

# SUDANREPORT

Will the Sudanese paradox continue?  
Insecure investment climate and substantial  
foreign direct investment inflows

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**SR 2012: 1**



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# 1. Introduction

The changing international/external economic environment, which is characterized by rapid globalization, expansion of foreign direct investment (FDI), trade liberalization, and technological developments, is creating both opportunities for and risks in 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, the issue of FDI, in particular, and flows of foreign resources to the country, in general, need to be kept at the centre of attention. As explained in a World Bank report (2009:17)

*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 [US]\$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.*

Furthermore, the ambiguity regarding sustaining the relatively improved position of FDI is amplified by the secession of southern Sudan where the bulk of oil production existed. 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. However, it may be noticed that the quantitative data used in this paper, mostly for the period 2000-2010, is that of the united Sudan. The analysis, however, is underlined by the fact that most of the investments in the oil sector are located in the new South Sudan.

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, followed by observations regarding the features of the investment climate in Sudan and its locational-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

In recent decades, the issue of foreign direct investment has received great attention with an array of literature covering 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, etc.) 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 resolved. Some emphasize the importance of FDI in promoting growth. 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 (Gallagher et al. 2008). The costs and benefits of FDI summarized in Appendix 1 may present headings for some of the arguments extended by both sides.

Of the different paradigms explaining FDI, John H. Dunning’s theory still has its attractions (1981a; 1981b). 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 this requirement, such 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 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, investors, 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, countries sometimes use trade barriers (i.e., tariff and non-tariff measures, quotas, standards, etc.) to promote locally based products, adjust balance of payment deficits, and augment government revenues. However, the logic here is that by restraining exports to that country such barriers 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 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 the labour requirements. Additional attractions for investors are countries, where the labour force is less organized, claim fewer rights, and/or is oppressed.

Fourth, abundance of raw materials serves as a factor. This becomes rather vital when the necessary domestic resources at home countries are or are projected to fall low of the industry's demands. Needless to say, investing in the host's 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 in attracting FDI is a conducive investment climate/environment, which embodies various political, economic, 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 may discourage foreign investment. 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. Fighting has also erupted in the Blue Nile and South Kordofan states. A 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 Party (NCP) 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 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. Tensions and widespread dissatisfaction, geographically and among different groups of the population, have resulted partly due to the recent failures in the economic situation.

The fact that the Sudanese economy had good GDP growth, maintained a stable exchange rate, held inflation down, and sustained external balance during the last decade or so could not be denied. Whether the result of oil production and exportation or good macroeconomic management or both, this record has been 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 programmes; c) depleting foreign exchange leading, among other factors to an unstable/deteriorating exchange rate and the reappearance 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) rising prices not only devastating the position of those already stricken by the widespread poverty, but also 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 Bank cites three economic threats, which also endanger that rapid growth (2009). The first is the country's dependence on oil and external volatility posed by both the fluctuations in international oil prices and the depleting oil resources. 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 other countries inflicted by what is called "the resource curse". These problems include: macroeconomic deterioration manifested in imbalances, especially external ones, and the instability of the exchange rate; fiscal volatility and looseness fuelled 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 factors, contributed to the slowness/stagnation in the development of a healthy private sector. The report states that during the last 10 years, the public sector's share in GDP has increased from 6 per cent to nearly 40 per cent. 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. According to the report (2009:9):

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.

These unattractive and non-conducive factors do not only affect the Sudanese private sector but also private foreign investors.

A co-publication of the World Bank (WB) and the International Financial Corporation (IFC) Doing business 2011: Making a difference for entrepreneurs ranks Sudan 154th out 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 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: 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 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 one's activity, endowment, goals, etc.

The Arab Investment and Export Credit Guarantee Corporation reports a number of international credit rating agencies, which covered 65 Arab banks, financial establishments, and companies (2010). The quoted ratings, shown in Table 2, support the earlier claim of defining the investment climate in Sudan as risky and non-conducive for FDI. Investors' decisions are usually derived from the investors' assessment of the risks and benefits that accompany new activities. High risks and costs will eventually contribute to discouraging investments.

**Table 2. Risk indicators in Arab countries: Sudan compared**

<b>The Composite Country Risk Index (PRS) - 18 Arab countries</b>	
Qatar and Oman.	Very Low Risk
United Arab Emirates (UAE), Kuwait, Bahrain, Kingdom of Saudi Arabia (KSA), Libya, Algeria, Morocco, and Tunisia.	Low Risk
Yemen, Egypt, Syria, Jordan, and Lebanon.	Moderate Risk
Iraq and <b>Sudan</b> .	High Risk
Somalia.	Very High Risk
<b>The Institutional Investor for Credit Rating - 20 Arab countries</b>	
--	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
<b>Sudan</b> , Somalia, and Iraq.	Very High Risk
<b>Dun &amp; Bradstreet Country Risk Indicator I—17 Arab countries</b>	
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, <b>Sudan</b> , and Iraq.	Very High Risk
--	Extreme Risk
<b>COFACE Country Rating I - 19 Arab countries</b>	
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, <b>Sudan</b> , and Iraq.	Very High Risk
--	Extreme Risk

Source: The Arab Investment and Export Credit Guarantee Corporation (Dhama) 2010.

Economic uncertainty, political instability, and corruption are among the most serious obstacles to investment. “A survey of manufacturing firms suggests that 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” (World Bank 2009:38–9). 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. 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.

Finally, the Minister of Investment admitted, during the aforementioned deliberations, that FDI in Sudan faces obstacles that negatively affect the achieved level of investments. According to him, these obstacles 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 equipment and raw materials (Ministry of Investment 2011).

Having this alleged deteriorating investment climate in mind, a closer examination of FDI in Sudan during the past 10 years or so will be undertaken in the following section. This will not only elucidate the locational and ownership characteristics which determined and shaped those investments but also could help in drawing some remarks on the future of FDI in Sudan.

## 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, telecommunications, and banking sectors contributed to the peak in 2006. The following table sheds light on the dominance of the service sector in attracting FDI inflows with the bulk of registered capital inflows with the Bank of Sudan going to the services sector (about 79 per cent of all sectors - excluding the oil sector).

**Table 3: Registered capital inflows of non-oil foreign investors at Bank of Sudan**

SECTOR	REGISTERED CAPITAL		TOTAL R. CAPITAL	IN %
	Cash	In kind		
Services	2,400,023.2	73,877.4	2,473,900.6	78.6
Industrial	289,952.0	91,430.0	381,382.0	12.jan
Transport	49,683.5	137,954.7	187,638.2	6.0
Exports & Imports	72,154.2	0.0	72,154.2	02.mar
Agriculture/Livestock	20,975.3	11,148.6	32,123.9	1.0
<b>TOTAL</b>	<b>2,832,788.2</b>	<b>314,410.7</b>	<b>3,147,198.9</b>	<b>100</b>

Source: Bank of Sudan 2010.

Moreover, the table depicts the following observations:

- 1- The industrial sector ranks second with 12 per cent, followed by the transport sector (6 per cent), and then exports/imports (2 per cent).
- 2- The agriculture/livestock sector occupies the last position capturing only 1 per cent of registered inflows of capital. Thus the so-called productive sectors (agriculture and industry) attract 13 per cent only.
- 3- Registered capital in kind is about 10 per cent of total registered capital.
- 4- About 44 per cent of total capital in kind is invested in the transport sector. Registered foreign capital in the transport sector is distributed as 74 per cent in kind and 26 per cent 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 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. Of note, 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) totalled \$19.7 billion according to the Ministry of Energy. Repayments totalled \$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 totalled about \$246 million and that is why total net foreign investments in the oil sector is estimated at \$9.1 billion.

**Table 4. Foreign registered capital by different investors according to the Bank of Sudan  
(in millions of US\$)\***

	ARAB COUNTRIES	ASIA	EUROPE	AFRICA	USA	AUSTRALIA	NA	TOTAL
Industrial	373,880	15,374	52,380	1,064	-	-	14,120	456,818
Services	1,919,033	22,338	54,020	195,147	1,960	-	232,191	2,424,689
Agriculture	13,902	0,034	0,042	-	-	-	12,477	26,455
Transport	47,728	1,941	18,809	0,196	-	3,085	115,879	187,638
Sub-total	2,354,543	39,687	125,251	196,407	1,960	3,085	374,667	3,095,600
Oil	60,009	8,904,895	-	0,080	-	-	181,793	9,146,777
Total	2,414,552	8,944,582	125,251	196,487	1,960	3,085	556,460	12,242,377
Region as %	19.72	73.06	1.02	1.60	0.02	0.03	4.55	100.00

Source: Bank of Sudan 2010.

\* The total registered capital in the different sectors do not exactly match those of Table 3 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 per cent of total registered capital, leaving approximately 25 per cent for other sectors of the economy (19.81 per cent for the services sector, 3.73 per cent for the industrial, 1.53 per cent for the transport, and 0.22 per cent 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 per cent, leaving 10.63 per cent for the services, 2 per cent for the industrial sector, and only 0.83 per cent and 0.12 per cent 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 per cent of the registered capital of non-oil investors belongs to the group of Arab investors. The Arab contribution may be even higher since 12.1 per cent 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 (6.4 per cent) and Europeans (4.5 per cent). Asian investors' share is meagre at 1.2 per cent of the registered capital of non-oil investors at the Bank of Sudan.

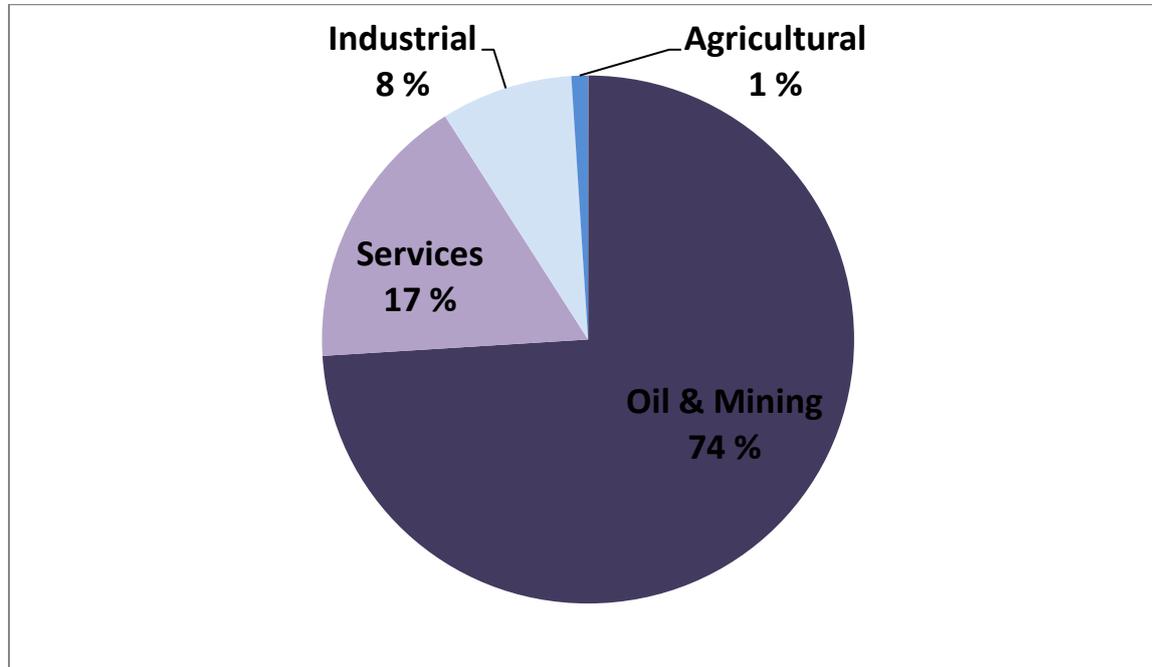
As could be expected, the ranking of countries of origin changes when investments in the oil sector are included. Asian countries take the first position with 73.06 per cent. Arab investors drop from first place to second with 19.72 per cent of registered inflows of capital. Other investors alluded to in the table (Europeans, Africans, US, and Australia) fall below 2 per cent 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 investors register their 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 for that purpose. That is to say, some investors believe that registering foreign capital inflows with the bank is not indispensable, which means that the Bank's figures are underestimations. To augment the above data and present a fuller account of the situation of FDI in Sudan, the rest of this section 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 Investment, FDI totalled about \$28.475 billion during the period from 2000 to 2010. 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 service, industrial, and agricultural sectors were \$4.799 billion, \$2.221 billion, and \$0.405 billion, respectively. Figure 1 clearly illustrates the relative importance of each sector, which is rather similar to that presented earlier according to the Bank of Sudan statistics.

**Figure 1: Sectoral Distribution**



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

intended/planned/potential FDI by serious foreign investors. But it should be cautioned that 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 an unrealistic representation and hence misleading analysis and recommendations.

Registration/approval with the ministry does not per se mean bringing in resources and commencing business. 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 approval for many years before committing themselves to substantial flows of investment. In many cases, for some reason, many remain inactive or withdraw from the country.

Table 5 shows the total number of foreign projects that the ministry approved during the period 2003 - 2010. The number of approved projects in the manufacturing, service, and agricultural sectors equalled 948, 845, and 102, respectively. The total estimated capital of approved projects during 2003 - 2010 amounted to \$25.7 billion - more than three times the ministry's estimate for FDI in these three non-oil main sectors during (2000 - 2010), which equals \$7.425 billion.

**Table 5. Number of approved projects and volume of capital, 2003 – 2010 (In US\$ million)**

YEAR	MANUFACTURING SECTOR		SERVICE SECTOR		AGRICULTURAL SECTOR	
	No. of projects	Capital US\$ millions	No. of projects	Capital US\$ millions	No. of projects	Capital US\$ millions
2003	92	351	71	274	23	373
2004	115	357	85	1,19	7	4
2005	132	908	193	2,078	8	16
2006	183	1,669	147	1,115	18	200
2007	139	3,037	113	1,603	8	381
2008	85	1,025	75	3,951	9	176
2009	96	845	57	1,908	14	653
2010	106	737	104	2,677	15	126
<b>Total</b>	<b>948</b>	<b>8,929</b>	<b>845</b>	<b>14,796</b>	<b>102</b>	<b>1,929</b>

Source: Ministry of Investment, Sudan.

Appendices (3) and (4) may also shed 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-thirds of the approved projects during 2004 - 2008 belong to investors from six countries, namely: Saudi Arabia (18.4 per cent), Turkey (12.8 per cent), Syria (12.0 per cent), Egypt (9.3 per cent), Jordan (8.2 per cent), and Lebanon (7.8 per cent). The remaining members of the Gulf Cooperation Council (Qatar, Kuwait, and United Arab Emirates) owned about 6.7 per cent of the total number of approved projects. In other words, 75 per cent 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 per cent) were Turkish.

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 per cent) were either implemented in Khartoum or/and were federal projects, a fact manifesting the geographical concentration of FDI in Khartoum state.

**Table 6. Approved and implemented FDI projects in Khartoum State/Federal, 2000–2010**

SECTOR	APPROVED	IMPLEMENTED	IMPLEMENTATION RATIO
Industrial	1,001	300	30%
Services	865	188	22%
Agricultural	100	17	17%
Total	1,966	505	26%

Source: Ministry of Investment, Sudan.

Table 6 clearly exhibits the substantial difference between approved and implemented projects. It also reveals 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 per cent), highest in the industrial sector (30 per cent), and in-between in the service sector (22 per cent). The average implementation ratio was as low as 26 per cent.

The concentration of investments within the major non-oil sectors comes from four countries which constitute more than 50 per cent of investments in the three sectors. The first 10 countries in rank contributed about 73 per cent as Table 7 shows. Eight out of the top 10 investors are Arab countries whose total investments amounted to \$4.526 billion which comprises more than 60 per cent of total investments in the three sectors.

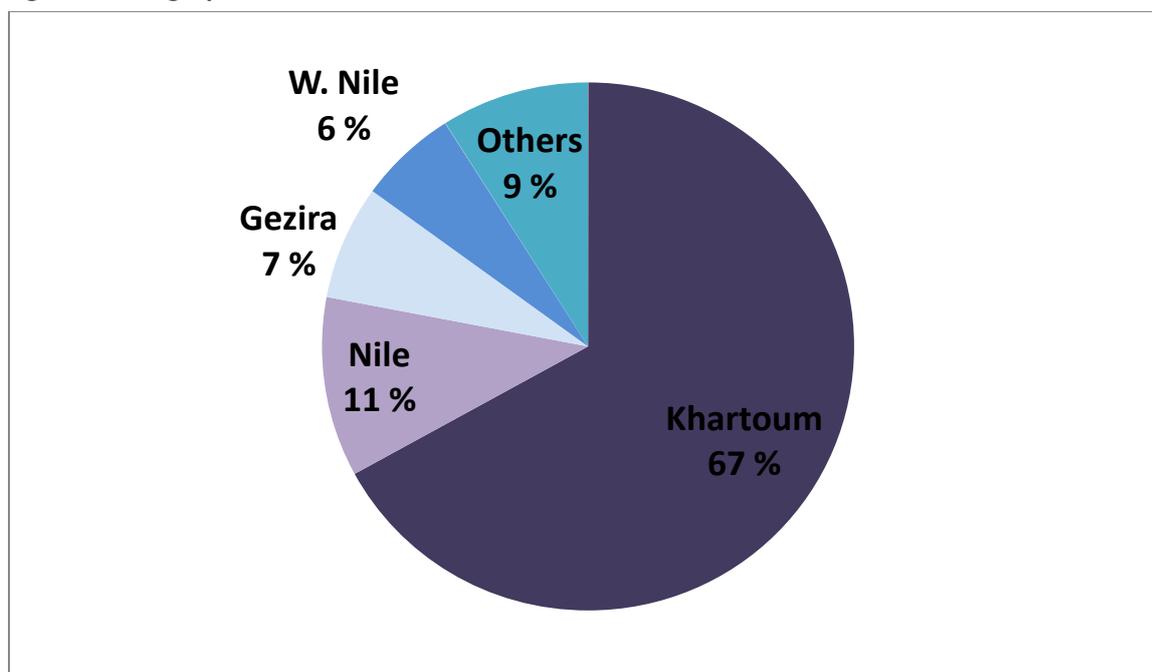
**Table 7. Top ten investor countries in non-oil sectors, 2000–2010**

Rank	Home	No. of Projects	Volume of Investment US\$ million	Volume as % of total Investments*
1	Kuwait	4	1,442	19
2	Saudi Arabia	30	906	12
3	United Arab Emirates	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
	<b>Total</b>	<b>260</b>	<b>5,515</b>	<b>73</b>

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 per cent, India 2.3 per cent, and Malaysia about 1.3 per cent - totalling less than 10 per cent of the total number of approved projects during the same period. Investors from Africa and the Americas do not add to 3 per cent of the total number of approved projects.

**Figure 2: Geographical distribution**

The earlier allusion to geographical concentration of foreign investments could be illustrated by figure 2. 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 8 illustrates, the communications and banking sub-sectors captured about 55 per cent and 27 per cent of these investments in the services, 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 Emirati 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 8. Distribution of foreign investments in the services sector by activity (in US\$ million)**

Sub-sector	No. of Projects	Investment volume	Investment As %
Communications	4	2,345	54.6
Banking	9	1,148	26.aug
Construction and contracting	44	382	08.sep
Tourism	25	249	05.aug
Land transport	28	169	03.sep
Total	110	4,293	100

Source: Ministry of Investment, Sudan.

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

**Table 9. Distribution of foreign investments in the industrial sector by activity (in US\$ millions)**

Sub-sector	No. of projects	Investment volume	Investment as %
Cement production and packaging	8	1,135	50.4
Sugar	3	440	19.mai
Construction material	81	210	09.mar
Iron and engineering	52	139	06.feb
Plastic	48	104	04.jun
Medical	14	85	03.aug
Food and beverages	53	79	03.mai
Furniture and aluminium	34	18	0.8
Ready-made cloth, textiles, and shoes	10	16	0.7
Electrical equipment	12	9	0.4
Other	28	17	0.8
<b>Total</b>	<b>343</b>	<b>2,252</b>	<b>100</b>

Source: Ministry of Investment, Sudan.

Despite 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 has clearly shown that Sudan has managed to attract a considerable volume of FDI and piqued the interest of many serious potential investors. To sum up, these investments were characterized by many concentrations, 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: a) Khartoum State vis-à-vis other regions; b) the service and industrial sectors against the agricultural sector; c) the communications and banking as opposed to other service sub-sectors; d) cement production, sugar, and building material at the expense of other manufacturing sub-sectors; e) a handful of Asian investors dominating in the oil sector; and f) Arab investors taking over in the non-oil sectors.

It could be argued that during the past decade, Sudan has been undergoing its second era of relative substantial flows of foreign investments. The first occurred during the May Regime (1969 - 1985), during which the country retreated from socialist slogans, advocated itself as the breadbasket for the Arab World, and received 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

Though FDI in agriculture is relatively meagre, some trends regarding this sector have recently emerged. These 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 regarding negotiations and agreements between representatives are usually covered in the daily

newspapers. According to reported news, most prominent reported investors are from Egypt, the Kingdom of Saudi Arabia, and the United Arab Emirates (UAE). Substantial targeted 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 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 is left under the mercy of the investors who use foreign labour and export their output. People of some of the leased areas have protested 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. In response, the wali (governor of the state) took a defensive attitude towards the protestors regarding foreign investments in agriculture in his state.

The government's acquiescence with investors was taken as far as promising foreign investors that new laws are in process to strip citizens from disputing foreign investors over land. The emphasis put by the Minister of Investment on land disputes could be read in that context. It should be mentioned that land tenure complications in Sudan stand as one of the most problematic areas, which provoke conflicts/struggle.

Disputes over the accuracy of the newspaper reports are sometimes spread not only among observers but also among relevant government officials/partners. To give an example, the Minister of Agriculture denied that Sudan has agreed to allot a million - or more—feddans (area of land) 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. Perhaps that explains why the Ministry of Investment was replaced by a Supreme Council for Investment headed by the President. The two senior positions in the council include the president's advisor on foreign affairs (ex-Minister for Foreign Affairs) and a diplomat.

Those inadequate impressions spelt 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 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.

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 to create a buffer zone between investors and deterrent factors (like insecurity and violence) and resolve

difficulties/removing obstacles (such as undeveloped infrastructure and red tape), which may face these investments.

A new dimension to FDI in Sudan is that the lucrative investment opportunities in the oil sector stimulated FDI despite not only the unfavourable investment climate but also 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 the Sudanese government exploiting its oil revenues to fuel its war in southern Sudan region (now South Sudan). Human rights campaigners claimed that government-backed militias 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 OMV from Austria, mainly as the result of efforts of the human rights pressure groups. Interestingly, the three sold their stakes to state-owned Asian companies (from China, Malaysia, and India) who are less vulnerable to these pressures. According to a report by Luke Patey (2006)

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.

By “First-Movers” Patey means Chevron Corporation of USA and Arakis Energy Corporation of Canada. “Western Juniors” are Lundin Petroleum of Sweden, OMV of Austria, and Talisman Energy of Canada. Eastern parastatal organizations referred to include CNPC of China, Petronas of Malaysia, and ONGC of India.

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 maximize profits, secure supplies of a strategic product, gain a privileged position vis-à-vis its trade, investment, and other interests in the host country. Moreover, these substitute firms enjoyed the elimination of competition from Western firms.

Investments in the oil sector survived both the unfavourable 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 United States in particular and the Western bloc in general.

Moreover, it should be emphasized that investments in the oil sector endured political violence, which is widespread 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 inefficiently; it

increases the transportation cost because of delays and disruptions; it destroys assets; it disrupts the labour, land, and goods markets; and it leads to policy changes which affect investors (Mihalache 2008). Thus, *ceteris paribus*, investors will prefer to locate their investments in relatively safer locations. Therefore, there should be strong offsetting factors to support flowing investments into such an environment. However, it seems that some firms are less vulnerable than others and as such could adapt to this kind of environment.

Mihalache (2008) gives at least three factors, which determine the level/difference of vulnerability of investors. The first factor is whether the investment involves a large amount of physical capital or relies primarily on knowledge capital. The more knowledge and less physical capital the firm invests, the less its vulnerability. The second factor is the extent to which the investment is tied to the investment location - the higher the expected cost of exiting, in case of violence, the higher the vulnerability of the investing firm (i.e., a higher relocation cost makes the firm more sensitive to political violence). The third factor is whether the investing 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 the local market because of the risk of higher transport cost, sanctions, and so forth.

It could be argued that though oil investments could be included in the highly vulnerable investments group, according to Mihalache's 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 that: good institutions attract FDI; deficient institutions attract FDI; and investors are attracted to countries with institutional levels similar to their own (e.g., poor institutions attract investors from countries with poor institutions).

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 in one country if institutional changes are very clear/distinct over time and the impact of these changes on FDI could be precisely assessed and estimated.

This paper does not attempt to answer questions such as whether FDI to Sudan would have been different if its institutional levels were different or whether Sudan received 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's 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" (Kolstad and Wiig 2010). For the OECD countries, their results show that GDP is the only significant value, which suggests 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 that serves as the main determinant or attraction of FDI. However, it could be argued that only a special type of investors are interested to invest in countries with weak/poor institutions since despite 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). Since FDI in general is dominated by flows from developed countries, it is an open question whether these results generalize to Chinese outward FDI” (Kolstad and Wiig 2010).

Generally speaking, it could 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. Firms from developed economies have engaged in many malpractices. The late Edward Heath, former Prime Minister of Britain, made a historical admittance in describing the multinational Lonrho, “The 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’” (Cronjé, Ling, and Cronjé 1976).

In other words, not all firms from countries with good institutions are good and 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 table may illustrates the expected FDI outcome.

**Table 10. FDI possibilities with different levels of institutions of economies and firms**

		HOST ECONOMY	
		GOOD	POOR
HOME ECONOMY	GOOD	Good local firms in both economies Minority poor firms in both economies  FDI by good foreign investors from home economies Few or no poor investors from home economies	Poor local firms in host economies Majority good local firms in home economies Minority poor firms in home economies  Few or no good investors from home economies Few or no poor investors from home economies
	POOR	Good local firms in host economies Majority poor local firms in home economies Minority good firms in home economies  Few or no good investors from home economies Few or no poor investors from home economies	Poor local firms in both economies Minority good firms in both economies  FDI by poor foreign investors from home economies Few or on good investors from home economies

However, the dominance of Asian firms over the oil sector in Sudan 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 latter does not necessary coincide with or serve Sudan's interests.

On the positive side, 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, 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 in the oil sector, 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, recently, appears to be linked to the conditions faced by Arab investments in developed countries after the incidents of 11 September 2000. Interestingly, relations between wealthy Arab countries and the capitalist world have been tense during the two periods of substantial inflows of foreign investments to Sudan. The first strain occurred due to the oil embargo / hiked prices after the 1973 Arab-Israeli War, while the second occurred after the September 11 events.

The incidence of September 11, after which Arabs and their investments/accounts in the West - especially in the United States - 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 forced some Arab investors to look for alternative and more hospitable outlets. These factors, when coupled with the fact that Sudan has a rich potential for investment opportunities, the optimistic atmosphere after the Comprehensive Peace Agreement, and the 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; and the reputation of Sudan as a vigorous opponent to the United States - unlike many other regimes in the region.
- b) The historical worry of the Arab countries, especially the rich GCC members, for securing alternative/additional/sources for basic foodstuffs. In light of rising prices of foodstuffs, 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, 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 per cent of approved agricultural projects belong to the Arabs, of which about 70 per cent belongs to the GCC countries.
- c) Sudan's record on transparency, corruption, and so forth contributes to creating an atmosphere suitable for particular kinds 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. Some investors, while not very acceptable in their home

countries because of malpractices, were welcomed in Sudan. Moreover, public discontent was clear in many privatization deals, some of which were criticized in the parliament. As a result, the government had to cover for some discrepancies of some investors by buying their shares, refuting their agreements, and so forth.

However, most of the large non-oil investments by Arabs 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 primary 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 (e.g., in the service and estate sectors) 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 cited as an example. This should not be construed as 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's 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 slow their pace.

## 5. The future

The major factor, which may considerably affect the position of FDI in Sudan in the near future, is the secession of southern Sudan, July 2011. 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 Sudan (the previously northern States) with a fairly small amount of oil production. However, Sudan has the infrastructure for refining, transporting, and exporting oil.

Though the diminished oil production/revenues are/will negatively affect the GNP, exports, and government revenues, the indirect impact of the drop in oil production will be as harmful. As alluded to earlier, oil production had encouraged investments in the non-oil sectors by flourishing the economy, contributing to bridge the external and domestic gaps, and stabilizing the foreign exchange reserves and rates. Therefore, other factors being equal, FDI in the non-oil sectors may witness a declining trend due to the difficulties confronting the economy because of shrinking oil revenues. It should be reiterated that becoming an oil producing and exporting country had contributed to counteracting the many negative aspects of the Sudanese investment climate.

On the other hand, South 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 previously north Sudan, 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 its oil explorations and the prospects for economically viable oil production will assist not only in stabilizing the economy but also 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. Government expectations include: the Alrawat field in the White Nile produce about 330 thousand barrels/day in less than two years; Balila field produce about 30,000 barrels/day; and external revenues from gold rise from \$1 billion during the last year to more than \$3 billion by the coming year(s). Follower investors in other sectors will be reassured and encouraged by such prospects if come true.

- b) If the foreign policy of the Sudanese government continues to antagonize Western countries, Western firms will not make substantial investments, leading to a continued surrendering of ground to East and Arab firms—in other words, a situation similar to that portrayed earlier.
- c) Prerequisites for a promising investment climate for foreign investors include a nonviolent relationship with South Sudan, 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, Sudan's comparative advantage and near future development lie.

Sudan has the potential of playing a principal role in supplying food for a world where resources for food production are coming under immense stress. However, no determined realistic efforts were taken in that direction. The unsuccessful strategy for developing Sudan as the breadbasket 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 can furnish itself with knowledge, vision, institutions, and determination, it will be able to attract the most suitable investments/investors that could assist in its 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.

Lack/shortage 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 and has been increasing while aid is stagnant and therefore it will be wise to target FDI. 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, and so on (Kosack and Tobin 2006).

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 resource base and contributing to its structural transformation. In that context, the dynamic link between FDI and the Sudanese private sector is critical, so that 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 serve as a step towards adapting 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, and drawing on relevant experiences, et cetera.

The current international economic order does not allow countries, both developed and developing, to isolate themselves. Developing countries tend to lose parts of their sovereignty over many aspects of their economies in the name of globalization, free trade, and so forth. 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 more equitable and fair.

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## Appendix I

### 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

Source: Extracted from relevant literature.

## Appendix II

**FDI in non-oil Sectors, 2000–2010 (In US\$ billions)**

YEAR	FDI
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 III

**Number of foreign projects registered according to country of origin and sector 2004 - 2008**

COUNTRY	SECTOR			TOTAL
	Industry	Services	Agriculture	
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
USA	7	3	-	10
Sub-total	600	560	46	1,206
Details not available	81	70	15	166
Total	681	630	61	1,372

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

## Appendix IV

**Total number of foreign projects registered according to region of origin and sector 2004 – 2008**

REGION	SECTOR			TOTAL
	Industry	Services	Agriculture	
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	1,372

Source: Ministry of Investment, Sudan.



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Research addresses main challenges to peacebuilding in Sudan, with a particular focus on (a) the political economy of the transition, including institutional and governance issues, and (b) the role of third party engagement and issues related to the management and coordination of aid. The programme is multidisciplinary and combines macro level studies with research in selected localities and states. It covers basic and policy-oriented research as well as competence building.