

COUNTRY REVIEW

Sudan



8 December 2010

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Khartoum
GDP:	USD66.59bn (2010f)
Population:	43.3mn (mid-2010e)
GDP per capita:	USD1,540 (2010f)
Currency:	Pound (SDG)
Form of state:	Republic
Head of state:	President Omar Hassan Ahmed al-Bashir
Next elections:	Unscheduled. Awaiting a referendum on independence in the south (January 2011) to determine the nature of the state(s)

In 2005, prolonged peace negotiations relating to the **21-year north-south civil war** appeared to be resolving deep-seated schisms, a ceasefire had been maintained (despite breaches) and Khartoum had gained some international recognition for its support of the US-led anti-terror campaign. Events in Darfur in the west changed the political and diplomatic dynamics. The government response to the rebel groups seeking autonomous status in the Darfur region has been to encourage nomadic Arab militias (Janjaweed) to disrupt the largely black African farming communities that supported (directly and indirectly) those rebel groups. As a result, an estimated 300,000 people were killed and a further 2.5mn Sudanese displaced, in turn causing refugee and regime problems in neighbouring Chad. The **UN labelled Darfur the world's worst humanitarian crisis**. Moreover, the United States claimed that there had been a deliberate policy of genocide, a term rarely used in international relations. For a time, the **focus on Darfur deflected attention from the north-south disputes but, with a ceasefire now operational in Darfur, the north-south issue again dominates** Sudanese affairs.

As part of the peace negotiations between the north and the south that resulted in a power-sharing deal, it was agreed that, after a six-year period, the latter would hold **a referendum on independence from the north, with a prospect of forming a new sovereign state**. The referendum **vote is now scheduled for January 2011**. It remains to be seen whether (a) the vote is allowed to go ahead (b) the north accepts a seemingly inevitable vote in favour of secession (c) the south has sufficient resources (economic, financial and administrative) to be able to manage a sovereign state and (d) relative peace can be maintained within the borders of the currently constituted Sudan entity. Khartoum is highly unlikely to welcome independence of the south, particularly as **much of the oil wealth is generated in that region**, and may seek ways to retain control over natural resources. Sudan is currently Africa's largest country (2.5mn square miles, more than twice the size of South Africa) but significant areas of it appear close to anarchy (there is also insurgency in the east) and there is **concern that destabilisation could spread to eastern Africa**. **Accordingly, risks relating to existing/prospective commercial and financial obligations remain high**.

In March 2009, the International Criminal Court (ICC) issued an arrest warrant against President Omar al-Bashir, citing war crimes in Darfur and crimes against humanity. He thereby became **the first sitting head of state to be indicted by the ICC**. The government in Khartoum responded by labelling the ICC as a neo-colonial instrument, by expelling some international non-government organisations (NGOs)—thereby further limiting the effectiveness of humanitarian and aid workers in the country—and by al-Bashir flouting with impunity the judgement through high profile overseas visits. Domestically, **al-Bashir and the ruling National Congress Party (NCP) are firmly in control of the north and have the backing of the military**. We do not expect a regime change through constitutional means in the short term. Nevertheless, Sudan will continue to be viewed as a pariah by the wider international community and this will limit inward investment from the west and restrict trade flows with the country.

Sudan has the **third largest reserves of oil in Sub-Saharan Africa (after Nigeria and Angola)** and, at current rates of extraction, these reserves will last a further 37 years. Oil production began in 1999, with Chinese and Indian interests taking over as European and North American oil companies felt obliged to withdraw from the country, particularly following US unilateral trade sanctions in 1997 (and subsequently strengthened). Oil output was 174,000 barrels per day (bpd) in 2000 and around 490,000bpd in 2009 (and averaged 465,000bpd in January-September 2010). Chinese interests in the oil sector—the Asian country accounts for around 58% of Sudanese exports, principally crude oil—have represented the main obstacle to UN sanctions against Sudan. **Real GDP increased by an annual average 4.5% in 1992-2001 and 6.3% in 2002-09**, with expansion in the latter period driven by investments in the oil sector and earnings from exported fuels. **Forecasts of GDP growth are not**

worthwhile until the south's potential independence is decided and, by association, the allocation of oil revenues.

Although earnings from **oil exports** have increased significantly (USD2bn in 2003 to a forecast USD9bn in 2010, **accounting for 94% of export receipts** in the latter year), import growth has also been strong, resulting in continuing current account deficits (5-7% of GDP in 2009 and 2010). Strong import demand has partly reflected large capital expenditures in developing the oil sector but also results from a consumer boom that will be difficult to restrict, given the high expectations of those reaping the recent economic rewards from oil sales. **Foreign exchange reserves are estimated to have amounted to USD1.3bn at the end of Q1 2010 and thereby to have provided import cover of at least five months**, compared with the standard international measure of three months as representing a comfortable level to ensure payments flows. The physical conflicts and associated focus on political and military planning have seriously disrupted agricultural output (still around 30% of GDP) and the **overall economy remains highly fragile**. Development funds and IMF support remain largely in abeyance. This lack of access to concessional finance from the IFIs results partly from a build up of arrears (accounting for the bulk of the estimated USD36bn in foreign debt obligations). **Dislocation of oil output (for example, through a return to outright north-south hostilities) would negate some of the overall economic gains of recent years.**

Most international rankings of social, economic and business development indicate that Sudan is a difficult country in which to live, conduct a business and with which to engage in international trade. It is unlikely that the UN will impose sanctions, particularly as one member of the UNSC (China) has extensive business interests in the country. However, the **business environment overall is weak** and commercial involvement with Sudan, including the oil sector, carries a high risk of payment disruptions.

Andrew Atkinson

London: +44 (0)20 7860 2577