



IMPACT OF OIL REVENUES ON ECONOMIC PROSPERITY IN SOUTH SUDAN

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Abstract:

South Sudan among the most oil-independent country in the world, oil contribute for almost all bulk of its exports, around 60% of Gross Domestic Products (GDP), and 98% of government revenue, yet the Economy is stationary and faced with several woes such as lack of infrastructural development, widespread poverty, and growing inflation. Oil revenue meant to improve economic development, but due to the Kleptocracy system of government, the economy remained motionless. This paper argues that oil revenue has a negative impact on economic prosperity in South Sudan, that lead to poor quality institutions and governance, which cause slower economic growth. Based on this, this article recommends that the government should establish some robust legislation on revenues management such as a management of oil income, Audit, and procurement in order to ensure accountability and transparency in the oil sector. By establishing those laws, the revenue that generated from oil can be invested in the Agricultural sector as a mean of diversification that can sustain and robust economic prosperity. This can avoid the economic crisis in the nearest future due to unstable oil prices in the international market.

Keywords:

Oil Revenue, Patronage, Economic Prosperity

1. Introduction

South Sudan is not different from oil-dependence countries, where oil had become a curse rather than a blessing (resources curse). (Arriola, 2009); oil contribute for almost all bulk of its exports, around 60% of Gross Domestic Products (GDP), and 98% of government revenue, yet the Economy is stationary and faced with several woes such as lack of infrastructural development, widespread poverty, and growing inflation. The country expected to improve economic development on the basis of its oil. Contrarily, the oil-revenue allowed the political elites to build a kleptocratic-militarized, corrupt neo-patrimonial regime, that consumed the copious oil revenue and almost leaving nothing for public services, economic development, and institution building. (Waal, 2017) The kleptocracy regime control all sectors of the economy overspent on military-political patronage and undermined the other revenues institutions.

South Sudan as a country with a reserve of 375,000 billion barrels of crude oil is supposed to prosper the Economy growth but instead, it created a Kleptocracy system on which the functioning of the state institutions is determined by the mechanism of supply and demands instead of laws and regulations. In the absence of laws and regulation in other revenue sectors, the political offices will be used for personal gain. The essence of the Kleptocracy is that leaders are opportunists that use everyday chance to embezzle public funds in order to spend on military-political patronage system that keeps them in power. When the leaders overspend in security sectors and political budget then less or nothing will be left for development and institutions building.

2. Literature Review

Several studies demonstrate that oil resources lead to poor quality institutions and governance, that cause slower economic prosperity. Scholars have regularly asserted that oil-rich countries have a poor quality or in some cases it a total lack of political and economic institutions. (Shambayati, 1994), (Sala-i-Martin, Xavier, 2003), (Isham, J., M. Woolcock, L. Pritchett, 2005), and (Ross, 2003). The argument has been used to expound why oil states grow at a slower rate and suffer from others reverse outcomes. This robust the link between oil resources and a state level of economic prosperity.

Since the 1990s, numbers of literature have been presented on the Natural resources curse, the propensity on the countries with oil resources, economically grow at a slower rate (Shambayati, 1994). The implications indicate that oil curse has inflicted most of the oil-producing countries by creating both a culture of corruption and a culture of overspending frequently lead to what so call Dutch disease (an overheated Economy with a major macroeconomic imbalance). For instance, countries like Chad, Nigeria, Angola, and Gabon received an immense rent from oil revenues, however, the Gross Domestic Product (GDP) in those countries display a slow economic growth rate in some cases there is no growth in GDP. (Kojucharov, 2007).

Furthermore, the literature robust the argument that, oil has a negative impact on the institutions, on the bases that oil rents or revenue influence state capacity on which the oil independent states distort the institutional development of a country because the revenue that comes from oil incapacitate proxies of restraints. For instance, taxation is one of sector that government may avoid due the oil revenue that the state receives directly from the oil exploitation, the assertion is that, if there no taxation, there is no need for the state to establish a revenue-generating tax rules and regulations, that is the main motivation for institutions building and effective governance. (Chaudhry, 1989), (Karl, 1997), (Wyk, 2007) (Luong, Pauline, and Erika, 2006), and (Fearon, 2005).

According to (Diamond, 2008) & (Bueno de Mesquita, Bruce, Alastair Smith and (, 2003); government utilizes the oil revenue to pacify certain group through patrimony and corruptions rather than improving the institutions or provide public services. In term of corruption, the oil exporting states have a higher level of corruption, numerous study indicates that, due to a weak institution, high risk of misappropriations of oil revenue are immersed problems that, the state may encounter because there are not institutions restraints. (Tiede, 2013). Corruption will extend from the oil productions stage to the government civil servants based on the secret signature bonuses that contribute to the oil curse. Government position will side with the policies that benefited their side rather than the good of the overall of state welfare, why because the main aim is to share the oil revenue with their supporters. (Tiede, 2013) further stated that lack of mechanisms how government should spend state oil revenue, always allowed the oil-rich countries to overspent on patronage which in return, undermine the state accountability and allowed oil revenue to redistribute through a political channel. Therefore, oil revenue displays a negative impact on the economic prosperity based on the above findings from the secondary literature.

South Sudan political patronage

According to (Johnson, 2016) the political elites was the cause of the tension and exacerbated South Sudan's fragility, whether through political or Military Institutions, the access to the public office depended on the ethnic identity and the elites were used as the link for that access. That degenerated into the absence of the proper function of the public institutions and the government lack some credible institutions to redistribute the public wealth. The ethnicity and the creation of the patronage were viewed as the main qualifications to access the public offices and Public funds.

The South Sudanese communities knew that the access into the government institution depends on both ethnic identity and patronage, therefore, the ethnic groups started to agitate for more new Administrative peripheries (counties), these are preferable to the ethnic lines. The new administrative units would benefit the individuals in term of the salaries if the borders are constructed a base on ethnic lines. That could guarantee the benefits to one own community that was the first sign of division and fragmentation.

Consequently, in March 2012 the vice president of the Republic of South Sudan Riek Machar proposed the establishment of not less than Four Hundred (400) newly administrative peripheries (counties) that were five times more than the previous number. Machar inserted that the creation of the new counties will pave a way for the sufficient redistribution of the public Wealth throughout the country. There was a misperception that, the establishment of the new Administrative peripheries would inspire peace and especially if the demarcation of the new borders based on ethnic lines in which the people would be governed by their own communities. But the opposite was true, the more establishment of the Administrative peripheries the higher the competition you get for resources and the less the resources become the higher the risk of conflicts.

Machar as the vice president authorized all the governors to establish and implement the newly created counties which are contrary to the local government act of 2009. The governors and the states Administrative in the Upper Nile and Equatoria tried hard to avoid demarcation of the new borders on ethnic lines, but instead, they tried to Mixed ethnics groups with each another. The Machar policy was questioned if he wants to change National policies? Machar orders were enforced by some state Governors, but the policy faced higher criticism from the United Nation mission in South Sudan (UNMISS) country coordinator that the new formation of the counties encourages violent in

several rural areas all over the country and the reason was because of the new demarcated borders or the host of headquarters of the new Administrative peripheries.

Based on the above explanation, the Machar policy indicated a clear state of patronage and the obvious signs of the power struggle and resources. Formation of more new counties, along with the ethnic lines, would provide benefits for any leader who had ambitious for power. The communities that would benefit from the newly created counties would always increase the numbers of loyalties officials in favor of the creator of those counties and that will have an influence within the SPLM structures that means an increased on the numbers of representatives in the party Organ. (for continuing candidates for the chairmanship, the potential of such a development was clear)

For the other political Elites and tribal leaders down the line, the desire to extend their patron base on ethnic was important, course the particularism will never end. The tribes are divided into Clans and the Clans are divided into sub-clans and then families.

On the eve of the first independence anniversary in 2012, president of the Republic of South Sudan called off the Machar initiatives by saying that “the time was not right to establish a new counties and further assessment needed to be conducted” the president speech came as a sigh of relief to several governors but yet did not end the patronage politics.

According, to local government Act 2009, the counties administrators (commissioners) are to be elected by people and accountable to them, however, due to the political patronage, the commissioners were appointed by the state Governors and accountable to them. on the other hand, South Sudan transitional constitution gave powers to the President that limited the check and Balance within the three branches of government. For instance, in 2012 president dismissed three elected governors that were contrary to the constitution, course the governors were elected by people and can only be accountable for them, but dismissal and the reappointment by Presidents mean that the governors are answerable to the presidency. In addition to that, the president progressively appointed individuals from his tribe to the government key institution positions like central Bank and Judiciary in order to control power. That increased the tension.

Consequently, president policy led to the centralization of power and division of South Sudan communities based on the ethnic lines, and that was cheap politics. It indicates that people from villages and common inhabitants did not have a combined platform to defy a leader, no vent to protest or complaints. In turn, this Avoid the accountability of the elites in the political offices at all level.

Table.1



Table.2

South Sudan GDP	Last	Previous	Highest	Lowest	Unit
<u>GDP Annual Growth Rate</u>	-6.30	-13.10	15.90	-46.10	percent
<u>GDP</u>	2.90	10.91	17.27	2.90	USD Billion
<u>Gross Fixed Capital Formation</u>	1377.70	1884.20	4811.30	1377.70	Million SSP
<u>GDP per capita</u>	745.30	820.10	1562.20	745.30	USD
<u>GDP per capita PPP</u>	1569.89	1875.38	3789.90	1550.27	USD
<u>GDP Constant Prices</u>	22921.10	22848.20	28183.80	13662.50	Million SSP

According to Johnson SPLM party (the ruling party) had conducted a widespread consultation throughout the country on the performance of the governances and party, June- August 2012. The party members were sent out to their constituencies to conduct a survey on the performance of the governances and party and report back to the party headquarter in Juba. All over the ten (10) States the results of the consultations indicated a prevalent dissatisfaction with both the party and government performance and there was a lot of disappointment and discontents. Prospectively, the consultation outcome turned into a weapon in the internal power struggle in the party, that led to the accusation of some members within the party for coordinating consultation result to put the party chairman in the negative image. Others used the outcome results to put blame on the president.

3. South Sudan Military patronage

When South Sudan become independence on 2011, there was no army but at least three armies, the post –1991 SPLA, the Machar group which returned and reunified in 2002 and the Paulino Matif forces, South Sudan Defense force SSDF. The SPLM is not a standing army, even if, it is an organization that suggested the soldiers be mobilized for each operation and abandoned after the operation, it resembles the white army, the difference is that the SPLA have command structures and Some training that give minimum discipline. In December 2013, the SPLA was set to comprise roughly of 240,000 soldiers 200 thousand Militarily active and the remained 40 000 are reserve including those with handicap and retired but on the payroll SPLA did not have the full payroll of the soldiers in the central commands, however, the payroll was under commanders Administration and the central command does not have any access to the lists of those soldiers, in order word SPLA is not a single integrated unit. The body Guard of president Kiir is mainly from his Dinka Tribes and Machar and Paulino Matif are mainly Nuer. Majority of Ministers in the National government had personal tribal bodyguard or Militias, a prominent politician in opposition, also have their own tribal army, for instant Lam Akol. SPLA central command tried to unite the army but all in vain, therefore, the numbers of SPLA soldiers were only to be Quest. The numbers of General Commands are relatively seven thousand Generals at the time of crisis, on December 2013. They were Four, (4) stars General, Night General with 3 stars, one hundred major Generals and uncountable numbers of Brigadiers Generals. The ration of the Generals in the SPLA reportedly higher than any others State army in the world. President Kiir policies Maintained the SPLA as the collection of Separate militias and postponed any reform in the military section. The only things those militias shared in common, they all received their funds from government treasuring.

Generals are retired and appointed as Ministers or directors in the ministries, Generals become a top politician, the commander in chief (CIC) become president, a General become speaker of parliament and Brigadier become State governors.

Table 3: South Sudan defense spending (US\$ million)

	2006	2007	2008	2009	2010	2011	2012
Defence	586	580	917	688	736	1,047	964
Total govt exp.			2,281	1,888	2,563	3,273	2,785
Defense (% of exp.)			40	36.5	28.7	32.0	34.6
GDP			15,264	11,853	15,179	19,146	10,220
Defense (% of GDP)			6.0	5.8	4.8	5.5	9.4

Sources: Defence spending: data for 2006–8 from Lewis 2009, p. 66; data for 2009 from World Bank; data for 2010–12 from SIPRI (excludes other uniformed services and off-budget expenditure); figures for GDP and government spending are taken from World Bank data

4. Conclusion

South Sudan is blessed with crude oil as the main source of its revenue over years. Despite the higher oil revenue, the country has still been listed among the poorest countries in the world due to its several glitches started from unstable inflation because of Kleptocracy government that increased poverty, unemployment and among others. However, this study assessed the impact of oil revenue on economic prosperity in South Sudan. The results of this study indicated that GDP is negatively based on table 1 & 2, and the result is contrary to the argument that oil revenue improves economic growth.

5. Recommendation

Based on the finding of this paper, it was recommended that the government should establish some robust legislation on revenues management such as a management of oil income, Audit, and procurement in order to ensure accountability and transparency in the oil sector. By establishing those laws, the revenue that generated from oil can be invested in the Agricultural sector as a mean of diversification that can sustain and robust economic prosperity. This can avoid the economic crisis in the nearest future due to unstable oil prices in the international market.

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