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Policy brief

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The Quest for Economic Diversification in South Sudan: Overcoming Reliance on Oil and Curbing Inflation

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Summary

This Brief reviews South Sudan's economic diversification challenges and opportunities, focusing on agriculture, mining, and tourism. The research employs a systematic literature review to identify gaps and assess the complexities of diversification in resource-rich, post-conflict nations. South Sudan's economic diversification through agriculture is hampered by conflict disruptions, inadequate infrastructure, and limited market access. The mining sector, rich in minerals, faces environmental concerns, corruption, and mismanagement challenges. The tourism sector, despite its cultural heritage and wildlife endowments, struggles with insecurity and infrastructure deficits. Broadly, the economy is destabilized by persistent inflation, oil price volatility, and reliance on food imports, making it vulnerable to global shocks. The study highlights the need for targeted investments, good governance, and effective policy implementation. Specific recommendations include promoting fiscal discipline, enhancing infrastructure, and encouraging domestic food production to reduce import dependence.

1. Introduction

Despite its vast natural resources, South Sudan faces significant economic challenges, primarily due to its heavy reliance on oil revenue. Oil production is the cornerstone of South Sudan's economy, accounting for more than one-third of the country's GDP, 90 percent of central government revenue, and over 95 percent of the country's exports (World Bank, 2021). The oil sector has been the primary driver of GDP growth, although its expansion is contingent on higher investments and improved transparency and accountability within the sector. The overdependence of the country on a single commodity makes the nation vulnerable to external shocks, especially fluctuations in global oil prices. For example, the decline in oil prices since 2014 has significantly impacted government revenue, leading to budget deficits and a depreciation of the South Sudanese Pound (Nkamleu & Mugisha, 2017).

Beyond immediate financial constraints, overreliance on oil hampers long-term economic development. While the oil sector is crucial for the economy, the overall employment landscape in South Sudan is characterized by limited opportunities, with many individuals relying on agriculture and informal sector jobs for their livelihoods(World Bank, 2021). Lack of diversification stifles the growth of other sectors like agriculture and manufacturing, hindering job creation and economic prosperity. Economic diversification is crucial for South Sudan's sustainable development, fostering resilience by reducing dependence on a single commodity. It creates a broader tax base, promotes job creation across various sectors, and leads to increased household incomes and poverty reduction.

Experts emphasize the crucial need for diversification. A 2023 study by the Brookings Institution highlights that South Sudan's long-term economic prosperity depends on moving away from oil dependence. In a similar vein, the African Development Bank (AfDB) report from 2023 stresses the urgency of diversification, noting that South Sudan cannot sustain itself as a mono-exporter of oil and must diversify to achieve sustainable and inclusive growth. The heavy reliance on oil has led to significant human costs, such as conflict and corruption, which obstruct investment in essential social sectors like education and healthcare. Amnesty International's 2023 report outlines how the mismanagement of oil revenues has contributed to violence and instability. Diversification has the potential to break this cycle by promoting transparency and accountability in resource management, thereby improving the lives of South Sudanese citizens. This foundational understanding of South Sudan's economic challenges sets the stage for exploring the specific diversification strategies discussed in the following sections.

2. Diversification in Post-Conflict Settings: A Literature Review

The quest for economic diversification in resource-rich countries has attracted significant scholarly attention. The "resource curse" is a central theme, where dependence on a single commodity hinders broader economic development (McNulty, 2008). Sachs and Warner (2001) argue that resource abundance can lead to macroeconomic instability, Dutch Disease, and corruption, stifling diversification efforts. Rosser (2016) and Humphreys et al. (2007) highlight how elite capture of rents in resource-rich countries impedes investment in non-resource sectors.

However, these studies often overlook the specific context of African nations. The AfDB (2020) emphasizes the need for research considering the unique challenges faced by African countries rich in natural resources. Existing literature largely focuses on wealthier resource-rich nations (Luong, 2019), neglecting the complexities of diversification in low-income, post-conflict settings like South Sudan.

In post-conflict countries, the challenges of diversification remain under-explored (Carlin & Robinson, 2023). Studies by Collier and Hoeffler (2004) and Humphreys (2005) primarily focus on the resource curse in ongoing conflict contexts, overlooking the challenges of transitioning towards diversification in a post-conflict environment. These expositions fail to address the unique needs of post-conflict nations like South Sudan, where infrastructure is often destroyed, institutions are weak, and human capital development is crucial (World Bank, 2022).

Previous studies on the effect of conflict on diversification are limited to local surveys within a single country (Macaraya et al., 2021). Such approaches fail to address broader trends and policy recommendations applicable to a wider range of post-conflict settings. Further research is needed to explore specific barriers to diversification in post-conflict African countries like South Sudan, drawing on comparative analysis with nations that have successfully transitioned away from resource dependence (Bannon & Collier, 2023). The gaps in the current literature largely stem from a focus on more stable, wealthier resource-rich nations, which often have stronger institutions, better infrastructure, and higher levels of human capital. This focus neglects the unique challenges faced by low-income, post-conflict settings, where the legacies of conflict—such as weakened institutions, damaged infrastructure, and underdeveloped human capital—present significant obstacles to diversification.

The underrepresentation of these settings in diversification research is due in part to the complexity and volatility of post-conflict environments, which make data collection and analysis more challenging. Additionally, there may be a lack of incentive for researchers and policymakers to focus on these contexts, as they are perceived as more difficult to achieve successful outcomes compared to wealthier, more stable nations.

The consequences of these gaps are significant. Policies and strategies that are designed based on research in more stable contexts may not be directly applicable to countries like South Sudan. This could lead to ineffective or even harmful policy interventions that fail to address the root causes of economic vulnerability in post-conflict settings. Without a clear understanding of the specific barriers to diversification in these contexts, efforts to promote economic stability and growth may fall short, perpetuating dependence on a single commodity and exacerbating socio-economic inequalities. Therefore, addressing these gaps in the literature is crucial for developing effective, context-specific policies that can support sustainable economic development in post-conflict countries like South Sudan.

2.1. Learning from Successful Diversification Strategies: A Comparative Analysis

Botswana and Malaysia provide insightful case studies on economic diversification, illustrating both the potential benefits and the challenges associated with shifting away from reliance on a single sector. Botswana's economic landscape is dominated by diamond mining, a sector that significantly contributes to government revenue and GDP (Conteh, 2008; Harvey, 2015). However, this heavy reliance poses a significant risk, particularly with predictions that diamond reserves may be exhausted by 2029 (Makoni, 2015). The urgency to diversify has become apparent, yet several hurdles impede progress. One major issue is the decline in Foreign Direct Investment (FDI), which has dropped from 13.46% of GDP in 2002 to lower levels (Makoni, 2015). This decline limits the funds available for long-term diversification projects and exacerbates the challenge of broadening the economic base. Additionally, the prominent level of government involvement in the economy has "crowded out" private sector investment, further constraining growth in other sectors. Botswana's underdeveloped financial markets, highlighted by the small Botswana Stock Exchange, also restrict opportunities for capital raising and investment (Makoni, 2015). Health challenges, particularly the high prevalence of HIV/AIDS, further complicate diversification efforts by impacting labor productivity (Makoni, 2015). Addressing these issues requires a strong political commitment to effective diversification strategies and economic transformation. Barczikay et al. (2020) add another layer to the discussion by examining the effects of Dutch disease in Botswana. They note that the heavy reliance on diamond exports creates vulnerabilities, particularly as easily accessible reserves deplete. The influx of resource revenue has led to an appreciation of the real exchange rate, making non-resource sectors, such as manufacturing, less competitive internationally (Barczikay et al., 2020).

Conversely, Malaysia's diversification strategy has been more successful. The country has transitioned from an economy reliant on primary commodities like tin and rubber to one driven by manufactured exports (Carrey, 2019). This transformation has enhanced economic resilience and growth, highlighting the benefits of diversification. Nonetheless, Malaysia faces its own challenges, including weaknesses in export participation and a reliance on low-skilled foreign labor, which could undermine long-term competitiveness (Carrey, 2019). Furthermore, Malaysia's openness to global trade exposes it to vulnerabilities from global economic shocks. To address these challenges, Malaysia needs to strengthen its institutional frameworks and policy instruments to support ongoing diversification efforts (Carrey, 2019).

Both Botswana and Malaysia offer valuable lessons on economic diversification. Botswana's experience highlights the need to address structural issues and health challenges, while Malaysia's success underscores the advantages of transitioning to a more diversified economy. These cases provide important insights for SSD grappling with the complexities of economic diversification.

2.1.1. Agriculture

South Sudan has significant agricultural potential due to its fertile land and abundant water resources. However, the sector faces considerable challenges, including disruptions from civil war, inadequate infrastructure, and limited access to markets and credit. These issues echo the experiences of other post-conflict regions, where displacement, infrastructure damage and insecurity severely affect agricultural production. Research suggests that a deeper understanding of these specific impacts in South Sudan is crucial for devising effective strategies for agricultural rehabilitation and reconstruction (Dixon et al., 2020).

Lessons from successful diversification strategies in other contexts provide valuable insights for South Sudan. For instance, the experiences of Botswana and Malaysia reveal that overcoming structural challenges and fostering economic resilience are key to effective diversification. In Botswana, addressing issues such as overreliance on diamond mining and enhancing private sector investment are critical for broader economic stability (Makoni, 2015; Barczikay et al., 2020). Similarly, Malaysia's transition from dependence on primary commodities to a focus on manufactured exports underscores the benefits of diversification in achieving economic growth and resilience (Cassey, 2019).

Applying lessons learned from other countries in terms of agricultural sector, the country may opt for two directions to improve agriculture the agriculture sector. First, improving agricultural productivity through the adoption of better seeds, fertilizers, and irrigation techniques can significantly enhance output, as evidenced by research in other African contexts (Jayne et al., 2019). Secondly, strengthening rural market infrastructure and financial institutions is crucial for connecting farmers to markets and credit, thereby supporting agricultural development (Donovan et al., 2023). These measures can help mitigate the effects of conflict and instability by creating a more resilient and diversified agricultural sector.

2.1.2. Mining

South Sudan's rich mineral deposits, including gold, iron ore, and chromite, offer substantial economic potential, but the country must carefully navigate challenges related to environmental impacts, corruption, and resource management. A key issue is that some of these mineral resources are in areas rich in biodiversity, such as Boma National Park, which hosts the world's largest migration of antelope. This presents a complex dilemma: while mining could significantly boost the economy, it risks harming critical ecosystems. Lessons from Botswana and Malaysia are instructive here. Botswana's experience with diamond mining underscores the risks of overdependence on a single resource, which can lead to economic vulnerabilities like Dutch disease (Barczikay et al., 2020). South Sudan must therefore prioritize diversifying its economy beyond mining. Malaysia's successful transition from a resource-based economy to a manufacturing-driven one serves as a model for using natural resources to foster broader economic growth (Cassey, 2019). Effective governance and transparency are also crucial to ensure that mining wealth benefits the broader population and does not degrade vital natural habitats (Oxfam, 2023; Caruso, 2021). By adopting sustainable mining practices and learning from successful resource governance models in other African nations (Bannon & Collier, 2013), South Sudan can protect its biodiversity while managing its mineral resources responsibly.

2.1.3. Tourism

South Sudan's tourism sector holds immense potential due to its diverse landscapes, rich wildlife, and unique cultural heritage. The country is home to Boma National Park, which hosts the world's largest migration of antelope, surpassing even the Serengeti and Masai Mara, famous for attracting millions of tourists annually in Tanzania and Kenya. This natural phenomenon positions South Sudan as a prime location for eco-tourism, capable of generating significant economic benefits. However, the tourism sector faces several challenges, including a lack of infrastructure, security concerns, and inadequate marketing efforts (Bøås & Tønnesen, 2023). The experiences of Tanzania and Kenya demonstrate the importance of leveraging natural assets to build a thriving tourism industry, but also highlight the need for substantial investment in infrastructure, safety, and marketing. In Tanzania and Kenya, well-developed infrastructure, security measures, and global marketing campaigns have been critical in establishing their tourism sectors as major contributors to their economies. South Sudan can learn from these examples to unlock the full potential of its tourism industry.

3. Evidence and Policy Implications on diversification

3.1. Agriculture

South Sudan has immense potential for agricultural development due to its fertile land and freshwater resources (Devereux et al., 2022). However, factors like civil war disruptions, inadequate infrastructure, and limited market access hinder progress (Dixon et al., 2020). Investments in infrastructure, technology adoption, and farmer training programs can unlock agricultural productivity and diversify the economy. The Country can derive several valuable lessons for its agricultural sector by examining the experiences of Botswana and Malaysia. Both countries underscore the critical role of strong institutional frameworks and governance in supporting economic diversification. For instance, Botswana's issues with overreliance on diamond mining and Malaysia's successful shift to manufactured exports highlight the need for effective governance to facilitate sectoral transformation. South Sudan should prioritize building robust institutions and improving governance to create a conducive environment for agricultural development and investment.

Additionally, the experiences of Malaysia reveal the benefits of diversification beyond the core sector. Malaysia's transition from reliance on primary commodities to a focus on manufactured

exports demonstrates how diversifying the economic base can enhance resilience and growth. South Sudan can apply this lesson by not only investing in agricultural productivity but also exploring other sectors that can complement and strengthen the agricultural economy.
To address these needs, South Sudan should focus on enhancing its institutional frameworks, improving market access, and exploring diversification opportunities beyond agriculture. These steps will help build a more resilient economy capable of sustaining long-term growth and stability.

3.2. Mining

The presence of valuable minerals in ecologically sensitive areas like Boma National Park necessitates careful policy planning to balance economic growth with environmental conservation. The evidence from Botswana and Malaysia offers clear policy implications for South Sudan. Effective governance and transparency are essential to ensuring that resource wealth benefits the entire population rather than just an elite group (NEC, 2023). Botswana's experiences with governance issues and declining Foreign Direct Investment (FDI) due to poor management highlight the need for robust regulatory frameworks and anti-corruption measures (Makoni, 2015). Malaysia's approach to strengthening institutions and implementing policies to mitigate the environmental risks associated with resource extraction is particularly relevant for South Sudan, especially in areas rich in biodiversity (Cassey, 2019). Implementing best practices for environmental protection and social responsibility within the mining sector can help mitigate the negative impacts on ecosystems like Boma National Park. Additionally, designing effective benefit-sharing mechanisms is crucial to ensuring that mining revenues are distributed transparently and equitably, contributing to poverty reduction and local development (Lederer, 2023).

3.3. Tourism

To realize its tourism potential, there are several critical policy implications the country can use. The country must invest in building the necessary infrastructure to support tourism, such as roads, airports, and accommodation facilities, particularly in regions like Boma National Park, which hosts the world's largest mammal migration. Improving security is another essential step, as safety concerns are a significant deterrent for international tourists. Lessons from Tanzania and Kenya suggest that South Sudan needs to develop a robust marketing strategy to promote its unique attractions on the global stage. Effective marketing, coupled with improvements in infrastructure and security, can transform South Sudan into a major tourist destination, like how the Serengeti and Masai Mara have become iconic tourist spots. Furthermore, establishing partnerships with international tour operators and conservation organizations could help in creating sustainable tourism models that protect the country's natural and cultural heritage while providing economic benefits. By implementing these strategies, South Sudan can harness the economic potential of its natural wonders, driving growth in the tourism sector and contributing to the broader economy.

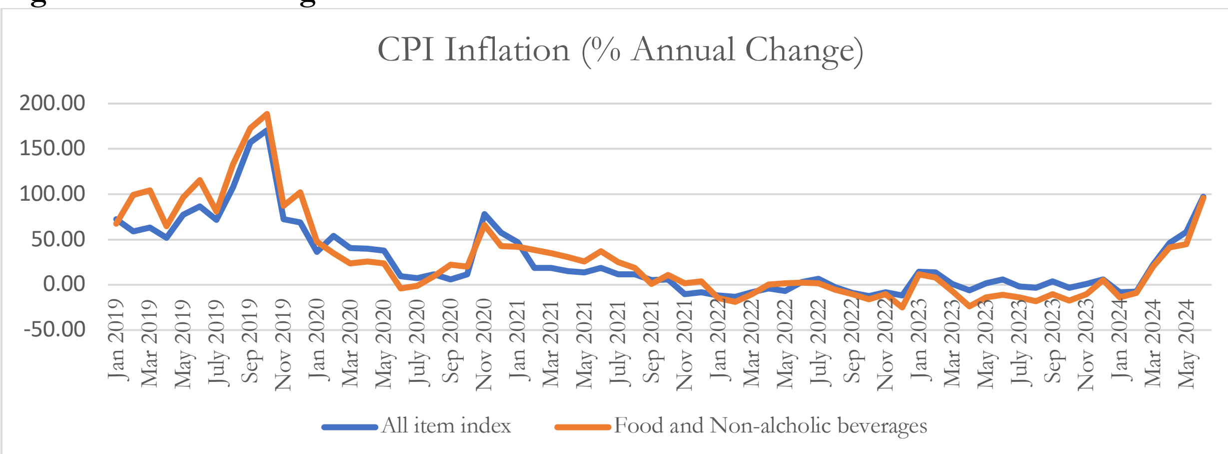
4. Macroeconomic challenges to diversification

South Sudan's journey toward economic diversification is heavily constrained by significant macroeconomic challenges, notably persistent inflation, and the limitations of monetary and fiscal policy (NEC, 2023). These issues have deeply impacted the country's ability to stabilize its economy and pursue diversified growth beyond its heavy reliance on oil.

4.1. Persistent Inflation in South Sudan

Despite its substantial oil wealth, South Sudan faces persistently high inflation, a major impediment to economic diversification. The inflation rate has frequently exceeded 100%, underscoring the nation's ongoing economic instability (IMF, 2023). Between 2019 and 2024, the country experienced severe inflation volatility as seen in Figure 1, with dramatic peaks, occasional deflation, and a sharp resurgence of inflationary pressures in 2024. This instability is driven by several factors.

Figure 1: Annual change in inflation



Source: National Bureau of Statistics, South Sudan

One of the critical drivers is oil price volatility. South Sudan's heavy dependence on oil exports makes it highly susceptible to fluctuations in global oil prices, which directly affect government revenue and the value of the South Sudanese pound (World Bank, 2022). This volatility disrupts fiscal planning and contributes to inflationary pressures, particularly when oil prices fall.

Additionally, fiscal mismanagement exacerbates inflation. Corruption, inefficient government spending, and poor financial governance often lead to excessive money printing to finance budget deficits, further destabilizing the economy (Amnesty International, 2023). Compounding these issues are frequent supply chain disruptions caused by ongoing civil conflict, which leads to shortages of essential goods and drives up prices (Bøås & Tønnesen, 2023). Currency depreciation, exacerbated by these factors, increases the cost of imports, further fueling inflation and undermining consumer purchasing power.

1.2. Limitations of Monetary and Fiscal Policy

The limitations of South Sudan's monetary and fiscal policies further complicate efforts to control inflation and diversify the economy. The central bank's ability to manage the money supply is greatly limited by the country's heavy dependence on oil exports. This dependency complicates the use of monetary policy tools to stabilize prices, as fluctuations in oil revenues directly impact the nation's monetary base. Weak institutional capacity is another major challenge. Corruption, weak governance institutions, and limited technical expertise hinder the effective implementation of both monetary and fiscal policies. Inefficient public spending is particularly problematic, with significant portions of government resources directed toward non-productive sectors, thereby reducing the funds available for critical investments in infrastructure, agriculture, and other sectors essential for diversification (Carlin & Robinson, 2023).

Moreover, South Sudan's heavy reliance on food imports, despite its vast agricultural potential, exacerbates the country's economic vulnerabilities. With an estimated 80% of food needs met through imports, the country is highly susceptible to external price shocks. This reliance is driven by the disruptions of civil war, limited agricultural investment, and ongoing insecurity. The consequences of this dependency include heightened vulnerability to global market fluctuations, limited local employment opportunities, and intensified effects of currency depreciation on food prices (World Food Programme, 2023).

Overall, the persistent inflation and the limitations of monetary and fiscal policies present significant hurdles to South Sudan's diversification efforts. Addressing these challenges will require comprehensive reforms, including enhancing governance, reducing reliance on oil, and investing in sectors with robust growth potential such as agriculture and tourism.

5. Conclusion and Recommendations

South Sudan's economic future is linked to overcoming its reliance on oil and addressing the high inflation that hampers its growth potential. The nation's dependency on oil, which constitutes a huge portion of its GDP and government revenue, leaves it highly vulnerable to external shocks such as fluctuations in global oil prices. This overreliance not only affects the stability of government finances but also stifles the development of other vital sectors such as agriculture, mining, and tourism, which are crucial for a diversified and resilient economy.

To navigate this economic instability, South Sudan must implement a multifaceted diversification strategy. Key to this strategy is investing in sectors with high growth potential. The agricultural sector, given South Sudan's fertile land, can be revitalized through improved infrastructure, technology adoption, and better market access. Lessons from countries like Botswana and Malaysia suggest that fostering robust institutional frameworks and governance is critical for creating a conducive environment for agricultural development and diversification beyond core sectors. In mining, South Sudan must balance economic growth with environmental conservation. Implementing transparent governance structures and anti-corruption measures can ensure that mining revenues are equitably distributed and used to benefit the broader population. Moreover, adopting best practices in environmental protection will safeguard South Sudan's rich biodiversity while harnessing mineral resources responsibly. The tourism sector also presents a significant opportunity for diversification. By investing in infrastructure, enhancing security, and developing effective marketing strategies, South Sudan can leverage its unique natural and cultural assets to attract international tourists. Establishing partnerships with international organizations can further support sustainable tourism models that promote economic growth while preserving the country's heritage. To address the persistent inflation that undermines these diversification efforts, South Sudan must enhance fiscal and monetary policies. Strengthening institutional capacity, reducing corruption, and improving financial governance are essential to managing inflation and stabilizing the economy.

In summary, South Sudan's path to economic stability and growth lies in diversifying its economy away from oil dependence, improving sectoral productivity, and addressing inflationary pressures through sound economic management. Implementing these strategies will not only enhance resilience to external shocks but also foster sustainable development and improve the livelihoods of its citizens.

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Authors' Biography

Bec George Anyak is a researcher with expertise in policy analysis, trade policy, budgeting, business planning, and development strategy. He also serves as a Lecturer of Economics at Upper Nile University, South Sudan. Bec earned his Bachelor of Economics from the University of Nairobi in Kenya and an MSc in Applied Economics from the University of Strathclyde in Glasgow, UK. Previously, Bec held senior positions, including as the State Minister of Finance in the now-defunct Eastern Lakes State Government and as a Commissioner for Yirol West County, Lakes State. His extensive experience in both academic and governmental sectors underscores his commitment to improving economic policy and development in South Sudan.