

Will the Paradox Continue: Sudanese Insecure Investment Climate and Substantial Foreign Direct Investment Inflows

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Will the Paradox Continue: Sudanese Insecure Investment Climate and Substantial Foreign Direct Investment Inflows¹

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1. Introduction:

The changing international/external economic environment, which is characterized by rapid globalization, expansion of FDI, trade liberalization, and technological developments, is creating both opportunities for and risks in front of achieving development objectives in Sudan.

Within that international context and having in mind the difficult Sudanese external economic situation characterized by debt, embargos, deterioration of oil revenues and foreign exchange reserves, and loss of exports, there appears to be a need to keep the issue of FDI in particular, and flows of foreign resources to the country in general, at the centre of attention.

“Foreign Direct Investment (FDI) has become a very important source of external financing for Sudan, and an important source of foreign exchange to support the country’s recent current account deficits. Net FDI and portfolio inflows hit \$3.5 billion in 2006, largely because of foreign entrants in the telecommunications and banking sectors, in addition to FDI supporting foreign operators in the oil sector. However, net inflows subsequently declined, and are projected to be \$2.4 billion for 2009, which is one-third less in relation to the peak in 2006. In addition, there is general concern that such flows are unlikely to be sustained without discovery of new oil sources or renewed privatization.”²

Furthermore, the ambiguity regarding whether the sustainability of the relatively improved position of FDI could be maintained is amplified by the secession of southern Sudan where the bulk of oil production lied. In this context, examining the rationality, motives and detailed picture of the achieved level of FDI is essential. This is necessary for assessing past/current FDI in Sudan as well as anticipating its future.

This paper is an attempt to contribute to the debate regarding the importance of FDI in the Sudanese development path and the related issues of strategy and policies towards FDI. It tries to examine and understand the locational-specific characteristics (of the country) and ownership-specific characteristics (of the investing firms) which shaped the current FDI situation in Sudan.

The paper starts with a brief theoretical background. This is followed by raising some observations regarding the features of the investment climate in Sudan and its locational –

¹ This paper is written for Peacebuilding in Sudan: Micro-Macro Issues Research Programme, CMI.

² World Bank, Poverty Reduction and Economic Management Unit Africa Region “Sudan Toward Sustainable and Broad-Based Growth”, Report No. 52514-SD, December 2009. Page 17.

specific factors. Section four draws a picture of the position of FDI in Sudan in terms of country of origin, volume, and sector, then it explores and analyses the different investors' motivations and implications and ends with pointing to recent FDI trends. Finally, the paper attempts to speculate on the future of FDI in Sudan, after the separation of the South, and suggests some guidelines for a rational Sudanese policy towards FDI.

2. FDI: Locational –Specific and Ownership-specific Advantages:

Over decades, the issue of foreign direct investment (FDI) has received great attention and there exists vast literature which covers its various aspects, theoretically and empirically. FDI and its major institute the multinational enterprise may be described as the central feature of and actor in the current international economy which is characterized by what is called globalization. In addition to and in some aspects instead of official capital flows, FDI and the “new forms“ of foreign investment (joint-ventures, management contracts, franchising.....) have become the chief agents of integrating different territories into the world economy.

The debate over whether FDI and the multinationals are vehicles for development in the developing world has never been won by one side. Among some, emphasis on the importance of FDI in promoting growth is wide spread. According to them, it provides resources that would otherwise not be available for investment; increases competition and access to foreign markets; and bridges the knowledge, managerial and technological gaps in host countries. Thus, FDI inevitably promotes growth and improves the integration of host economies into the global economy. On the other hand, many scholars have never adhered to this position which is supported by international institutions. They maintain a strong stand backed by vigorous and detailed country and sector analysis focusing on the negative aspects of FDI. For example, according to a recent report by the Working Group on Development and Environment in the Americas, foreign investment has fallen far short of stimulating broad-based economic growth and environmental protection in the region.³ The costs and benefits of FDI summarized in Appendix (1) below may present headings for some of the arguments extended by both sides.

Of the different paradigms explaining FDI, Dunning's still has its attractions⁴. It attempts to answer the major questions and captures the fundamental elements of the main theoretical base. That may be why it deserves its name “the eclectic theory”.

In this theory, the investing firm should enjoy an ownership advantage(s) not possessed by the firms of the host country. The second condition is that the host country should possess a locational advantage(s) which attracts foreign firms. However, these two are necessary but not sufficient conditions, the fulfilment of which does not rule out the possibility of resorting to other forms of foreign involvement such as trade. The third condition/element in this theory caters for

³ Kevin P. Gallagher, Roberto Porzecanski, Andres Lopez, and Lyuba Zarsky (eds.) “Foreign Investments and Sustainable Development: Lessons from the Americas”, Heinrich Boll Foundation North America, May 2008.

⁴ See his early writings. For example: John H. Dunning, “Explaining the International Direct Investment Position of Countries: Towards a Dynamic or developmental Approach”, *Weltwirtschaftliches Archiv*, B and 117, Heft 1, 1981 and John H. Dunning, “International Production and the Multinational Enterprise”, George Allen & Unwin, 1981.

this requirement, that the benefits from internalizing the ownership advantage must be greater than other routes of involvement. Thus FDI, according to him, is a derivative of OLI (Ownership-Locational-Internalization) characteristics.

There seems to be a consensus over the importance of fulfilling the two necessary conditions, investor ownership and host country locational advantages, for FDI and the “new” forms of foreign involvement to take place. Different paradigms/theories emphasize one or more ownership-specific and/or locational-specific factors.

Investors’ ownership-specific factors emphasized in the different paradigms include: a) ownership of technology. Not only the possession of technology but also the ability to transform it to practical use in the form of new products and new processes; b) efficiency in management and administration which embody both entrepreneurial and operational abilities; c) marketing advantages and abilities; d) access to raw materials; and e) viable economic and financial power. They are privileged by possession of resources and easy access to relatively cheaper sources of capital.

Though different researchers might assign different weights to different factors, advocates of FDI in developing countries assume a great role to foreign investors in providing host countries with financial resources, technology, and administration/management and marketing efficiencies; factors which are generally lacking in those countries.

On the other hand locational-specific factors of the host economies include: First, the market factor which could refer to the large size of the host market and its potential for satisfying the investing firm’s urge to secure markets. The host country’s market size, its growth and stage of development greatly influence decisions to invest abroad.

Second, trade barriers i.e. tariff and non-tariff measures, quotas, standards....etc. Such barriers are sometime used by countries for promoting locally based products, for adjusting balance of payment deficits, as well as for augmenting government revenues. However, the logic, here, is that such barriers by restraining exports to that country may encourage foreign firms to set up local producing units to satisfy that country’s market (import-substituting). Firms could also export to external markets (export-promotion).

The third major factor is the relatively low cost of a factor(s) of production in the host economy. For example, the imperfections in the international labour market and the inflexibilities in the movement of labour, among other factors, have led to wide wage variations among countries, especially between developed and developing ones. Cheap labour has contributed to encouraging export – platform production in some countries, especially in labour-intensive activities and in particular where unskilled and semi-skilled composes the bulk of labour requirements. Additional attractions, for investors, are where labour is less organized, claim fewer rights and/or oppressed.

Four, abundance of raw materials. That is to say the host country could be richly endowed with raw materials or resources necessary for one type or another of production activities. This is

rather vital when the necessary domestic resources at home countries, for the production activity under consideration, are or are projected to fall low of the industry's demands. Needless to say, investing in the host richly endowed country will help in sustaining the continuity of the firm's activity and its control over the target resource(s).

Of no less importance locational-specific factor, in attracting FDI, is a conducive investment climate/environment which embodies various political, economical and social factors. Political stability, economic stability, the host government's attitude towards foreign investment, and the availability of infrastructure compose the most important elements in this investment environment. Policies related to acquisitions, profit remittances, tax structure and tax exemptions, guarantees against nationalization and confiscation, labour policies, export and import policies, and foreign exchange regulations are some of the policies weighed carefully by foreign investors.

3. Sudan's Locational -Specific Factors:

Sudan's investment climate could not be described as an attractive "centripetal" conducive one. It might be argued that Sudan has many "centrifugal" factors which should discourage foreign investors to pour their resources into the country. In general, Sudan is characterized by economic and political instability a fact that could deter foreign investment especially when combined with the undeveloped nature of physical infrastructure and the lack of adequate qualified and efficient manpower.

The political instability is well manifested in the continued Darfur crisis and the prolonged peace (Doha) negotiations which culminated in an agreement with only one fighting movement. Fight has also erupted in the Blue Nile and South Kordofan states. Hostile and antagonistic attitude between the previous partners - referring to the partners in concluding and implementing the Comprehensive Peace Agreement(CPA) namely: the National Congress (NCP) Party and the Sudan People's Liberation Movement/ the Sudan People's Liberation Army SPLM/SPLA - seems to be endless .This atmosphere which culminated in the secession of the South, which took place in July 2011, has led to the failure of the two parties, until now, to reach an agreement on the various vital practical matters of the separation (e.g. borders, Abyei, oil, nationality, and external debt). This may suggest that conflict over these issues, and probable new ones, will continue to strain the two countries relations, even to the extent of renewed arm conflict.⁵ Needless to go further and mention the tensions and wide spread dissatisfaction, geographically and among different groups of the population, partly due to the recent failures in the economic situation.

The fact that the Sudanese economy had scored good records in GDP growth, maintaining a stable exchange rate, holding inflation down, and sustaining external balance during the last decade or so could not be denied. Whether this was due to the production and exportation of oil in the first place or to good macroeconomic management or because of both, this record has been

⁵ This paper has been written before the battle over Hijleej.

accompanied by many negative features such as the spread of poverty and structural distortions of the economy. Moreover, that good record has been exceedingly challenged.

It could be claimed that the current economic situation is unstable and deteriorating. Features of the stress include: a) the low contribution of the manufacturing sector, b) a declining agricultural sector in spite of the declared ambitious programs c) depleting foreign exchange leading, among other factors, to unstable/deteriorating exchange rate and the re-appearance of the parallel market. Even importers of necessary goods had to rely on that market and settle their foreign transactions at higher than declared exchange rates, d) climbing levels of prices not only devastating the position of those already stricken by the wide spread poverty but worsening the situation of other segments of the population, e) a private sector not only crippled by the un-conducive investment climate but also by its heavy debts on the government which put great strain on the sector's resources/liquidity and exposes it to all kinds of difficulties and defaults, and f) unstable government policies such as those regarding foreign exchange and imports.

Moreover, the World Bank⁶ cites three economic threats which also endanger that rapid growth. The first is dependency on oil and external volatility in the light of the fluctuations in oil international price on the one hand and the depleting oil resources on the other hand. Since oil production was predominantly in the South, the outcome of dependency on oil is the North's grand problem at the moment.

The second vulnerability stems from the economy's tendency towards experiencing the same problems that have affected resource curse economies. These problem include: macroeconomic deterioration manifested in imbalances especially external ones and the instability of the exchange rate; fiscal volatility and looseness which is fueled by fluctuations in government spending (because of falling exports revenues) and the tendency towards budget deficits and accumulation of domestic arrears; and Governance lapses which result from the tendency for high commodity revenues to induce individuals and firms to attempt to appropriate the wealth generated by the resources.

The third economic challenge facing Sudan's growth prospects, according to the World Bank report, comes from the country's large and rapidly growing public sector. This, among other things, contributed to the slowness/stagnation in the development of a healthy private sector. The report states that during the last ten years, the public sector's share in GDP has increased from 6 percent to nearly 40 percent .The public sector has also become the principal contributor to the growth process, while private sector growth has been considerably weaker and even negative in three of the last six years. Government investments and other expenditures escalated (supported by the oil revenues) resulting in competition with the private sector over resources on the one hand and accumulation of arrears on the public sector (squeezing the private sector to bankruptcy) on the other hand.

⁶ World Bank, Poverty Reduction and Economic Management Unit Africa Region "Sudan Toward Sustainable and Broad-Based Growth", Report No. 52514-SD, December 2009.

” Sudan’s nascent private sector faces major risks, often beyond its control, to grow and diversify. The top three constraints identified by private sector firms in Sudan holding back growth and investment are political instability, corruption and economic uncertainty -factors that are intricately linked to the governance of the country. The second set of constraints is infrastructure, finance and taxation, which are not very different from some of the major constraints facing firms in stable middle-income countries like China and India. Not surprisingly, the competitiveness of the private sector in Sudan remains low, due to a combination of high transaction costs, poor market institutions, a lack of infrastructure, and high administrative barriers and transaction costs.”⁷. These unattractive and non-conducive factors do not only affect the Sudanese private sector but private foreign investors as well.

A co-publication of the World Bank and the International Financial Corporation, “Doing Business 2011: Making a difference for Entrepreneur” ranks Sudan the 154th. Of 183 countries as far as ease of doing business is concerned. In comparison, it could be mentioned that Rwanda ranks 58th., Egypt 94th., Kenya 98th., and Ethiopia 104th.The following table shows the position of Sudan according to the nine indicators which have been adopted by the WB/IFC for comparing business regulations. The table does not reflect a bright image. On the contrary, it manifests a non-conducive atmosphere where the only promising rank has been scored in registering property (Ranking number 40).

Table 3.1
Sudan: Doing Business Indicators

INDICATOR	RANK OF SUDAN (out of 183)*
Starting a business	121
Dealing with construction permits	139
Registering property	40
Getting credit	138
Protecting investors	154
Paying taxes	94
Trading across borders	143
Enforcing contracts	146
Closing a business	183

Source: “Doing Business 2011- Sudan: Making a difference for Entrepreneur”, WB/IFC, 2010.

* 46 of the 183 countries are in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in Eastern Europe and Central Asia, 24 in East Asia and Pacific, 18 in the Middle East and North Africa, 8 in South Asia, and 30 in OECD high-income economies.

Generally speaking, it could be assumed that foreign investors take such kind of indicators seriously when they plan to take their activity to a foreign country. However, it should be mentioned that these indicators concern both domestic and foreign investors though different

⁷ World Bank, Poverty Reduction and Economic Management Unit Africa Region “Sudan Toward Sustainable and Broad-Based Growth”, Report No. 52514-SD, December 2009. Page 9.

indicators have different weights for different group of investors. For example, getting credit is an important indicator for domestic investors but insignificant for foreign investors since they, theoretically, bring in their own resources or raise credit in foreign/international markets. Moreover, different weights are allotted by different investors depending on each ones activity, endowment, goals ...etc.

The Arab Investment & Export Credit Guarantee Corporation 2009 reports⁸ a number of international credit rating agencies which covered 65 Arab banks and financial establishments and companies. The quoted ratings, shown in the box below, support the earlier claim of defining the investment climate in Sudan as risky and non-conducive for FDI. Investors' decisions are usually derived from their assessment of the risks and benefits which will accompany new activities. High risks and costs will eventually contribute to discouraging investments.

The Composite Country Risk Index (PRS)/ 18 Arab Countries

Qatar and Oman.	Very Low Risk
UAE, Kuwait, Bahrain, KSA, Libya, Algeria, Morocco and Tunisia.	Low Risk
Yemen, Egypt, Syria, Jordan, and Lebanon.	Moderate Risk
Iraq and Sudan.	High Risk
Somalia.	Very High Risk

The Institutional Investor for Credit Rating / 20 Arab Countries

--	Very Low Risk
UAE, Bahrain, KSA, Oman, Qatar and Kuwait.	Low Risk
Jordan, Tunisia, Algeria, Libya, Egypt and Morocco.	Moderate Risk
Djibouti, Syria, Lebanon, Mauritania and Yemen	High Risk
Sudan, Somalia and Iraq.	Very High Risk

Dun & Bradstreet Country Risk Indicator | 17 Countries

Bahrain, UAE, Qatar, and Tunisia.	Low Risk
KSA, Morocco, Kuwait, Oman, Egypt and Jordan.	Moderate Risk
Lebanon and Libya.	Probable Risk
Algeria and Syria.	High Risk
Yemen, Sudan and Iraq.	Very High Risk
--	Extreme Risk

COFACE Country Rating | 19 Arab countries

Bahrain, UAE, Qatar, and Tunisia.	Low Risk
KSA, Morocco, Kuwait, Oman, Egypt and Jordan.	Moderate Risk
Lebanon and Libya.	Probable Risk
Algeria and Syria.	High Risk
Yemen, Sudan and Iraq.	Very High Risk
--	Extreme Risk

⁸ The Arab Investment and Export Credit Guarantee Corporation (Dhaman), "Investment Climate in Arab Countries 2009: Executive Summary" September 2010

Economic uncertainty, political instability and corruption are among the most serious obstacles to investment. “A survey of manufacturing firms suggests corruption imposes a substantially greater constraint on small and medium enterprises (SMEs) than on large enterprises. It is the leading constraint identified by SMEs but only the fourth leading constraint identified by large enterprises. SMEs are also more likely to find a number of other factors seriously constraining: electricity, access to land, access to financing (especially for small firms), anti-competitive practices, and crime. For larger firms, political stability is the most significant concern. However, other constraints suggest a lack of confidence in government as well—including high rankings of political instability, economic policy uncertainty, and macroeconomic conditions.”⁹ Generally speaking, it could be argued that perceptions of the Sudanese private investors will not be, in these regards, far from those of foreign investors.

Regarding corruption in Sudan, a report compiled by Transparency International revealed that the four most corrupt countries are Somalia, North Korea, Myanmar and Afghanistan. The fifth position was a tie between Uzbekistan, Sudan and Turkmenistan.¹⁰ The question of corruption, bribery and commissions by foreign investors, in particular, was raised during the parliament deliberations in November 2011 on the performance of the Ministry of Investment.¹¹

Finally, the Minister of Investment admitted, during the alluded to deliberations, that there are obstacles which faced and are facing FDI in Sudan to the extent rendering the achieved level of investments below expectations. These obstacles, according to him are: a) the difficulty of obtaining dispute-free lands for investment, b) the lack of physical infrastructure and services in potential undisputed lands, c) the high land prices, especially for services, d) the various state and local fees and taxes, e) the difficulty in obtaining foreign exchange for transferring profits, f) the complicated administrative procedures and the numerous authorities dealing with investors, and g) the relatively high custom tariffs and duties on capital equipments and raw materials.¹²

Having this alleged deteriorating investment climate in mind, a closer examination of FDI in Sudan during the past ten years or so will be undertaken in the following section. This will not only be enlightening with regards to the locational and ownership characteristics which determined and shaped those investments but could help in drawing some remarks on the future of FDI in Sudan.

⁹ World Bank, Poverty Reduction and Economic Management Unit Africa Region “Sudan Toward Sustainable and Broad-Based Growth”, Report No. 52514-SD, December 2009, pp38-39.

¹⁰ <http://news-yahoo.com/the-world-s-most-corrupt-countries.html>

¹¹ See for example AlRayalam newspaper 29th. November, 2011.

¹² The Minister of Investment Report on the Performance of his Ministry to the parliament, November 2011.

4. Foreign Direct Investment in Sudan:

4.1 Capital Inflows, Sectors and Countries of Origin:

It has been noted that privatizations and the opportunities, created by the government, for foreign investors in the lucrative and expanding oil, telecommunication and banking sectors contributed to the peak in 2006. The following table throws light on the dominance of the services sector in attracting FDI inflows since the bulk of registered capital inflows, with the Bank of Sudan, go to the services sector (about 79% of all sectors - excluding the oil sector).

Table 4.1
Registered Capital Inflows of Non-Oil Foreign Investors at Bank of Sudan
In \$000's

SECTOR	REGISTERED CAPITAL		TOTAL R. Capital	In %
	Cash	In kind		
Services	2400023.2	73877.4	2473900.6	78.6%
Industrial	289952.0	91430.1	381382.2	12.1
Transport	49683.5	137954.7	187638.2	6.0
Exports & Imports	72154.2	0.0	72154.2	2.3
Agriculture/Livestock	20975.3	11148.6	32123.9	1.0
TOTAL	2832788.2	314410.7	3147198.9	100

Source: Bank of Sudan, 2010.

Moreover, the table depicts the following observations:

- 1- The industrial sector ranks second with 12%, followed by the transport sector (6%), and then exports/imports (2.3%).
- 2- The agriculture / livestock sector occupies the last position capturing only 1% of registered inflows of capital. Thus the so-called productive sectors (agriculture and industry) attract 13.1% only.
- 3- Registered capital in kind is about 10% of total registered capital.
- 4- About 44% of total capital in kind is invested in the transport sector. Registered foreign capital in the transport sector is distributed as 74% in kind and 26% in cash. This seems to be the result of a government policy which exempted land transport means from customs so as to overcome an acute transport problem confronting goods and commodities from Port Sudan to other parts of the country.

Table 4.2 below introduces the origin of the registered inflows of capital as appears in the Bank of Sudan statistics as well as the oil sector so as to draw a more comprehensive picture. It should be emphasized that the Bank of Sudan does not possess detailed or other data pertaining to the oil sector except that which is provided to it by the Ministry of Energy.

However, the Bank of Sudan reports that foreign investments in the oil sector (exploration/development/production/downstream) totaled \$19.7 billion according to the Ministry of Energy. Repayments totaled \$10.8 billion until December 2009. Thus, net foreign investments could be estimated at about \$8.9 billion. Registered capital flows of supporting

companies in the oil sector totaled about \$246 million and that is why total net foreign investments in this sector, the oil, is estimated at \$9.1 billion.

Table 4.2
Foreign Registered Capital by Different Investors According to the Bank of Sudan
In \$000's

	Arabs	Asia	Europe	Africa	US	Australia	NA	total
Industrial	373880	15374	52380	1064	-	-	14120	456818
Services	1919033	22338	54020	195147	1960	-	232191	2424689
Agriculture	13902	34	42	-	-	-	12477	26455
Transport	47728	1941	18809	196	-	3085	115879	187638
Sub-total	2354543	39687	125251	196407	1960	3085	374667	3095600
Oil	60009	8904895	-	80	-	-	181793	9146777
Total	2414552	8944582	125251	196487	1960	3085	556460	12242377
Region as %	19.72	73.06	1.02	1.60	0.02	0.03	4.55	100.00

Source: Bank of Sudan, 2010.

* The totals of the registered capital in the different sectors do not exactly match those of Table 4.1 due to calculation errors and missing data, but that does not affect the general illustration.

The Table incorporates the oil sector according to the above estimates which were provided by the Ministry of Energy to the Bank of Sudan. As the table depicts net foreign investments in the oil sector (more than \$9 billion) comprise about 74.71% of total registered capital i.e. it leaves about 25% for other sectors of the economy (19.81% for the services sector, 3.73% for the industrial, 1.53% for the transport, and 0.22% for the agricultural sector). If the figure of total investments in oil (\$ 19.7 billion) is considered, then the percentage share of oil jumps to about 86.42%, leaving 10.63% for the services, 2% for the industrial sector, and only 0.83% and 0.12% for the transport and agricultural sectors respectively. The oil sector dominates as far as inflows of foreign investment are concerned.

Arabs are the principal investors in non-oil sectors. More than 76% of the registered capital of non-oil investors belongs to the group of Arabs investors. The Arab contribution may be even higher since 12.1% of the registered capital is indicated by the Bank of Sudan as investments for which the home data is unavailable/undefined. At a distance from Arab investors come the Africans (6.35%) and Europeans (4.5%). Asian investors' share is meager at 1.2% of the registered capital of non-oil investors at the Bank of Sudan.

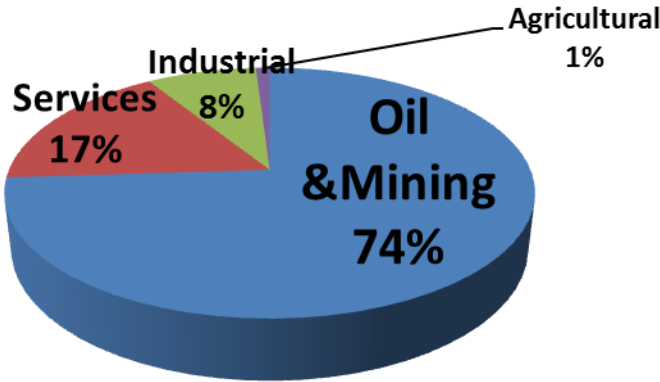
As could be expected, the ranking of countries of origin changes when investments in the oil sector are included. Asian countries take the first position with 73.06%. Arab investors drop from the first place to the second with 19.72% of registered inflows of capital. Other investors alluded to in the Table (Europeans, Africans, US, and Australia) fall below 2% each. The share of Asian countries will rise to higher levels, mainly at the expense of the Arabs' share, when gross investments (and not net investments) in the oil sector are considered.

However, some notes on the data of the Bank of Sudan need to be spelt out. First, the figures appear in the data when the investor registers his transfers with the Bank which may be some time after the transfers took place. Nevertheless, the above data may be used as a proxy for

transfers registered during the past decade. Second, the data is not inclusive since some investors (like those in the oil sector) do not find it necessary to register their capital inflows with the Bank since their dependence on the Bank’s procedures to repatriate or transfer financial resources abroad are minimal. This may be due to their contracts and/or their special relations with powerful government bodies or because of their access to/knowledge of other ways and means for transferring their profits and remittances. For example, some exporters make use of their foreign exchange earnings. That is to say, some investors believe that registering foreign capital inflows with the Bank is not indispensable which renders its estimates on the underestimation side. To augment the above data, and present a fuller account of the situation of FDI in Sudan, the rest of this section by utilizes data from the Ministry of Investment.

According to its accumulated data bank and a recent survey of foreign projects conducted by the Ministry of Investment¹³, FDI totalled about \$ 28.475 billion during the period from 2000 to 2010¹⁴. The bulk of investments were in oil and mining at \$21.05 billion (only \$88.1 million in mining most of which in gold mining). Investments in the services, industrial and agricultural sectors were \$4.799 billion, \$2.221 billion and \$0.405 billion respectively. Figure 4.1 below clearly illustrates the relative importance of each sector which is rather similar to that presented earlier according to the bank of Sudan statistics.

Figure 4.1
Sectoral Distribution



The greater part of investments in the petroleum sector went to explorations which constituted about 83% (\$ 17.32 billion), leaving 15% (\$3.2 billion) for investments in transport/pipelines and 2% (\$ 0.447 billion) for refining.

That been said, it is important to notice that while implemented projects could stand for actual FDI, approved projects by the Ministry of Investment could also be considered for indicating

¹³ Including data from the Ministry of Petroleum.
¹⁴ See Appendix (1) for estimates of yearly flows of investments to non-oil sectors.

intended/planned/potential FDI by serious foreign investors. Relying on the number of approved foreign projects could magnify the country's FDI position. Though useful, especially as far as foreign investors intentions are, using approved projects as a measure for FDI could result in a far from reality representation and hence misleading analysis and recommendations.

As it may be known, registration/approval with the Ministry does not per se mean bringing in resources and commencing business, as in many cases it just means reserving a position in the investment arena. Though it shows willingness to invest in the country, many projects remain in their initial stage of obtaining the approval for many years before committing themselves to substantial flows of investment. In many cases, for one reason or another, many remain inactive or withdraw from the country.

Table 4.3
Approved Projects 2003-2010
Number of Projects and Volume of Capital
\$million

	Manufacturing Sector		Service Sector		Agricultural Sector	
	No . of Projects	Capital \$millions	No. of Projects	Capital \$millions	No. of Projects	Capital \$millions
2003	92	351	71	274	23	373
2004	115	357	85	1190	7	4
2005	132	908	193	2078	8	16
2006	183	1669	147	1115	18	200
2007	139	3037	113	1603	8	381
2008	85	1025	75	3951	9	176
2009	96	845	57	1908	14	653
2010	106	737	104	2677	15	126
Total	948	8929	845	14796	102	1929

Source: Ministry of Investment.

Table 4.3 above shows the total number of Foreign projects which the Ministry approved during the period 2003-2010¹⁵. The Number of approved projects in the manufacturing, services and agricultural sectors equalled 948, 845, and 102 respectively. The total estimated capital of approved projects during 2003-2010 amounted to \$ 25.7 billion i.e. more than three times the Ministry's estimate for FDI in these three non-oil main sectors during ten years (2000-2010) which equals \$ 7.425 billion.

Appendices (3) and (4) may also throw some light on the interest and intentions of different countries to invest in Sudan, especially during the relatively optimistic period (2004-2008). More than two - third of the approved projects during 2004-2008 belong to investors from six

¹⁵The Ministry of Investment was established at the beginning of 2003 according to the Presidential Decree No. (24) in 2002.

countries, namely: Saudi Arabia (18.4%). Turkey (12.8%), Syria (11.9%), Egypt (9.3%), Jordan (8.2%), and Lebanon (7.8%). The rest of the GCC countries (Qatar, Kuwait and UAE) owned about 6.7% of the total number of approved projects. That is to say 75% of approved projects belong to the Arab investors and Turkey. During that period the number of approved European projects was 252, of which 175 (about 70%) were Turkish.¹⁶

According to the Ministry, the number of implemented projects in the three sectors (during 2000-2010) reached 556 with a total capital of \$7.425 billion. Out of these 556 projects, 505 (90%) were either implemented in Khartoum or/and were federal projects, a fact manifesting the geographical concentration of FDI in Khartoum state.

Table 4.4
Approved and Implemented FDI Projects in Khartoum State/Federal
(During 2000 - 2010)

Sector	Approved	Implemented	Implementation Ratio
Industrial	1001	300	30%
Services	865	188	22%
Agricultural	100	17	17%
Total	1966	505	26%

Source: Ministry of Investment, Sudan.

Table 4.4 above clearly exhibits the substantial difference between approved and implemented projects and the low implementation ratio which could be attributed to obstacles and challenges facing investment. According to the Ministry's data the implementation ratio was the lowest in the agricultural sector (17%), highest in the industrial (30%), and in-between in services (22%). The average implementation ratio was as low as 26%.

The concentration of investments as far as their origin could be ascertained since investments from four countries constitute more than 50% of investments in the three major non-oil sectors. The first ten countries in rank contributed about 73% as Table 4.5 below shows. Eight out of the top ten investors are Arab countries. Their investments reached \$ 4.226 billion. Arab countries investments totalled about \$4.436 billion which comprises about 60% of total investments in the three sectors.

¹⁶ Historically, Turkey is one of the Islamic countries with which Sudan has maintained normal if not friendly relations. Turkey is actually looked at in Sudan and in many Arab countries as part of the extended region more than as an European country.

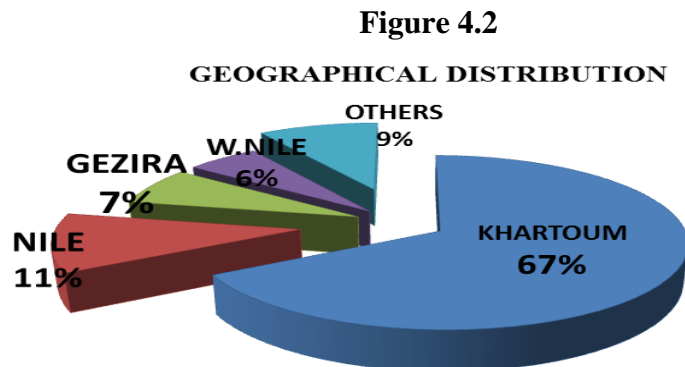
**Table 4.5
Top Ten Investor Countries
In Non-oil Sectors (2000-2010)**

Rank	Home	NO. of Projects	Volume of Investment \$million	Volume as % of Total Investments*
1	Kuwait	4	1442	19%
2	Saudi Arabia	30	906	12%
3	UAE	14	852	11%
4	South Africa	1	745	10%
5	Jordan	57	499	7%
6	Qatar	2	369	5%
7	Turkey	90	244	3%
8	Libya	7	159	2%
9	Lebanon	29	150	2%
10	Egypt	26	149	2%
	Total	260	5215	73%

Source: Ministry of Investment, Sudan.

*Calculated according to the above estimate of FDI in non-oil sectors (\$7.425 billion).

The significance of the leaders in the oil sector, the Asians, diminishes when it comes to the number of approved projects in the non oil sectors of which China comprises about 5.8%, India 2.3% and Malaysia about 1.3%, totalling less than 10% of the total number of approved projects during the same period. Investors from Africa and the Americas do not add to 3% of the total number of approved projects.



The earlier alluded to geographical concentration of foreign investments could be illustrated by figure 4.2 above. This tendency is not surprising and to a large extent reflects the skewed distribution of both human and physical infrastructures and the relative availability of necessary services on the one hand and that of investments in the non-oil sectors against agriculture and in

favour of services (and the industrial sector to a lesser extent) on the other hand. The latter sectors are not themselves immune to noticeable investment concentration trends.

As Table 4.6 below pictures, the communications and banking sub-sectors captured about 55% and 27% of these investments, during 2000-2010, respectively. The sale of Mobitel to the Kuwaiti Zain and the privatization of one of the giant Sudanese banks, Khartoum Bank, and its sale to Emiratis investors constitute a large slice of these investments. It should be mentioned that five sub-sectors monopolized investments in the services sector during that period.

Table 4.6
Distribution of Foreign Investments in the Services Sector by Activity
In (\$millions)

Sub-sector	No. of Projects	Investment volume	Investment As %
Communications	4	2345	54.6%
Banking	9	1148	26.7
Construction & Contracting	44	382	8.9
Tourism	25	249	5.8
Land Transport	28	169	4
Total	110	4293	100

Source: Ministry of Investment, Sudan.

Regarding investments in the industrial sector, the cement production and packaging sub-sector received more than half of total investments in that sector, followed, at a distance, by sugar and construction material production which gained about 20% and 9% respectively – Table 4.7 below.

Table 4.7
Distribution of Foreign Investments in the Industrial Sector by Activity
In (\$millions)

Sub-sector	No. of Projects	Investment volume	Investment As %
Cement Production and Packaging	8	1135	50.4%
Sugar	3	440	19.5
Construction Material	81	210	9.3
Iron and Engineering	52	139	6
Plastic	48	104	4.6
Medical	14	85	4
Food and Beverages	53	79	3.5
Furniture and Aluminium	34	18	0.8
Ready- made Cloth, Textiles & Shoes	10	16	0.7
Electrical Equipments	12	9	0.4
Other	28	17	0.8
Total	343	2252	100

Source: Ministry of Investment, Sudan.

In spite of the historical deficiency/unreliability of data which characterizes Sudan, and by considering the above data from the two most involved/relevant government institutions, this sub-section have clearly shown that Sudan has managed to attract a considerable volume of FDI and provoked the interest of many serious potential investors. To sum up, these investments were characterized by many concentration/dominance tendencies the major of which is the dominance of the oil sector as compared to other sectors. For the non-oil sectors the tilt was in favour of i) Khartoum State vis-à-vis other regions, ii) the services and industrial sector against the agricultural, iii) the communications and banking as opposed to other services sub-sectors, iv) cement production, sugar and building material at the expense of other manufacturing sub-sectors, v) few Asian investors dominating in the oil sector, and vi) Arab investors taking over in the non-oil sectors.

It could be argued that Sudan has been, during the past decade, undergoing its second era of relatively substantial flows of foreign investments. The first occurred during May Regime (1969-1985), at the time of retreating back from socialist slogans, advocating Sudan as the breadbasket for the Arab World, and the lavish Arab petrodollars. Arab contributions were dominant in the first period. Their presence was noticeable in the second era, but the emergence of substantial investments in the oil sector brought in new category of principal investors, the Asians.

4.2 Emerging trends in FDI:

It has been displayed that FDI in agriculture is relatively meagre. However, some trends regarding this sector have recently been noticed. The trends are characterized by land rent/lease of sizable land for long periods of time by government authorities to Arab investors – publicly, semi – publicly, and privately owned firms. News about negotiations and agreements, between representatives, is usually covered in the daily newspapers. According to reported news, most prominent reported investors are from Egypt, Kingdom of Saudi Arabia and UAE. Substantial target lands are located in the northern and Nile states and the Eastern region.

Bundles of generous incentives to investors are reported. These include custom exemptions for machinery and agricultural inputs, profit transfers, tax exemptions for periods as long as 10 years, no restrictions on exporting the produce which is also free of customs, and above all the freedom to employ labour from outside (from home countries or other cheap labour exporting countries) .

This type of practice seems to reflect a typical renter attitude though sometimes it is described as a partnership. The population is excluded and are under the mercy of the investors who could use foreign labour and export their output. Some protests by people of the leased areas have been reported such as those complaints about an Egyptian project in the northern state which

exported all its production northward to Egypt while the local market was facing shortages.¹⁷ The *Wali* (governor of the state) took a defensive attitude regarding foreign investments in agriculture in his state .

This attitude of the government authorities taking the investors' side was taken as far as promising foreign investors that new laws are in the process which will strip citizens from disputing foreign investors over land.¹⁸ The emphasis put by of the Minister of Investment on land disputes could be red in that context. It should be mentioned that land tenure complications stand as one of the most problematic areas which provoke conflicts/struggle .

Disputes over the accuracy of the newspapers reports are sometimes spread not only among observers but among relevant government officials/partners. To give an example, the agriculture Minister of the Northern state denied that Sudan has agreed to allot a million - or more – feddans in the Northern state for Egyptian investments as some Egyptian authorities had declared. Moreover, the Minister described reports about allotting millions of feddans to brother Arabs as merely public relations stories.

However, the regime seems to believe that public relations and diplomacy are cornerstones in attracting foreign investments. May be that is why the Ministry of investment is replaced by a Supreme Council for Investment headed by the President. The two senior positions in the Council are filled by the President's advisor on foreign affairs (ex-minister for foreign affairs) and a diplomat .

Those inadequate impressions spelled out, these trends which may greatly affect the future position of FDI and its impact on the economy and society need to be thoroughly studied in future research.

4.3 Asian Firms/Oil Sector: Ownership-Specific Advantages, Motives and Implications:

Regarding the extractive sector it could be argued that the options and alternatives for investors are rather limited as to where to invest in a foreign location. They tend to invest where the resources are relatively abundant and a profitable venture is envisaged. Investments in the extractive sectors, like in petroleum and mining, by emphasizing the locational - specific factor (necessity of production at the resource location) may undermine many other negative elements in the host country's investment climate. Moreover, oil/energy, by its nature, is an international strategic resource/product for which nations strive and compete. The oil sector in Sudan is not an exception to the rule.

¹⁷ Alrayalaam newspaper, December 27, 2011.

¹⁸ Alrayalaam newspaper, November 29,2011.

The lucrative investment opportunities in the oil sector in Sudan stimulated FDI in spite of the non-conducive investment climate. Both the investing firms and the host government were keen on creating a buffer zone between investors and deterrent factors like insecurity and violence on the one hand, and resolving difficulties/removing obstacles such as undeveloped infrastructure and red tape which may face these investments on the other hand.

A new dimension to FDI in Sudan is that the lucrative investment opportunities in the oil sector stimulated FDI not only in spite of the non-conducive investment climate but in spite of the general hostile international/Western attitude towards firms investing in Sudan, especially in the oil sector.

The argument raised against those companies is based on that the government of Sudan exploited its oil revenues in fuelling its war in the South. Human rights campaigners claimed that government-backed militia have demolished whole villages to safeguard oil installations. Later on the issue of genocide was introduced as well, especially in relation to the Darfur conflict which erupted in 2003. These campaigns have a contradictory result since some firms withdrew while others came in to replace them i.e. the campaigns were not a restraint for all international firms active in the sector.

In 2003 three Western firms sold interests in the Sudanese oil sector, namely: Talisman Energy Inc from Canada, Lundin Petroleum AB from Sweden, and the Austrian oil firm OMV, mainly as the result of efforts of the human rights pressure groups. Interestingly enough the three sold their stakes to state-owned Asian companies (from China, Malaysia, and India) who are less vulnerable to these pressures.¹⁹

“The First-Movers in Sudan set precedent for future MNCs in two, interrelated ways. First, they revealed that there were multiple, influential factors to consider for MNCs, both internal and external to the firm. Second, despite the existence of lucrative oil reserves in the country, MNCs did in fact exit the country. International oil companies are not the overall masters of their domain as many observers believe. The emergence of the Western Juniors would solidify both of these trends as well as introduce another. In the scramble to discover and exploit oil, the Western Juniors would face an external deterrent to their internal profit-seeking rationale as international NGO activism grew against their operations. Finally, eastern, state-owned oil corporations demonstrated that they operate under a different set of guidelines from their Western counterparts. There exists a strong political rationality behind their actions.”²⁰

By first movers Patey means Chevron Corporation of the U.S.A and Arakis Energy Corporation of Canada. Western juniors are Lundin Petroleum of Sweden, OMV of Austria and Talisman Energy of Canada. Eastern parastatals referred to include CNPC of China, Petronas of Malaysia and the Indian ONGC.

¹⁹ Francois Murphy, “OMV exit to leave Asian firms dominant in Sudan” Sudantribune, Thursday 21 August 2003.

²⁰ Luke A. Patey, “Understanding Multinational Corporations in War-torn Societies: Sudan in Focus” Danish Institute for International Studies, (DIIS Brief), April 2006.

In the final analysis, the Sudanese government succeeded to substitute reluctant investors from the West by others from the East who found this as great opportunity to satisfy their profit maximization urge, secure supplies of a strategic product, gain a privileged position *visa a viz* its trade, investment and other interests in the host country. Moreover, these substitute firms enjoyed the elimination of Western firms' competition.

Investments in the oil sector survived both the non-conducive investment climate and the challenge of pressure groups from the West. Moreover, it contributed to extending the presence of countries from the East, especially China. This has fulfilled both political and economic strategic goals of these home countries. It, furthermore, strengthened the Sudanese external economic position which had been greatly weakened by embargoes and boycotts from the US in particular and the Western bloc in general.

Moreover, investments in the oil sector, it should be emphasized, endured the political violence which is wide spread in Sudan. It is rational to assume that political violence increases the risks/costs of investment. It increases the transaction costs since public resources are allocated inefficiency; it increases the transportation cost because of delays and disruptions; it destroys assets; it disrupts labour, land, and goods markets; and it leads to policy changes which affect investors.²¹ Thus, *ceteris paribus*, investors will prefer to locate their investments in relatively more safe locations. Therefore, there should be strong offsetting factors to support flowing investments into such an environment. But, however, it seems that some firms are less vulnerable than others and as such could adapt to this kind of environment.

Mihalache²² gives at least three factors which determine the level/difference of vulnerability of investors. First, whether the investment involves large amount of physical capital or rely primarily on knowledge capital. The more knowledge and less physical capital the firm invests, its vulnerability is lessened. Second, whether the firm is more tied to the investment location or not. The higher the expected cost of exiting, in case of violence, the higher the vulnerability of the investing firm i.e. the higher the relocation cost it becomes more sensitive to political violence. Third, whether the firm produces for the local or international market. The firm depending on exports to the external market is assumed to be more vulnerable to violence than that servicing local market because of the risk of higher transport cost, sanctions...etc.

It could be argued that though oil investments could be included in the high vulnerable investors' groups, according to Mihalache criteria, the potential returns/benefits have been substantial enough to encourage investors from the East to take the high risks involved.

Other relevant interesting hypotheses regarding FDI are linked to the impact of the host economy's institutions as a determinant for FDI inflows. At least three hypotheses have been posed in the literature regarding the effect of institutions on FDI, namely: First, that good institutions attract FDI. Second, that deficient institutions attract FDI. The third hypothesis is that

²¹ Andreea S. Mihalache, "Gambling on Conflict: Profiling Investments in Conflict Countries" Penn State University, 2008.

²² *Ibid.*

investors are attracted to countries with institutional levels similar to their own i.e. poor institutions attract investors from countries with poor institutions, and vice versa.

Though interesting, these hypotheses are difficult to test with data from one country. Ideally it could be undertaken by using variations across countries and/or if institutional changes are very clear/distinct over time and the impact of these changes²³ on FDI could be precisely assessed and estimated.

This paper does not attempt to answer questions²⁴ such as whether FDI to Sudan would have been different if its institutional levels were different or did Sudan get more or less FDI from different source countries, than comparable countries with better institutions.

However, it seems that determinants of investments in the oil sector in Sudan coincide with those of China in developing countries. “The results from the full sample thus suggests two main sets of determinants of Chinese outward foreign direct investment: market size, and natural resources coupled with poor institutions.....More interestingly given our focus, natural resources and institutions appear to be determinants of FDI to non-OECD countries only.”²⁵ For the OECD countries their results show that GDP is the only significant value which suggest that FDI to those countries is driven by market size.

Though institutional changes in Sudan seem to affect its level and composition of FDI, it is the abundance of oil which was the main determinant or attraction of FDI. However, it could be argued that only special type of investors are interested to invest in countries with weak/poor institutions since in spite of or because of these weaknesses they will be able to fulfil their profit maximization (or other objectives). It is yet early to claim that investors from developing countries (which are supposed to have poor institutions) are attracted to countries with poor institutions.

“There is by now a large econometric literature on the host country determinants of FDI in general, which, if anything, suggests that FDI is attracted to countries with good institutions (Globerman & Shapiro, 2000)²⁶. Since FDI in general is dominated by flows from developed countries, it is an open question whether these results generalize to Chinese outward FDI”²⁷

It could, generally speaking, be suggested that FDI - whether from developed or developing countries – is attracted to countries with good institutions. But “some” foreign investors are attracted to countries with poor institutions. Nobody could deny that many malpractices by firms from developed economies had/have been observed. A historical admittance was made by the late Edward Heath Ex- Prime Minister of Britain in describing the multinational Lonrho ” The

²³ Notice that there is always a lag between when the change takes place and its effect on actual FDI.

²⁴ It may be interesting to try to tackle such questions in future research if appropriate data could be reached.

²⁵ Kolstad, Ivar and Wiig, Arne “What Determines Chinese Outward FDI?” *Journal of World Business* (2010) doi:10.1016/j.jwb.2010.10.017

²⁶ They are referring to Globerman, S. & Shapiro D. ”Global Foreign Direct Investment Flows: The Role of Governance Infrastructure “*World Development* 30(11), 2002.

²⁷ Kolstad, Ivar and Wiig, Arne “What Determines Chinese Outward FDI?” *Journal of World Business* (2010) doi:10.1016/j.jwb.2010.10.017

disclosures arising from the row led Britain’s Conservative Prime Minister, Edward Heath, to coin his celebrated phrase ‘the unpleasant and unacceptable face of capitalism’²⁸

In other words, not all firms from countries with good institutions are good and as well not all firms from countries with poor/bad institutions are poor/bad. But bad firms may find it more profitable to invest in countries with poor institutions while good firms may find it difficult, but not impossible, to conduct business in those countries. Needless to point out that such generalizations should be taken cautiously.

By defining good and poor institutions precisely and assuming that good firms flourish and grow in home countries with good institutions and are attracted to host countries with good institutions and vice versa, the following figure illustrates the expected FDI outcome.

Figure (4.3)
FDI Possibilities with Different Levels of Institutions of Economies and Firms

		HOST ECONOMY	
		GOOD	POOR
HOME ECONOMY	GOOD	<p>Good Local Firms in both economies Minority Poor firms in both economies</p> <p>FDI by Good Foreign Investors from home economies Few or no poor investors from home economies</p>	<p>Poor Local firms in host economies Majority Good local firms in home economies Minority Poor firms in home economies</p> <p>Few or no good investors from home economies Few or no poor investors from home economies</p>
	POOR	<p>Good Local firms in host economies Majority Poor local firms in home economies Minority Good firms in home economies</p> <p>Few or no good investors from home economies Few or no Poor investors from home economies</p>	<p>Poor local firms in both economies Minority good firms in both economies</p> <p>FDI by poor Foreign Investors from home economies Few or on good investors from home economies</p>

However, the alluded to dominance of Asian firms over the oil sector has its consequences. First, it could be argued that these are not the top firms with the best technology/resources in the sector i.e. Sudan, because of its political situation, has not got the privilege to choose or to attract/keep the best firms in the sector which has its implications in terms of efficiency and performance. Both the top and second rank of the Western firms have shied away. Second, as far as bargaining power is relevant, Sudan’s position has been weakened due to its limited options. This has, among other things, implications on the agreements signed. Third, these parastatal firms do not only exert pressure to execute their firm’s business-like limited strategies, policies, and objectives but those – varied national - of their home countries. The later do not necessary coincide with or serve Sudan’s interests.

²⁸ Cronje M., Ling M. and Cronje G. “Lonrho: Portrait of a Multinational” Penguin Books, 1976.

On the positive side, it may be argued, investments in the oil sector had contributed to strengthening the Sudanese economy, especially its foreign exchange position, which played a great role in encouraging foreign investments in the non-oil sectors. That is to say, oil production and exportation had become a robust locational-specific advantage for other foreign investments. It may be surprising that the Arabs, and not the Asians, who dominated the other follower sectors.

4.4 Arab Firms/Non-Oil Sectors: Ownership-Specific Advantages, Motives and Implications:

In the current second epoch of substantial FDI inflows, though the bulk of investments is Asian and going to the oil sector, it has been shown that the Arabs share seems to be noticeable and extending to the major non-oil sectors.

One of the main motivations of Arab investors to invest in Sudan appears to be somewhat linked to the conditions faced by Arab investments in developed countries after the incidents of 11th September 2000. Interestingly enough, it could be noticed that relations of the rich Arab countries with the capitalist world was tense during the two periods of substantial inflows of foreign investments to Sudan. It was strained due to oil embargo/hiked prices after 1973 War in the first period and the 11th September events in the second.

The incidence of 11th. September, after which Arabs and their investments/accounts in the West - especially in the US – faced strict surveillance and antagonism, the relatively limited fields of investment and/or tough competition in their home economies, and their strife for spreading/diversifying their investments have forced some Arab investors to look for alternative hosts which are more hospitable/friendly outlets. These factors, when coupled with the fact that Sudan has rich potential for investment opportunities, the optimistic atmosphere which prevailed during the period of peace after concluding the CPA, and the alluded to positive and stimulating impact of oil production on FDI, contributed to Arab investments flowing to Sudan.

Other relevant motivations may include:

a) the proximity of the Arab countries; the common language and culture; the strong ties developed between Sudanese working abroad and investors/employers in Arab countries, especially the GCC states; the reputation of Sudan as a vigorous opponent to the US – unlike many other regimes in the region; all may be included in the factors which have encouraged some Arab investors.

b) The historical worry of the Arab countries, especially the rich GCC members, for securing alternative/additional/sources for basic food stuffs. In the light of the rising prices of such stuffs, the vulnerability created by depending on their traditional suppliers, and the rich agricultural resources of Sudan, Sudan could be nominated for playing a great role as a “breadbasket”. However, because of some of the discouraging factors alluded to above and the high risk involved and the substantial investment requirements for projects in the agricultural sector, investments in this sector remained low. Nevertheless, as shown above more than 80% of approved agricultural projects belong to the Arabs, of which about 70% to the GCC countries.

c) The alluded to record of Sudan as far as transparency, corruption, etc. are concerned contributed to creating an atmosphere suitable for particular kind of firms who know how to deal with and benefit from such a climate. Some of these investors, in the non-oil sectors, seem to be looking for profitable deals rather than long term investments. The fact that some investors while they were not very acceptable in their home countries because of malpractices were welcomed in Sudan; that public discontent have been provoked in many privatization deals some of which have been criticized in the parliament; that the government had to cover for some discrepancies of some investors by buying their shares, refuting their agreements.... etc., support this claim.

However, most of the large Arabs non-oil investments are not greenfield FDI and could be included in the group of cross-border mergers and acquisitions, via government direct sale of its shares to foreign firms and as a result of the privatization policy under which many public enterprises have been offered for sale. Though the rationale and the processes undertaken in many privatization deals were widely criticized, the point to be emphasized here is that many of the so called foreign investments do not add substantial new investments.

A related observation is that some of these enterprises have been sold, wholly or partially, to investors, especially Arab investors, whose primarily ownership-specific advantage is their possession of financial resources. Financial resources though important are only one of the elements/components of FDI. It could be argued that because of the high revenues of oil on the one hand and the relatively abundant financial resources of some elements of the private sector, in the services and estate sector for example, on the other hand, financial resources were not the most needed component during the past decade. Arab investors rely heavily on other foreign firms for providing other components of FDI such as technology, management and marketing expertise. Telecommunications could be sited as an example. This should not be construed as that Arab investors and their financial resources are harming the economy but that their contribution could easily be provided as efficiently or even more efficiently by the Sudanese private sector. It does not seem very convincing, for example, to sell a long-established Sudanese bank to foreign private investors rather than to encourage those investors (Arabs), if there is real need for such an endeavour, to establish a new bank. It could be argued that FDI impact on the economy was not substantial except in the oil and the communications sectors.

Finally, it should be mentioned that many of the serious investors, including Arabs, have been frustrated due to the difficulties they face at all stages of developing an investment project in Sudan. The complications they have faced forced many to withdraw or slowed their pace.

5. The Future:

The major factor which may considerably affect the position of FDI in Sudan in the near future will be the secession of the South. Generally speaking, the South has the bulk of oil producing fields. Some producing fields also lie in the borders of the two states leaving the Northern States (Sudan) with fairly small amount of oil production. However, Sudan has the infrastructure for refining, transporting and exporting oil.

Not only oil production/revenues have diminished and as such negatively affect the whole economy (GNP, exports, government revenues...) but that the indirect impact of the drop in oil production will be as harmful. As alluded to earlier, oil production, by flourishing the economy, contributing to bridge the external and domestic gaps and stabilizing the foreign exchange reserves and rates, has encouraged investments in the non-oil sectors. Therefore, other things being equal, FDI in the non-oil sectors may witness a declining trend due to the difficulties confronting the economy because of the shrinking oil revenues. It should be reiterated that becoming an oil producing and exporting country had effectively contributed to the course of counteracting the many negative aspects of the Sudanese investment climate.

On the other hand, Southern Sudan was ranked the last among the different regions/states of the predecessor state when development indicators were estimated. Thus, these indicators will improve when considering the Republic of Sudan after the secession of the South. Statistically, absolute and average indicators in Sudan, the North, may portray a better state of affairs and as such ought to be on the positive side as far as the profile of the country is examined/assessed by potential investors.

However, the envisaged decisive factors which may affect the behaviour of foreign investors could be summarized as:

- a) The success of the Sudanese state in her oil explorations and the prospects for economically viable oil production. This will assist not only in stabilizing the economy but in sustaining/raising the current investors' expectations.

According to the government, the extractive sector potential, oil and gold, may prove to be a decisive factor in substituting for the loss in oil revenues due to the separation of the South. Follower investors, in other sectors, will be reassured and encouraged by such prospects.

If official assessment that Alrawat field in the White Nile will produce about 330 thousand barrels/day in less than two years, that Balila field will soon produce about 30000 b/d, and that external revenues from gold will rise from \$ 1.0 billion during the last year to more than \$3 billion by the end of the current year (2011) and other similar optimistic estimates did materialize, they will assist in, at least, maintaining the current state of FDI position.

- b) The foreign policy of the Sudanese government. If the past government attitude towards both internal and external matters/relations persists, the Western countries' antagonistic stand will eventually be prolonged. This means no substantial investments from the West which will lead to the continuation of surrendering the ground to firms from the East and Arab investors. That is to say, a situation similar to that portrayed earlier.
- c) Prerequisites for a promising investment climate for foreign investors include a nonviolent relationship with the South, a peaceful solution to the Darfur dilemma and the South Kordofan and Blue Nile conflicts, and serious actions towards managing and

alleviating the several over/under the surface frictions/contradictions. This will not only improve the investment climate but will contribute to normalizing relations with many FDI home countries.

- d) In general, creating a conducive investment climate in which political and economic stability are central in addition to a developed infrastructure (physical and human), are necessary for sustainable flows of FDI in the long run.
- e) Needless to say that restraining corruption and reducing economic uncertainty are fundamental for healthy competitive investments (both foreign and domestic).
- f) The natural resource wealth will remain a feature on the positive side of the successor state in the North. This may be considered as fulfilling a necessary, but not sufficient, condition for sizeable inflows of FDI especially to the sectors of agriculture and manufacturing (agroindustry) where, it could be argued, the Sudan's comparative advantage and near future development lie.

Sudan's potential has always nominated her for playing a principal role in supplying food for a world where resources for food production are becoming under immense stress. However, no determined realistic efforts were taken in that direction. The unsuccessful strategy for developing Sudan as the bread basket for the Arab region in the 1970s could be taken as an example.

Most of the controversy around the role of FDI in developing countries seems to be derived from ideological differences. However, it should be emphasized that if the host country furnishes herself with knowledge, vision, institutions and determination, she will be able to attract the most suitable investments/investors that could assist in her development process as well as monitoring their contribution. In theory, the host country's development strategy, its nature and goals, should determine, to a larger degree, the policies to be adopted towards FDI and multinational enterprises.

Accordingly, the host government should possess a detailed knowledge regarding the country's development needs both from local and foreign sources. For foreign resources, the different sources (aid, technical assistance, FDI, portfolio investments...etc.) should be studied and their costs and benefits assessed in order to target the most suitable resources/sources. Thus, it may be more appropriate to adopt a selective policy for attracting the most suitable foreign resources (FDI included) rather than implementing a general open door policy based on providing incentives and benefits for all foreign inflows. Such a general policy may attract inappropriate foreign investors.

It may be suggested that the declining export/import ratio, i.e. declining import capacity in particular and the deteriorating balance of payment position of some LDCs play an important role in enforcing the implementation of a non-restrictive favourable government policy towards foreign investment.

However, lack of resources for development should not blind underdeveloped economies from the differences between different types of foreign flows especially between foreign aid and FDI. Some may argue that FDI is better since it depends on the invisible hand (free market oriented) and is free from government ties. Moreover, FDI has been increasing while aid is stagnant and therefore it will be wise to target. However, host economies, and especially countries like Sudan which are plagued by tense relations with traditional donors, need to assess i) the differences between growth and development, ii) the differences in how aid and FDI could affect growth and development, iii) how aid and FDI effectiveness may depend on government preference, human capital etc.²⁹

That been said, FDI should also be envisaged and planned not only as flows of foreign resources but also as an instrument for developing the country's resources and contributing to its structural transformation. In that context, it is very critical to observe the dynamic link between FDI and the Sudanese private sector. That is to say how FDI could contribute to developing/strengthening the envisaged leader of development (the local private sector) and not to crippling it further. For example, FDI as a provider of technology may be envisaged and planned as step leading to adaptation of technology by local firms which should be followed by innovating and producing technology locally.

However, this depends, among other factors, on the capability of the host government to impose its vision on foreign investors and monitor its implementation. That, however, requires strengthening the bargaining power of the host country through portraying its locational specific advantages, training its personnel especially those dealing with negotiations and promotion, drawing on relevant experiences...etc.

The current international economic order does not allow countries, both developed and developing, to isolate themselves. Developing countries tend to lose many of their sovereignty over many aspects of their economies under what are called globalization, free trade...etc. These countries should try to maximize their benefit and minimize their costs within such an environment, and, simultaneously, study, draw and implement long term strategies which may contribute to changing the international order towards being a more equitable and fair order.

²⁹ Stephen Kosack and Jennifer Tobin "Funding Self-Sustaining Development: the role of Aid, FDI and Government in Economic Success", International Organization 60, Winter 2006.

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Appendix (1) FDI Potential Benefits and Costs

Benefits for host countries

- Fill the saving gap...
- Increase the capital stock by filling the foreign exchange gap.
- Transfer of technology, new production techniques...
- Transfer of managerial skills and experience
- Contribute to the development of local entrepreneurs
- Stimulate local firms and productivity
- Provide employment opportunities
- Provide training for locals and create skills
- Improve the level of domestic wages
- Help in redistributing income from local owners of capital in favour of labour
- Contribute to transferring markets and marketing knowledge
- Change the market structure in favour of more competition, improve quality
Of products, new products, help in reducing the level of prices
- Establish contacts with foreign markets, banks....
- Help in improving GNP/capita
- Assist in improving the balance of payment and the terms of trade
- Help in improving infrastructure

Costs for host economies

- Dependence on local savings
- Expensive terms for capital inflows
- Transfer pricing practices
- Expensive terms for technology
- Failure to develop R&D and to adopt technology to host-country
- No or low purchases from domestic market
- Compete with local companies and investors
- Create foreign enclaves
- No training for locals and/or brain-drain
- Create less competitive markets
- Production of luxuries not in need by majority
- Excessive promotion of export markets
- Distortion of import markets
- Worsen the balance of payment position
- Lack of coordination with host country , conflict with national interest
- Threat to national sovereignty
- Extend the laws of home countries to host ones
- Negative impact on the social and cultural development of host country
- Lead to loss of control over the private sector
- No participation in community development

Appendix (2)
FDI in Non-Oil Sectors
2000-2010
\$billions

2000	0.062
2001	0.028
2002	0.103
2003	1.067
2004	0.514
2005	2.703
2006	0.259
2007	1.412
2008	0.444
2009	0.469
2010	0.363
Total	7.424

Source: Ministry of Investment, Sudan.

Appendix (3)
Number of Foreign Projects Registered During the Period 2004-2008
According to Country of Origin and Sector

country	Industry	Services	Agriculture	Total
Saudi Arabia	79	154	20	253
Qatar	2	8	1	11
Kuwait	5	22	2	29
UAE	14	35	3	52
Jordan	84	25	3	112
Syria	68	93	3	164
Lebanon	61	46	0	107
Egypt	72	51	5	128
China	45	29	5	79
India	18	12	2	32
Malaysia	10	5	0	15
UK	7	17	1	25
Italy	4	3	1	8
France	3	3	-	6
Turkey	121	54	-	175
US	7	3	-	10
Sub-Total	600	560	46	1206
Details Not Available	81	15	70	166
Total	681	630	61	1372

Source: Calculated from the statistics of the Ministry of Investment, Sudan.

Appendix (4)
Total Number of Foreign Projects Registered During the Period 2004-2008
According to Region of Origin and Sector

Region	Industry	Services	Agriculture	Total
Gulf Cooperation Council	100	219	34	353
Other Arabs	329	247	15	591
Europeans	152	95	5	252
Asia	84	54	7	145
Africa	9	12	-	21
Americas	7	3	-	10
Total	681	630	61	1372

Source: Ministry of Investment, Sudan.