediary between financial institutions and potential exporters, as well as providing information on trade issues to local industry. The federal government also uses various fiscal incentives to promote exports, including an export processing zone near Port Sudan and ad hoc duty exemptions. The Government of South Sudan is considering whether to establish an export processing zone. The DTIS will evaluate the effectiveness of these measures in the context of the industrial products component (see below).

Sudan's trade-policy making capacitys

43. Countries need well-organized and capable trade policy institutions to use trade as engine of economic growth and poverty reduction. Good inter-ministerial coordination is the *sine qua non* of an effective trade strategy since international trade does not fit into the mandate of a single ministry. Indeed, foreign trade ministries have little authority over the supply-side factors that most constrain international integration in many countries. Government engagement with the business community and civil society is another prerequisite of an effective trade strategy. Finally, both the public and private sectors must pos-

[9] The other FTA participants include Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Zambia and Zimbabwe. Among neighboring countries, Uganda, D.R. Congo, and Ethiopia are also COMESA members but do not participate in the FTA. Uganda gives a preference of 80 percent, Ethiopia 10 percent, and D.R. Congo no preferences. See www.comesa.int for details.

sess the capacity to identify constraints, whether foreign or domestic, which can be addressed through public policy and international trade negotiations.

44. Although dispersed authority over trade issues is endemic around the world, Sudan faces unusually severe fragmentation (see Box 2). Issues for the DTIS include:

- To what extent do institutional fragmentation and low capacity constrain Sudan's ability to effectively implement a pro-poor trade strategy?
- What capacity is most needed in both public and private sectors?

Box 2. Trade Policy Fragmentation in Sudan

Sudan faces an unusually fragmented trade policy-making process. EPA negotiations, WTO accession, and membership in COMESA involve many of the same issues, but three different National Government bodies are involved in these negotiations: the Ministry of Foreign Trade, the Commission on WTO Affairs, and the Ministry of International Cooperation. The "one country, two systems" principle embodied in the CPA means that the Government of South Sudan has autonomy to set many of the policies that are the subject of COMESA, WTO, and bilateral trade agreements.

Even if a single institution handled all trade negotiations, international trade agreements increasingly incorporate commitments on wide range of issues traditionally considered to be domestic policy, such as intellectual property, quality and health standards, agricultural support, and competition policy. A wide range of National and Southern Sudan Government agencies exercise authority over these issues. Intellectual property is handled by both the Ministry of Justice (patents), Ministry of culture (copyrights), and Sudan Customs (seizing counterfeit items at the border). Implementing the WTO SPS and TBT agreements will require participation of the ministries of agriculture, industry, science and technology, animal resources, and health in both Khartoum and Juba, as well as the Sudanese Standards and Metrology Organization. Each sector included in international services trade agreements, ranging from banking to telecommunications to audio-visual services, is governed by its own set of regulatory bodies.

Sectoral Studies of Constraints to Competitiveness

45. DTISs examine constraints on and potential for international integration from two perspectives: vertically along the value chain within particular export sectors (or potential export sectors) and horizontally across sectors, addressing issues such as customs administration. Sectors studies in DTISs are meant to be illustrative rather than comprehensive. The Sudan DTIS will include several agriculture sub-sectors as well as manufacturing and tourism. Oil will not be one of the sector studies, as the IF focal point has requested that the DTIS focus on the macroeconomic implications of the oil boom.

46. The sector studies will undertake the following:

- Establish supply/value chains for each product from the main producing areas to the dominant outlets to export markets
- Use the supply/value chains for these products to measure the potential benefits from improving competitiveness and also to determine the factors that undermine competitiveness.
- Evaluate the prospects for addressing constraints on competitiveness, identifying the most important technical, policy, and institutional measures that could be taken to improve competitiveness.

Agriculture

47. The Sudan DTIS will focus on agriculture, given the critical role this sector plays in the Sudanese economy. Most of the poor, and indeed most of the population as a whole, are engaged in agriculture. Agriculture has historically dominated Sudan's exports. Restoring competitiveness to traditional products is an important step in reducing the risk of Dutch Disease. To lower the incidence of poverty in Sudan, agricultural incomes must grow more rapidly, particularly in rain-fed, traditional farming areas where the rural poor are concentrated.

48. Discussions with authorities in Sudan and the available analytical literature suggest a number of general constraints on agricultural production.

- land laws and policies:
    - all but eliminate the use of land as collateral for loans, thus constraining the rural population's access to credit
    - distort incentives to use land in ways that are ecologically sustainable
    - contribute to civil strife between pastoralists and sedentary farmers through conflicting land rights
- financial institutions fail to deliver credit to rural households
- small producers have limited access to low-cost, high-quality inputs
- agricultural research and extension services are supply-driven, and they overlook needs of small-scale farmers
- poor market organization—marketing chains are long and producers lack information about final demand

49. During the preparatory mission, the government identified a number of agricultural ad agro-industrial products that the DTIS should attempt to examine, including livestock and meat, oilseeds, fruit and vegetables, coffee and tea, cotton, sugar, and gum arabic. Each product is subject to different mixes of internal and external constraints to exporting.

Manufacturing

50. Manufacturing value-added made up 18 percent of GDP in 2002.[10] There are large-scale investments in oil refineries, sugar processing, and cement. Otherwise, the industrial sector is characterized by medium- and small-scale enterprises, mostly operating at low capacity: under 10 percent in textiles and under 20 percent in vegetable oils.[11] Business leaders report that many domestic industries (e.g., cotton ginning and spinning) suffer from low productivity due to outdated technologies, lack of skilled labor, and poor access to credit. Erratic government policies also undermine the long-term viability of certain industries.[12] Government policies drive up the domestic price of sugar, which in turn raises costs faced by manufacturers of beverages and processed foods. The government reportedly banned the import of oil seeds, exacerbating the problem of excess crushing capacity. Businesspeople identified some exceptions, including paint and pharmaceuticals.

[10] World Development Indicators.
[11] World Bank CEM.
[12] For example, the government nationalized export of oil seeds in 1970 and later gave the Sudan Oil Seeds Company a monopoly. The monopoly was abolished in 1980, reintroduced in 1986, and re-abolished in 1991.

51. In addition to examining value-chains and constraints on competitiveness in individual industries, as described above, the DTIS will assess the degree of competition and concentration in the industrial sector as a whole and evaluate the capacity of smaller firms to effectively compete in the global economy.

Tourism

52. The World Travel and Tourism Council estimates that Sudan's tourism industry directly contributes only 0.9 percent to GDP, but predicts that the industry will grow by over 7 percent per year over the next decade.[13] It estimates exports of tourism services in 2004 at $39 million—earning the economy somewhat less than gum arabic ($51 million) but quite a bit more than sugar ($12 million) exports in 2004. Businesspeople, government officials, and guide books point to several tourist attractions that show commercial potential: archaeological sites along the Nile River, scuba diving on the Red Sea coast, and game reserves in South Sudan. Each of these would attract a different type of tourist and would require different approaches to exploit the commercial potential. The conflict in Darfur clearly hinders the development of tourism in Sudan. Even if there were peace in Darfur, however, developing the tourism industry faces a number of challenges, particularly in South Sudan.

53. The DTIS will investigate the relative importance of different factors that affect the potential for developing tourism in Sudan.

- legal barriers, including visa requirements
- cross-cutting issues such as investment rules, land rights, ATMs an d electronic banking services, telecommunications (internet),
- coordination failures and the need for public-private partnerships to overcome coordination failures
- infrastructure constraints

Cross-Cutting Constraints to Competitiveness

54. If there is one clear message that has emerged over the past five years from the Integrated Framework, as well as much other international trade research, it is that macroeconomic stability and tariff liberalization alone are insufficient to improve export capacity in low-income countries. The more significant constraints are those that lie behind the border. The DTIS will assess FDI and the investment climate, key tradable services, SPS institutions, and trade facilitation.

Investment climate and foreign direct investment

55. FDI flows into Sudan have grown rapidly, as shown in the table below. Sudan is ranks fourth among African countries as a destination for FDI, following Nigeria, Angola and Mozambique. Most FDI is concentrated in the oil industry.

[13] World Travel and Tourism Council, Sudan Country Report 2006, www.wttc.org.

Table 5. Inflows of FDI, 1999–2004

	1999	2000	2001	2002	2003	2004
Total inflows (millions of dollars)	371	392	574	713	1,349	1,511
Share of gross fixed capital formation (percentage)		27.8	24.8	23.8	37	41.4

Source: UNCTAD *World Investment Report,* 2004 and 2005

56. The investment chapter of the DTIS will fill gaps in knowledge on FDI trends, such as distribution of FDI by sector and industry, type of FDI, source countries, etc. It will also assess the development impact of FDI in Sudan:

- To what extent has FDI led to transfer of skills and technology?
- What are the linkages between sectors with foreign investment and firms in other sectors of the economy? (e.g., are suppliers to FDI firms upgrading their quality?)
- Is FDI improving the export capacity of firms outside the oil sector?

57. Despite the rapid growth in FDI, Sudan ranks low in cross-country comparisons of the investment climate. Table 6 above compares how Sudan and its neighbors rank in terms of the cost of participating in international trade and responding to changing market conditions (i.e., cost of market entry and exit). Although Sudan ranks more favorably than its neighbors in terms of market entry and registering property, it is more costly to enforce contracts (a prerequisite for integrating into global supply chains), complete formalities needed for trade transactions, and close a business in Sudan than in neighboring countries.

Table 6. Selected Cost of Doing Business Rankings, 2006

	Sudan	Egypt	Ethiopia	Kenya	Tanzania
Starting a business	82	125	95	111	127
Enforcing contracts	158	157	82	67	65
Engaging in international trade	165	83	149	145	67
Closing a business	151	120	55	128	105
Employing workers	164	144	79	68	143
Registering property	29	141	146	115	157
Getting credit	143	159	83	33	117
Overall ease of doing business	154	165	97	83	142

Source: World Bank, *Doing Business* 2006.

58. FIAS is completing its diagnostics of administrative barriers to investment in Sudan, which reveal in detail many of the policies and regulations that contribute to making Sudan an expensive place to do business. The DTIS will build on the information the FIAS administrative barriers report, attempting to quantify the effects of the weak domestic business climate on Sudan's international competitiveness. Among other regulatory measures, it will investigate land and labor regulations, intellectual property law, business taxation, environmental regulations, and competition law.

Trade facilitation

59. **Transport and trade logisics.** Sudan's low *Doing Business* ranking on international trade supports a frequent complaint among Sudanese business leaders that the costs of moving goods in and out of the country are quite high. The JAM reports that it costs $3,000–3,500 to transport 20-foot container to Khartoum from Europe or Asia. In South Sudan, dilapidated roads plus lack of competition raise transport

costs to as much as 230 percent of CIF value of cargo. The JAM's infrastructure cluster report enumerates many of the factors that drive up these costs.[14]

60. The transport component of the DTIS will build on the extensive diagnostics that have already been conducted, both for the JAM and for MDTF transport projects that are currently in the pipeline. The DTIS will quantify the factors that raise costs of transporting goods to and from world markets, identify the most significant constraints, and recommend priority actions for easing these constraints.

61. **Customs administration.** The IMF conducted studies of Sudanese customs administration in 2003 and 2005, which outline a number of changes to customs and border clearance procedures that Sudan could take to facilitate international trade.[15] The most significant appear to be introducing risk-based selectivity and post-clearance audits (currently all shipments are subject to physical inspection), improve coordination among border clearance agencies, adopt WTO/WCO valuation methods, and introduce electronic data interchange.

62. The CPA assigns responsibility for customs administration to the National Government. Authorities in both Khartoum and Juba indicated that customs posts in Southern Sudan had not yet been integrated into the national customs administration, however. Officials at these customs posts reportedly collect customs duties at rates established by the SPLM before the signing of the CPA, rather than at the tariff rates set by the National Government.

63. The customs component of the DTIS will focus on the following issues:

- To what extent do problems in customs administration undermine trade competitiveness?
- What is the current status of the unification of customs administration?
- What are priority areas for customs modernization?
- What are the priority steps for implementing WTO rules related to customs procedures?
- Where is sequencing of reforms critical to the success?

Standards

64. Many developing countries face challenges in complying with plant, animal, and human health standards imposed by their trade partners. These standards may be a binding constraint on their exports, as was the case when Saudi Arabia and the Gulf states banned the import of live animals from Sudan in 2000–2001. They may simply raise the cost of exporting, e.g., due to testing requirements, preventive measures to control pests, etc. Building the capacity to comply with international SPS standards can also be seen as an investment that will help the country diversify out of bulk agricultural commodities and into higher-value agriculture and food products.[16] The DTIS will therefore complement the agriculture sector studies with a cross-cutting analysis of the SPS infrastructure that Sudan needs to compete in higher-value markets.

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[14] JAM, volume 3. Charges at Port Sudan are 1.5 to 4 times higher than at other ports on the Red Sea, and it takes a long time to clear goods through customs, SPS inspections, etc. There is no intermodal service integration. The minimal presence of foreign freight forwarders limits transfer of new technologies and management practices. Physical infrastructure has deteriorated due to war, fiscal austerity programs, and the U.S. trade embargo (which limits access to spare parts for aircraft and railway equipment). Transporters face high taxes and fees.

[15] Fiscal Affairs Department, "Sudan: Strategy for the Reform of Revenue Administration," December 2003. William Crandall and Jean-Paul Bodin, "Revenue Administration in Middle Eastern Countries, 1994–2004," IMF Working Paper WP/05/203, October 2005.

[16] Steve Jaffee, "From Challenges to Opportunity: Transforming Kenya's Fresh Vegetable Trade in the Context of Emerging Food Safety and Other Standards in Europe," 2003.

65. The DTIS will focus on the following issues:

- lessons learned from the 2000–2001 livestock ban
- principal constraints both the private and public sectors' standards capacity
- elements of a national strategy on standards to facilitate international trade while protecting human, animal, and plant health
- participation in international standards setting bodies

66. This component of the DTIS will also evaluate the government's action plan for implementing the WTO SPS Agreement.

Services inputs

67. Access to inputs of tradeable services such as telecommunications, electricity, financial services, and trade logistics shapes a country's ability to compete in world markets. Trade logistics will be covered in the trade facilitation component. The services component of the DTIS will cover telecommunications, electricity, and financial services. Weaknesses in all three of these services were identified by business leaders and government officials as factors that drive up the cost of Sudanese exports.

68. Building on diagnostics conducted for the JAM, the DTIS will focus on the following issues:

- How do costs for these services compare to other countries?
- How significant are these costs, relative to other constraints on competitiveness?
- What steps for improving these services would have the biggest impact on international trade?

69. As part of the process of joining the WTO, a country is expected to make binding commitments on granting foreign access to local services markets, most notably in telecommunications and banking. This component of the DTIS will review Sudan's services offer, giving special attention to areas where binding commitments are most appropriate and where proper sequencing of reforms is essential.

Action Matrix and National Workshop: Recommendations for a Pro-Poor Trade Strategy

70. The analysis in the DTIS will be used to support a small set of priority areas for technical and assistance and policy reforms. Discussions with authorities and business leaders, as well as the analyses conducted to date, provide a long list of factors that arguably constrain trade. Each of the DTIS components described above will attempt to rank these factors in terms of how much they constrain Sudan's trade potential, using the available data to quantify the impact of various constraints. The DTIS as a whole will identify the handful of concrete steps that can measurably increase trade, focusing on areas where these can most contribute to Sudan's poverty reduction and economic development objectives. The proposed action matrix will be discussed, refined, and validated by stakeholders at a national workshop.

Counterpart Agency and Team Composition

71. The Commission on WTO Affairs is the counterpart agency for the Sudan Integrated Framework. Dr. Mohamed Ali Dingle is the IF focal point at the Commission.

72. The World Bank resident mission serves as the IF facilitator agency in Sudan.

73. The DTIS will be led by Philip Schuler (PRTMR). The TTL for the Sudan Integrated Framework is Bill Battaile (AFTP2). Members of the team include the following. Unless otherwise noted, all are consultants.

Component	*Team Members*
Macroeconomic policy and Dutch Disease	Valeriano Garcia Rahimaisa Abdula (AFTP2)
Poverty and trade	Burçu Duygan
Trade policy and WTO accession	Mehdi Shafaeddin
Trade performance and tariff analysis	Vargha Azad
Market access and preferences	Stefano Inama (UNCTAD)
Agriculture	Jack van Holst Pellekaan Amin Hassan Don Mitchell (DECPG)
Services	Allaeddin Twebti
Industry and trade promotion institutions	Mañuel de la Rocha
FDI and investment climate	Riad Meddeb (UNCTAD)
SPS institutions	Gregory Sullivan
Trade facilitation	William Crandall: customs Vijay Raman: transport

74. Peer reviewers are Nina Budina (PRMED), Ibrahim Elbadawi (DECRG), and Fahrettin Yagci (AFTP1).

75. Consultants will be funded from Window I of the IF trust fund and, in the case of SPS institutions, a Bank-Netherlands Partnership Program trust fund grant for work on national standards strategies. World Bank and UNCTAD staff expenses will be covered by their respective organizational budgets.

Tentative timeline

Concept note circulated:	October 3, 2006
Concept note review meeting:	October 11, 2006
Main mission:	October 29–November 10, 2006
Chapter drafts submitted:	January 5, 2007
Final chapters submitted:	February 16, 2007
Draft DTIS circulated:	March 1, 2007
Decision draft review meeting:	March 15, 2007
Revised DTIS submitted to government:	April 15, 2007
National validation workshop:	to be determined

Budget Annex

76. The DTIS will be financed from the following sources:

UNDP trust funds ($272,000) covering the following:

A. Studies (consultant fees and travel):

- Macroeconomic policy and Dutch Disease
- Poverty and trade integration
- Trade policy and WTO accession
- Analysis of trade flows and tariff structure (no travel)
- Agriculture sub-sectors excluding sugar
- Access to backbone services and tourism sub-sector
- Manufacturing sub-sector and trade promotion institutions
- Customs
- Transport and trade logistics

B. Editing and printing final report

C. Workshop

BNPP Trust Funds (approx. $30,000) for consultant fees and travel for:

- Standards study

UNCTAD budget covering the following studies by UNCTAD staff:

- Investment and FDI
- Market access and preferences

AFTP2 Budget ($88,000) covering staff travel expenses for World Bank staff working on:

- Sugar sub-sector report
- Overall direction and writing of the report

3. DEC and PREM cross-support covering World Bank staff working on:

- Sugar sub-sector report
- Peer reviews
- Overall direction and writing of the report