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COMMITTEE OF ECONOMIC ADVISERS

THE SUDAN

Draft Report to the Council

The difficulties of the Sudan in selling her stocks of cotton at a time when she is engaging in a development plan have created a situation which is now regarded as critical. If these difficulties are not alleviated within the next few weeks, the Sudan may find herself forced into sizeable barter deals with the Sino-Soviet bloc, and the Communists may have succeeded in penetrating further into Africa.

The Economic Situation

2. The economy of the Sudan is fairly primitive and agriculture is the main source of production. Sudanese agriculture is dominated by cotton (fibre and seed) which normally accounts for two-thirds of the value of total exports; about one-half of Sudan's exports goes to the United Kingdom and Western Europe; the Soviet bloc has hitherto made only minor purchases in the country(1). Imports consist of petroleum, textiles, sugar, coffee, tea and engineering products. Industry is in its infancy. A few factories make simple types of consumer goods and process agricultural products.

3. The government has been trying to develop and to diversify the economy by means of an eight-year Development Plan (1956-1963) costing \$300 million. Until 1957, there had been no difficulty in financing this plan; export receipts from the sale of cotton provided the necessary foreign exchange, and government revenues, which were derived partly from an export tax on cotton, helped to pay for the local costs.

4. The growing pace of the Development Plan has resulted in a rising level of imports but exports, which in 1956 were at an exceptionally high level, have since fallen (2). The gap between imports and exports has persisted for the past two years and at present the level of free foreign exchange reserves (£4.9 million) is sufficient only to cover the trade deficit for another three or four months. A further difficulty is that Egypt is refusing her normal £3.5 million worth of imports from the Sudan.

(1) See Annex Table 2.
(2) See Annex Table 1.

5. Until recently the Government has been able to achieve a budgetary surplus of around £3 to £4 m. With the fall in exports and in the yield from export taxes, budget receipts have declined. Despite economies, the Sudanese Government is faced with a budget deficit of £2.8 m. in the year ending June 1959.

The Cotton Situation

6. The Sudan produces long and medium staple cotton, which is relatively high priced and is used for fine fabrics. It is similar to the Egyptian Karnak or Ashmouni staples and competes with them on world markets. In recent years the area under cultivation has risen sharply; the 1957 acreage was 50% higher than 1948 - 1952. Present plans call for doubling cotton acreage and output by 1960.

7. Cotton production has fluctuated sharply in recent years. In 1956-57, a record crop of 680,000 bales was produced; this was followed by last year's poor crop of 150,000 bales. It is expected that about 600,000 bales will be harvested for the 1958-59 crop early next year.

8. Difficulties in selling cotton began late in 1957 partly as a result of an ill-considered cotton sales policy. The Gezira Marketing Board, a combination government-owner-tenant organization which grows and markets the bulk of the Sudanese cotton crop, set the reserve price of cotton too high. This caused a sharp fall in sales, the effect of which was not entirely remedied by belated reductions (on the advice of Lancashire buyers) in the reserve prices and the export taxes. Immediate export prospects are prejudiced by the poor quality of much of the cotton now held. This is estimated at around 250,000 bales (the 1956-57 crop suffered damage; the 1957-58 crop was small). Western demand is not strong; most commodity markets are presently weak and this weakness has been accentuated in the market for high grade cotton by technological changes which are resulting in a displacement of expensive cotton by cheaper varieties.

9. The Sudanese have attempted to meet their difficulties by reducing reserve prices on the higher quality long staple cotton. However, their best opportunity for sales rests with medium staple cotton, the reserve price of which is still too high.

10. Recent moves by the Sudanese suggest an anxiety to sell cotton at any price. They have resorted to private sales below the reserve prices, but this has had the result of reducing the interest of buyers in dealing at the auctions. A Sudanese mission is now travelling through Europe searching for markets, even on a barter basis. Barter deals have been concluded with Hungary and Communist China, to the value of £500,000 and £1,000,000 respectively, and more are expected with Rumania, Poland, Bulgaria and possibly the USSR. China also bought some of the Sudan's small supply of short staple cotton earlier this year for cash.

11. To meet Sudan's economic needs, the US government has offered \$30.6 millions of aid for the fiscal year 1958-59 (\$15 million for financing essential imports, \$10 millions for a textile mill, \$4.5 millions for development projects and \$1.1 millions for technical assistance). The attitude of the new Sudanese government is favourable to economic assistance from all sides. General Abboud has recently approved the acceptance of US aid, and has reaffirmed the previous government's policy of accepting unconditional Russian aid.

Vulnerability to Soviet Economic Penetration

12. In the long run the basic need of the Sudan is diversification of agriculture and the development of new industries. The Sudanese Government is aware of this but experiments have so far failed to find other crops to replace cotton, and industrial development has been hampered by the lack of power and indigenous raw materials and the shortage of capital, managers and skilled workers. Thus the main effect of the development programme so far has been to increase cotton production despite the uncertain demand for this product, particularly for long-staple cotton. The Sudanese economy will therefore continue for some time to be subject to the risks common to single-crop primary producers.

13. However, the immediate problem of the Sudan is to dispose of her present cotton stocks. If her traditional buyers in the West fail her, the Sudan will be forced to look elsewhere for markets. The Soviet bloc is fully aware of the opportunities for economic penetration inherent in this situation. Following marketing difficulties for Sudanese cotton in 1957, the USSR stepped in with an offer of a comprehensive economic agreement under which the Russians would take the cotton in exchange for supplies of machinery and equipment and also advance credits. Similar offers have been made during 1958. If a comprehensive agreement were entered into, the Soviet bloc could be expected to send large numbers of technicians and to follow up with the methods of penetration with which we are now all too familiar. It may be that some Soviet aid will be accepted; the strength of "neutralist" opinion may even make this a necessary concomitant of acceptance of Western aid, but it seems that it is particularly important that major Sudanese needs are met from the West.

Conclusions

14. While recognising that the economic problems of the Sudan can be solved only in the longer run by a well thought out development policy, and that the situation calls for continuous consideration by the West, the Committee of Economic Advisers feels, nevertheless, that in view of the present acute difficulties member countries should be asked to take immediate action. Such action would be in the form of purchases of Sudanese cotton preferably for cash, or

if necessary, through barter deals, and of credits to assist the country's economic development.

15. The Council is invited to:

- (1) take note of this report;
- (2) recommend that governments consider urgently the possibility of taking the action along the lines described in paragraph 14 above;
- (3) ask delegations to forward to the Committee of Economic Advisers by a report describing any action taken or being taken in accordance with recommendation (2) above.

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TABLE 1. SUDAN'S BALANCE OF TRADE

(millions of US dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1950	103	78	+ 25
1951(1)	227	121	+ 106
1952(1)	133	177	- 44
1953	127	145	- 18
1954	116	139	- 23
1955	148	140	+ 8
1956(2)	192	130	+ 62
1957(2)	138	181	- 43
1958(e)(2)	145(e)	190(e)	- 45(e)

Source: Direction of International Trade. UN Publication

(e) = estimate based on partial data.

NOTE

- (1) The large increase in exports in 1951, resulting from the high prices following the Korean War, was paralleled by a sharp increase in imports the following year. When export receipts fell subsequently, imports followed suit.
- (2) Contrast the movement of imports and exports between 1956 and 1958 with what happened in 1951-53; imports in 1957 rose in the light of high export receipts in the previous year; in 1958, however, imports have not fallen, although exports have dropped to preceding levels.

TABLE 2. PERCENTAGE DISTRIBUTION OF SUDAN'S TOTAL TRADE

Sudanese trade with:	Sudanese Exports			Sudanese Imports		
	1954-56	1957	1958(1)	1954-56	1957	1958(1)
United Kingdom	30	22	29	31	26	26
Other Western European countries	28	28	29	20	21	20
Middle East	14	23	16	13	15	17
Sino-Soviet bloc	2	5	5	6	3	3
Others	26	22	21	30	35	34
	100	100	100	100	100	100

Source: Direction of International Trade. UN Publication.

(1) First five months only.

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