The United States has been sanctioning Sudan for almost thirty years. As required by law, the United States first curtailed assistance after the Sudanese military, led by then-Colonel Omar Hassan al-Bashir, overthrew the elected government of Sadiq al-Mahdi in 1989. Sanctions intensified with the designation of Sudan as a State Sponsor of Terrorism (SST) in 1993. Subsequent sanctions were imposed by the president and by Congress, due to concerns about terrorism, the war in what is now South Sudan, the conflict in Darfur, and default on loans.

The October 2017 decision by the Donald Trump administration to eliminate many—but by no means all—of the sanctions opens up the possibility of a new era of US cooperation with Sudan, which will allow
Washington to credibly push for economic reforms and engagement as a partner that has more than just sticks to offer. Changes in Sudanese government policies and practices, albeit difficult, have the potential to restart the economy and improve social services in one of Africa’s largest countries, to the benefit of the Sudanese population and, potentially, of US business. It is particularly important that the United States act now, because other countries—including China, Russia, and Turkey—have continued to engage and invest in Khartoum, without the human rights or governance priorities that successive US administrations have endorsed.

Khartoum, simply put, must stop sanctioning its own economy if the potential of the country is to be realized.

At the same time, the Sudanese economy has reached a point where it desperately needs a more normal economic relationship with Washington. For many years, US sanctions did not have a significant economic effect on Sudan, although they did come very close to defining the bilateral political relationship. However, with the secession of South Sudan in 2011, and the accompanying loss of 75 percent of Sudan’s oil revenue, Khartoum became more directly susceptible to Washington’s actions. In the short term, the Sudanese government seeks a resumption of trade, and to develop regular financial relations with US banks that are critical to the facilitation of commerce and the use of credit cards. The ultimate prize for Khartoum is desperately needed debt relief, an opportunity dependent on Sudan’s removal from the SST list.

This paper will first describe the political economy of Sudan, which shapes Khartoum’s priorities and affects how it will respond to demands for economic reform. It will then review the immediate steps that the United States and Sudan can take to improve economic relations, now that most sanctions have been eliminated. Finally, the paper will discuss what should be done to prepare for Sudan’s removal from the SST list.

Throughout, this paper argues that, while a great many Sudanese believe that the lifting of US sanctions will be sufficient for the economy to improve, the elimination of these punitive measures is only one necessary step. Real economic progress will depend on fundamental changes—including sharply reducing subsidies, devolving the currency, regaining in corruption, restraining government intervention in the economy, and directing resources away from the security sector and toward poverty reduction—that threaten policies and attitudes that have become deeply ingrained in the Sudanese government during its nearly thirty years of rule. Of course, these economic benchmarks are closely related to, and assume continued progress on, other priorities as well as the Sudanese people.

Sudan’s Political Economy of Mismanagement

The government of President Bashir is authoritarian, often brutal, and highly corrupt. In Freedom House’s 2018 Freedom in the World report, which evaluates political rights and civil liberties in 195 countries, Sudan was ranked among the dozen least-free states in the world.1 Not surprisingly, its economic accomplishments are tightly linked to the state’s political and governance priorities. “Government does not listen to the private sector,” one source said in late 2017. “We find that the key to success is to engage and influence the government of President Bashir.”

Indicators rank Sudan 170th out of 190 countries in terms of the private sector’s ability to operate, as measured by how easy it is to start a firm, obtain electricity, and secure credit, among other indicators.2 While comparative rankings always have their own issues, and inevitably appear to be misleadingly precise, interviews conducted by the task force while in Khartoum in January 2018 affirm the statistical findings. “Government does not listen to the private sector” is a common lament from business leaders. There is “no consistency or coherence” to government policy, as officials seek to put out one fire or another as they enrich themselves. There are formal government bodies dedicated to interacting with the private sector, but they are deemed “useless” and “just going through the motions” by business leaders. Because of the government’s commitment to a command-and-control economy, the Sudanese leadership seems to make no effort to explain what it is actually doing or planning. Instead, economic policy is based on relationships: as one businessman wistfully said, “Everyone is corrupted.”

The Economic Laws of Gravity Were Temporarily Defied

As Figure 1 indicates, Sudan managed to perform relatively well for some time. The most important factor was the possession of oil revenue, which accounted

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6 All quotes from task force interviews with business leaders in Khartoum, January 2018.
Sudan’s list of creditors is extensive (see figure 2). The industrialized countries that make up the Paris Club are owed about 31 percent of the debt.10 An even more significant amount of money is owed to non-Paris Club creditors, including Saudi Arabia and Kuwait. While debt to the United States is not a large portion of the total debt owed, little progress can be made on resolving any of the long list of obligations unless there is a full normalization of relations with Washington.

In 2012, the governments of Sudan and South Sudan agreed to the so-called “zero option,” by which Sudan retained all debt after the secession of South Sudan, provided that it was given firm commitments of debt relief by the international community within two years. That agreement lapsed in 2016, but was extended to September 2018. Formally, if no agreement with the international community is developed, the debt should be apportioned with South Sudan, based on a formula to be agreed upon by both countries.11 Of course, given the fighting that has occurred since its independence and its own profound economic problems, South Sudan is in no position to take on legacy debt.

Finally, the Khartoum leadership managed to survive, and to continue to enrich itself, by shifting the economic costs of its policies onto the general population. For instance, perhaps as much as 75 percent of the budget is devoted to national security and defense.12 Bashir has defended this allocation, saying in 2015, “To those voices that speak in the street or in the media about the armed forces budget, I say that if 100 per cent of the state’s budget was allocated to the army to secure the country then that would still not be enough.”13 Over the long term, the neglect of the social sector has had a profound impact on the population of Sudan. For instance, Sudan is ranked 165th (out of 188 countries) in the United Nations Development Programme’s 2016 Human Development Index, which measures a variety of social achievements in health, education, and standard of living.14 This ranking is twenty-two places lower than Sudan’s place in the Gross National Income table, one of the larger disparities between the wealth of a country and how well its population is doing. Similarly, road conditions are “patchy at best,” especially outside the major arteries, and the general infrastructure serving the population is poor.15

The Economy Comes Back to Earth

However, the house of cards that is the Sudanese economy under Bashir and the National Congress Party is now crumbling. Perhaps most important has been the secession of South Sudan in 2011, which, as noted above, caused the loss of most of Sudan’s oil revenue, and half of government earnings. Accordingly, foreign direct investment—overwhelmingly in the hydrocarbon sector, which had been several billion dollars per year before 2008—has now slowed to a trickle. The state has still not fully adjusted to the shock of secession, which, while profound, was also predictable, given that the Naivasha Agreement that set South Sudanese independence in motion was signed in 2005. Tellingly, the total tax revenue that Sudan is able to capture today is only 5.3 percent of gross domestic product (GDP), compared to an average of 16.8 percent for sub-Saharan Africa and 12.7 percent for the Middle East and Central Asia.16 The state and those who live off of it are essentially being starved for funds.

At the same time, the sanctions that the United States imposed began to have more of a bite. Most notably, the Barack Obama administration’s June 2014 fine of $8.9 billion against the French bank BNP Paribas for violating US sanctions against Sudan, Cuba, and Iran—along with a general increase of banking regulations

Sudan’s capital Khartoum is strategically located along the Nile River. Photo credit: Christopher Michel.
Sudan: Prospects for Economic Re-engagement

Shoule the economic environment improve, Sudan actually has more possibilities for growth than many African economies. Although the relevant sanctions were lifted in October 2017, no US bank has expressed a willingness to process Sudanese transactions. Banks appear unenthusiastic about re-engaging with Sudan as long as it appears on the ST list. In addition, there may be some tendency toward overcompliance, especially after the large fines that the Obama administration levied. There is also the possibility of reputational risk in dealing with a country estranged from the rest of the world. For instance, Sudan appears to be the largest country in the world where no international credit cards can be used. As a result, many large transactions are still done in cash, an arrangement that deters businesses and tourists from coming to the country.

After the 2007 recession and previous sanctions—caused all US banks, and many worldwide, to end their correspondence relationship with Sudanese financial institutions. Sudan has not had a financial counterpart in the United States that can clear dollar transactions, and few banks anywhere in the world that will process transactions in any currency.17 While the US sanctions and fines should only have affected US dollar transactions, and few banks anywhere in the world that will process transactions in any currency.17 Because the reform process is being driven by a set of US bank officials, January 2018. For instance, the multi-tier exchange that the government has developed in response to the currency’s diminished. Remittances, largely from Sudanese working in the Gulf, were estimated as high as $3 billion in 2011. However, these flows appear to have dropped to around $400 million in 2015, due—at least in part—to the difference between the official and black-market currency rates.18 The Gulf states also provided funds of perhaps as much as $2 billion to Sudanese in the form of remittances, partially in order to woo Khatoum from Iran’s orbit, and to encourage it to become involved in the war in Yemen.19 However, assistance from the Gulf states appears to have diminished, and it is not clear if Sudan can count on funds of a similar magnitude in the future.

The accumulated weight of all these reversals has made the situation facing the leadership precarious. Accordingly, in the Fund for Peace’s 2017 Fragile State Index, Sudan is listed as the fifth-most-fragile state in the world (out of 178). It is tied with Syria, and just better off than Yemen.20

Political Economy of Reform

Sudan’s rulers need economic reform, as the underlying rot of the economy, long masked by oil revenues, is now threatening the continual enrichment of the leadership and the generous funding of the security establishment that keeps the elite in power. It must eliminate the subsidies that drain the government budget, and unify the exchange rates that distort the economy and which also cost the government dearly. The leadership is also desperately in need of more revenue to feed its patron-client networks.

Reform is also necessary to restart economic activity. The private sector suffers from government intervention, in terms of the exchange rate and the state’s failure to invest in the economy. Should the economic environment improve, Sudan actually has more possibilities for growth than many African economies. Although the state can determine who has access to dollars, the economic environment will still affect the market. The leadership is also desperately in need of more revenue to feed its patron-client networks.

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Sudanese said, “We will reform in our own ham-handed and inefficient way.”

**Promoting Economic Engagement: Immediate Steps**

The political economy of reform in Sudan must serve as the context in which demands are made on the government and, critically, for how proposed reforms are designed and evaluated. There are certainly steps that can be taken now, given that many US sanctions have been dropped, and a delisting of Sudan from the STS list is anticipated.

The Sudanese government must reduce distortions in the economy. The International Monetary Fund (IMF) has established a clear set of necessary reforms for economic stabilization and, eventually, debt relief. No concessions should be made, given the government’s likely desire to want to do as little as possible.

Many government and business leaders in Khartoum feel that, if not all, of their problems will disappear when sanctions are finally lifted. They are confused as to why there was not an immediate improvement after the United States eliminated most sanctions in October 2017. In fact, many businesspeople argue that Sudan currently faces the worst economic climate in a generation. While lifting sanctions will undoubtedly make trade easier, the Sudanese government, companies, and civil society must understand that, no matter what the United States does, the economy will not improve much unless Khartoum fundamentally reforms its economy that is built on a large number of unsustainable subsidies and devaluation. The medical necessity to begin ridding Sudan of its many economic pathologies will cause considerable pain, and it is highly likely that things will continue to get worse before they improve.

Sudanese should know that American companies will undoubtedly take a wait-and-see attitude toward Sudan. While there was a Corporate Council of Africa trade mission to Sudan in December 2017, foreign investors seem to believe that DMIs have moved from uninterested to intrigued. At the moment, there is no compelling need for companies to invest in Sudan, and its business climate and government practices provide numerous reasons to avoid the country. There is the potential for further hydrocarbon investment, but even the remaining and yet-to-be-confirmed Sudanese reserves combined are probably not large enough to quickly attract investors who will choose to ignore all of Sudan’s problems.

Not least among the rewards for improved governance is a better listing on the rankings that have developed to compare countries worldwide—and which, as noted above, consistently give Sudan a low score. Improvements are not a guarantee of increased trade and investment, but these indicators are important signals that companies monitor to see if the business climate is changing.

Sudan should begin planning for debt relief through the highly indebted poor countries (HIPC) process, so that it can get to what is commonly known as the HIPC decision point, the position where it can be considered for full debt relief. According to the IMF, getting to the decision point will require that Sudan:

1. Be eligible to borrow from the World Bank’s International Development Agency, which provides interest-free loans and grants to the world’s poorest countries, and from the IMF’s Poverty Reduction and Growth Trust, which provides loans to low-income countries at subsidized rates;
2. Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms;
3. Have established a track record of reform and sound policies through IMF- and World Bank-supported programs; and
4. Have developed a Poverty Reduction Strategy Paper (PRSP) or its equivalent, which outlines a broad-based participatory process in the country.22

Of these four points, the first will probably be resolved simultaneously with debt relief, once Sudan clears its arrears. Everyone certainly agrees that Sudan has an unsustainable debt burden. The Sudanese believe that they have established a good working relationship with the IMF and the World Bank through foreign reforms.23 However, there is probably a considerable amount of work left to do, including increasing efforts to garner broad support for debt relief, working with the IMF to establish “a track record of sound macro policies,” and limiting new borrowing on nonconcessional terms.24 The IMF does not seem to have illusions about policy implementation in Khartoum. For instance, regarding past surveillance, it notes that “progress since [2016] has been mixed,” crediting the government for partial currency devaluation and a reduction in energy subsidies in late 2016, but noting that the fiscal deficit continued to increase.25

Finally, the interim poverty-reduction strategy paper, developed in 2012, is clearly out of date.26 Given the trauma that further cuts in subsidies and devaluation will cause, Khartoum must be strongly encouraged to develop a new and fully integrated poverty-reduction strategy to be funded, at least in part, by reallocations away from defense and security. How the government would actually formulate a permanent plan through broad-gauged participation is exceptionally unclear, as it has devoted considerable energy over the years to limiting public discussion.

The Sudanese government must begin a process of strategic planning for a future with far more limited hydrocarbon revenue. Current reforms are ad hoc—or at least government has not explained them—and the recently announced devaluation and subsidy reductions do not address efforts needed in significant sectors, such as tourism. Communication on the desired path of the economy is absolutely critical, because the early days will be difficult. The political challenge caused by the emergence of a large number who have lost out, but the surfacing of those who have benefited from reforms only in the medium term, can be alleviated if the government tries to explain what it is doing. Moreover, it is up to donors and the international financial community to help create a safety net, whereas the government, due to deep mistrust and fear that either NGOs or business-created assistance entities would require due diligence and, especially, accountability through regular audits.

The US government should make it clear that there is now no legal obstacle to clearing Sudanese transactions. With the lifting of sanctions in October, American banks are free to clear Sudanese transactions. The banks, and their law firms, seem to understand that Sudanese transactions are no longer off limits, but an occasional reiteration by US officials would be helpful. The Sudanese should recognize that the clearance of a single issue, far from being a leftover of past US actions, is a reflection of how dimly banks view their prospects, and of how much needs to be done domestically before reintegrating into the world economy.

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25 International Monetary Fund, Sudan: 2017 Article IV Consultation, p. 2.

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information and investment seminars on trade and investment opportunities in Sudan. These seminars should be organized in conjunction with the Sudanese business community and the Sudanese Ministry of Commerce. These gatherings will not generate investment directly, as companies are more than capable of determining where they should allocate their capital. Their real value, given the history of sanctions spanning decades, is in the signaling by the US government to investors that they should feel comfortable going into Sudan if they have a viable business opportunity.

Finally, the US government should begin to explore how economic assistance might be restarted. Currently, the United States is limited by law in the tools it has available to it can provide to Sudan. At the very least, planning should begin for a time when Sudan will be off the SST list.

**Promoting Economic Engagement: Future Steps**

The next set of efforts will require that Sudan come off the SST list. This will not be determined by economic issues, but there will be numerous implications for the economy.

Once Sudan is off the list, efforts should be made by the Sudanese government to complete the debt-relief process. According to the IMF, this will require:

1. Establishing a further track record of good performance under programs supported by loans from the IMF and the World Bank
2. Satisfactorily implementing key reforms agreed to at the decision point
3. Adopting and implementing its PRSP for at least one year27

These points are clear, and the United States should continue to pressure Khartoum to implement its promised economic reforms and poverty-reduction strategy, in return for the long-awaited debt relief. It is highly likely that government efforts will not be linear, given the leadership’s mixed motivations.

The United States should reinstate normal economic relations, including development assistance, and encourage the multilateral institutions to re-engage.

**Limits of Reform and Limits of US Influence**

This paper has repeatedly noted that the lifting of sanctions, and the eventual provision of debt relief, will probably disappoint Sudanese looking for an immediate and dramatic economic revival. While US sanctions have been economically consequential in recent years, growth is ultimately held back by the practices and attitudes of the Sudanese government. Especially as reforms are likely to be tactical, grudging, and somewhat confusing, the immediate economic benefits of Khartoum coming in from the cold are likely to be more limited than many in Sudan expect.

Khartoum must shoulder responsibility for the reform efforts. But, as this paper and the other task-force reports have noted, there is much that the United States can do to encourage reform, and to pave the way so that tough reform decisions are more likely to be rewarded by economic acceleration. Fostering normal economic relations after decades of estrangement will be difficult for both governments.

However, since attempts at isolating Sudan have not proven satisfactory, both countries should seize this opportunity to finally garner the gains from trade and investment that have been the spark for development in so many other countries. The benefit in the long term—to both governments and their citizens—of one of the largest African countries in a critical geopolitical position, developing and engaged with the international economy, is too great to ignore.

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