

ORIGINAL: ENGLISH
12th April, 1960

NATO CONFIDENTIAL
WORKING PAPER
AC/127-WP/53(Revised)

COMMITTEE OF ECONOMIC ADVISERS

ECONOMIC SITUATION IN THE SUDAN

Note by the Chairman

At a meeting on 17th June, 1959, the Council took note of the second report by the Committee of Economic Advisers on measures to assist the Sudan (C-M(59)56)(1). This report stated among other things that the "Committee of Economic Advisers will continue to exchange information on the situation, and will report on any significant new developments."

In order to assist the Committee in this task, the International Staff has prepared the attached paper on the economic situation in the Sudan. This paper deals with the following main topics:

(a) Sino-Soviet Bloc Activity in the Sudan

It appears that although trade with the Sino-Soviet Bloc has increased considerably, it still accounts for a relatively small proportion of total Sudanese trade. Soviet economic penetration has been hampered by the cautious attitude of the present government.

(b) Current Situation

A considerable improvement took place in the economic situation in the Sudan in 1959, mainly due to more realistic sales policies on the part of the Sudan authorities, the increased demand for long-staple cotton on the world market, and, to some extent, to the Council recommendation to member countries to assist the Sudan.

(c) Development Programme

Economic development of the Sudan, an urgent necessity in order to raise the extremely low

(1) C-R(59)24, Item I. For other reports on the Sudan, see C-M(58)168 and C-II(59)4.

standard of living in a country with a rapidly rising population, is largely dependent upon foreign aid. NATO countries have been the main source of aid so far.

(d) Future Outlook

Although the short-term outlook for the Sudanese economy is favourable, there remains the difficulty inherent in almost total dependence upon exports of one commodity, i.e., long-staple cotton. Long-term prospects for the export of long-staple cotton are not too encouraging, and every effort should be made to encourage diversification of the Sudanese economy. Unless the Sudan continues to make reasonable progress, its heavy dependence upon export of cotton will give the Sino-Soviet bloc undesirable opportunities for exploiting this weakness in its efforts to penetrate the Sudanese economy.

The Committee may wish to consider whether a report should be submitted to the Council following its examination of the economic situation in the Sudan.

(Signed) F. D. GREGH

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ECONOMIC SITUATION IN THE SUDAN

BASIC DATA

Area: 2,505,823 sq. km.
 Population: 10,263,000 (January 1956)
 Rate of population increase: 3.6% per annum(1)

Balance of Trade

| | (million US\$) | | | |
|----------------------------|----------------|------|------|---------|
| | 1956 | 1957 | 1958 | 1959(2) |
| Imports (c.i.f.) | 130 | 194 | 170 | 164 |
| Exports (f.o.b.) | 192 | 148 | 125 | 192 |
| Surplus (+) or deficit (-) | + 62 | - 46 | - 45 | + 28 |

Exchange rate: One Sudanese pound (£Sd.) = 2.872 US\$

State Budget

| | (million £Sd.) | | |
|-----------------------------|----------------|---------|------------|
| | 1957/58 | 1958/59 | 1959/60(3) |
| Ordinary Receipts | 47.4 | 39.0 | 42.9 |
| Expenditures | 41.3 | 38.4 | 42.8 |
| Surplus (+) | + 6.1 | + 0.6 | + 0.1 |
| Development Expenditures | | | |
| Productive Schemes | 10.4 | 6.9 | 5.9 |
| Research and Investigations | 0.6 | 3.4 | 0.5 |
| Social Services | 1.5 | 1.2 | 3.4 |
| Communications | 3.1 | 1.2 | 1.3 |
| Public Utilities | 1.7 | 0.7 | 0.3 |
| Administration | 1.6 | 0.3 | 1.5 |
| TOTAL | -18.9 | -13.7 | -12.9 |
| Overall deficit (-) | -12.8 | -13.1 | -12.8 |

Money Supply: 31st December, 1958
 Total currency issue - £Sd. 26,316,000

Foreign Exchange Reserves 30th September, 1959 £Sd. 18,017,000

Government Debt 31st December, 1958
 External... London Market
 Bonds £Sd. 3,649,395
 International Monetary Fund £Sd. 1,741,214
 £Sd. 5,390,609

- (1) Estimate
 (2) Estimate based on January-September figures.
 (3) Figures for 1959/60 do not include the revenue expected (but not estimated) from new taxation introduced in July 1959.

ECONOMIC SITUATION IN THE SUDAN

I. SINO-SOVIET BLOC ACTIVITY IN THE SUDAN

1. Trade with the Sino-Soviet Bloc, which stood at \$14 million in 1957 and \$16 million in 1958, rose in 1959, although total figures are not yet available. Cotton exports to the USSR, Czechoslovakia, Communist China, Hungary and Poland increased sharply while the Sudan began to export to Rumania for the first time. Cotton shipments to the Bloc in 1959 were more than three times those of the previous year. Czechoslovakia, East Germany and Poland also continued to absorb considerable quantities of groundnuts. At the same time, cement, textiles and other products have been arriving in increasing quantities from the Sino-Soviet Bloc.

2. This increase in trade with the Sino-Soviet Bloc may largely be attributed to efforts by the Sudanese authorities to find alternative markets following difficulties experienced in marketing cotton in previous years. In fact, though trade and/or payments agreements had been concluded with Czechoslovakia, Communist China, Hungary, Poland, Bulgaria, and East Germany, some as early as 1955, it was not until 1958 that Sudanese authorities began to look with greater favour on bilateral trade agreements, even including barter agreements. In March 1959, a trade agreement was concluded with the USSR calling for the exchange of goods to a value of about \$7.2 million over a one-year period (1).

3. Despite the growth in trade with the Sino-Soviet Bloc, this trade still only accounts for a relatively small proportion of total Sudanese foreign trade - possibly not more than a tenth. Further inroads were, however, undoubtedly limited by the negative attitude to Soviet overtures adopted by the Government which came into power in 1958.

4. This position is also reflected in the situation with regard to aid. The USSR is reported to have offered a loan to the Sudanese for development purposes. But this offer was not accepted since it involved the acceptance of a technical assistance programme. The present Government is opposed to the entry of Soviet technicians into the Sudan. Nevertheless, the possibility of a credit apparently still exists.

II. CURRENT SITUATION

5. A considerable improvement has taken place in the economic situation in the Sudan in 1959. Not only was the 1958/59 cotton crop more than double the previous one, but it has proved possible to market abroad most of this crop as well as carry-overs

(1) The full text of this agreement has been circulated as AC/127-WP/25.

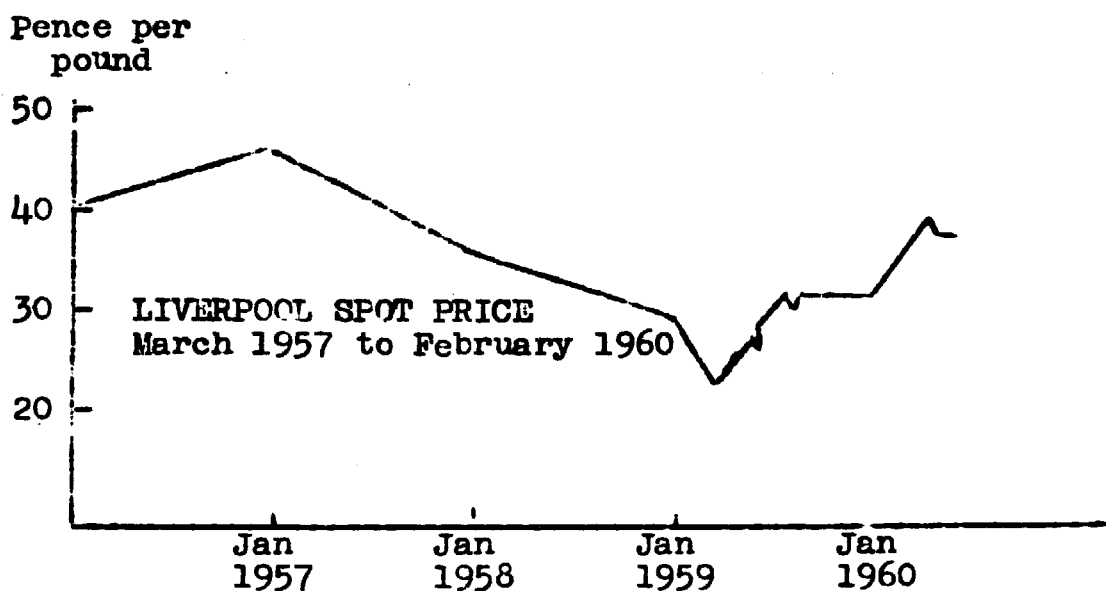
from previous years. Exports of cotton to NATO countries have more than doubled while those to other countries of the Free World have risen by nearly 70% in 1959. At the same time exports to the Sino-Soviet Bloc have more than tripled.

TABLE I
SUDANESE COTTON EXPORTS (1)

| Exports to | 1957 | | 1958 | | 1959 | |
|----------------------------|-------------|------------|-------------|------------|-------------|------------|
| | 1,000 bales | % of total | 1,000 bales | % of total | 1,000 bales | % of total |
| NATO Countries | 198 | 62.7 | 275 | 65.3 | 652 | 68.9 |
| Other Free World Countries | 81 | 25.6 | 119 | 28.3 | 200 | 21.1 |
| Sino-Soviet Bloc | 37 | 11.7 | 27 | 6.4 | 95 | 10.0 |
| Total | 316 | 100.0 | 421 | 100.0 | 947 | 100.0 |

6. The United Kingdom, which has long been the principal market for Sudanese cotton, increased purchases in 1959 by over 80%, while Germany, France, Italy, the Netherlands, Belgium, the United States, Canada, Denmark and Portugal have all imported considerably more cotton than in the previous year. Though cotton exports have undoubtedly been assisted by the new pricing policy of the Gezira Marketing Board and some recovery in world demand, the decision of the Council to promote Western purchases of Sudanese cotton has probably played a role in bringing about this improvement.

7. The price of Sudanese cotton has been rising since February, 1959, partly compensating for the declines registered in 1957 and 1958, as it appears from the following chart:



(1) A breakdown by individual countries is given in Annex I.

8. Cotton exports represent some three-fifths of overall exports; with higher prices and larger quantities exported, there has been an improvement in the foreign exchange position. Free foreign exchange reserves, which fell to some £Sd. 4.1 million (\$11.8 million) at the end of 1958, are now being rebuilt, reaching some £Sd. 18 million (\$51.7 million) by the end of September 1959. The improved economic situation together with new taxes is expected to result in a rise of 10% in budget receipts in 1959/60, permitting a somewhat higher level of budget expenditure for development and other purposes. Sudanese authorities also felt able to introduce a certain relaxation of import restrictions in the summer of 1959.

III. DEVELOPMENT PROGRAMME

9. Faced with an extremely low standard of living and a population rising at a rapid rate, about 3.6% per annum, the Sudanese authorities are making a great effort to develop the economy. The main emphasis is placed on the extension of irrigation schemes which would enable the Sudan to expand agricultural production, especially of cotton, for which she enjoys a natural advantage. The principal schemes are the Managil Extension (to the Gezira scheme) and the Roseires Dam. Two West German concerns have completed the first two phases of Managil and the Sudanese are now working on the first half of Phase 3. The Roseires Dam will enable Managil to be cultivated to its full potential by providing an additional source of water and will make possible the irrigation of other new land, including the Kenana Scheme (though this last is a longer-term project). The completion of the Managil Extension (i.e. second half of Phase 3 and the whole of Phase 4) planned for 1961/62, will greatly increase the area under cotton. External loans will be needed for Managil and Roseires and probably for the new Khashm el Girba scheme designed to provide land for the people of Wadi Halfa who will be flooded out by the High Dam. At the same time, it is expected that the production of maize, sugar cane, cacao and other crops will be either introduced for the first time or the output will be increased.

10. The Government is also extending the road and rail and expanding port facilities, as well as promoting the growth of industrial activity, which is limited at present to the production of a few consumer goods such as canned meat, beverages and cigarettes. Some increase in electric power is also accompanying the development of irrigation projects; a hydro-electric project on the Sennar Dam is now being constructed by a British and West German firm.

11. While Sudanese authorities do not yet feel that they are in a position to integrate the different schemes into an overall development programme, a framework for a five-year plan (1959-64) has been prepared. A tentative estimate places the cost of these schemes over the next five years at over £300 million.

12. Until 1958 the development schemes were financed exclusively through the Sudanese budget. Expenditures under the development budget have, however, declined from £Sd. 18.9 million (\$54.3 million) in 1957/58 to £Sd. 12.8 million (\$36.8 million) in 1959/60. This decline was made necessary by a fall in budget receipts following the difficult economic situation in 1957 and 1958.

13. Recognising the need for foreign capital the Sudan obtained a loan from the International Bank for Reconstruction and Development in 1958, to a value of \$39 million in order to finance the expansion and improvement of Sudan Railways; \$17.9 million of this loan was drawn by the end of September, 1959. The International Bank for Reconstruction and Development is now considering another loan to help finance the completion of the Managil Extension and is investigating the possibility of financing the first phase of the Roseiros project.

14. NATO countries have also been active in granting bilateral assistance to the Sudan; much of this aid has been devoted to financing development schemes and meeting foreign exchange requirements for the import of capital goods. During the fiscal year 1958/59, credits and loans in the amount of some \$60 million have been extended by NATO countries to the Sudan (1). Nearly half of this amount has been provided by the United States in the form of loans and grants. One of the principal projects to be financed with assistance from the United States is a textile plant, which should help reduce the heavy dependence of the Sudan on foreign imports. The United Kingdom and Western Germany have granted export and other credits, which account for the balance of the assistance.

15. Yugoslavia has also lent £Sd. 5 million (\$14.4 million) to the Sudan in 1959, repayable in eight years at 3% interest. Yugoslavia is considering the establishment of a joint shipping company, a tannery and a cardboard factory. There is also a Cultural Agreement, and the Yugoslavs are building four naval patrol craft for the Sudan and are training naval personnel and air force pilots.

16. Private capital has been showing considerable caution in entering the Sudan in recent years. Nevertheless, the present Government has been giving more encouragement to private investors. Thus, for the first time, concessions have been granted to Western companies to prospect for oil.

IV. FUTURE OUTLOOK

17. The gradual implementation of the development schemes is bringing about a steady increase in cotton production. The cotton crop, which reached 660,000 bales last year, is expected to be some 700,000 bales in 1959/60. The rate of growth over the next five years is expected to average about 7% a year; this rate should make the Sudan the world's largest producer of extra-long staple cotton by 1965, as may be seen below:

(1) For details see C-M(59)56. Agreement was reached after the circulation of this paper on the German export credit guarantee of DM. 26 million mentioned as a possibility in C-M(59)56.

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TABLE II

WORLD PRODUCTION OF EXTRA-LONG STAPLE COTTON

(thousands of bales)

| COUNTRY | 1957/58 | 1965 |
|---------------|---------|-------|
| Sudan | 450 | 800 |
| Egypt | 806 | 550 |
| Peru | 90 | 115 |
| United States | 83 | 110 |
| Others | 36 | 35 |
| | 1,465 | 1,600 |

18. World demand for extra-long staple cotton is expected to rise in 1960, both as a result of the present low level of stocks and a gradual recovery in the cotton textile industry. Though the Sudan will probably experience relatively little difficulty in marketing the 1959/60 crop, the tendency for production in the Sudan to rise more rapidly than world demand will probably cause increasing difficulty in disposing of the crops over the coming years. Long-staple cotton prices, while still rising in the spot and future markets, will probably tend to stabilise or even decline in future years. Prices of long-staple cotton are particularly sensitive to changes in supply or demand. Substantial price changes could seriously affect the export earnings of the Sudan.

19. The Special Sub-Committee of the International Cotton Advisory Committee on Extra-Long Staple Cotton meeting in Alexandria in September 1959, underlined the need for the Sudan and other producers of long-staple to bring production into accord with demand and urged that efforts should be made to bring about diversification of agricultural production. These questions will undoubtedly be considered again at the 19th Plenary Meeting of the International Cotton Advisory Committee to be held in Mexico City in May 1960.

20. Despite the improvement in the current situation in the Sudan, prospects point to the need to give continued attention to the danger of penetration by the Sino-Soviet Bloc in the Sudan. Any lessening of the role played by the West in Sudan, as an export market, especially for cotton, and as a source of assistance under the five-year plan which is now being formulated, could provide the Bloc with an occasion to strengthen their foothold. In fact, the possibility for the Soviets to allow their internal demand for cotton to rise enables them to pursue trade manoeuvres in this area with the minimum of adverse effect on their economies.

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SUDAN: COTTON EXPORTS 1957-1959

(number of bales)

| EXPORTS TO | 1957 | 1958 | 1959 |
|-----------------------------------|----------------|----------------|----------------|
| NATO Countries | 198,035 | 274,945 | 652,531 |
| United Kingdom | 113,541 | 162,876 | 298,057 |
| Germany (Federal Republic) | 22,477 | 48,240 | 106,902 |
| France | 33,936 | 40,651 | 98,676 |
| Italy | 22,447 | 12,995 | 91,184 |
| Netherlands | 830 | 3,036 | 25,799 |
| Belgium | 3,947 | 6,016 | 20,059 |
| United States | 647 | 25 | 5,809 |
| Canada | - | - | 2,450 |
| Denmark | 210 | 506 | 2,010 |
| Portugal | - | 600 | 1,575 |
| Norway | - | - | 10 |
| Other Free World Countries | 81,021 | 119,083 | 200,188 |
| India | 60,640 | 76,367 | 139,948 |
| Japan | 3,065 | 12,619 | 24,980 |
| Ethiopia | 12,651 | 18,265 | 11,022 |
| Switzerland | 3,439 | 3,816 | 7,555 |
| Austria | 529 | 1,613 | 4,557 |
| Yugoslavia | 304 | 1,628 | 3,061 |
| Sweden | 10 | 50 | 2,664 |
| Trieste | - | 3,348 | 2,499 |
| Hong Kong | 105 | 575 | 2,102 |
| Australia | - | 516 | 1,096 |
| South Africa | - | 56 | 599 |
| China (Nationalist) | - | - | 100 |
| Lebanon | - | - | 5 |
| Finland | 258 | 200 | - |
| Saudi Arabia | 20 | - | - |
| Rhodesia | - | 30 | - |
| Sino-Soviet Bloc | 37,042 | 26,730 | 94,584 |
| USSR | 10,500 | - | 33,230 |
| Czechoslovakia | 5,700 | 6,698 | 17,907 |
| China (Communist) | 14,648 | 11,736 | 15,889 |
| Hungary | 4,881 | 3,105 | 14,159 |
| Poland | 1,313 | 5,191 | 9,598 |
| Rumania | - | - | 3,052 |
| Bulgaria | - | - | 749 |
| Total | 316,098 | 420,758 | 947,303 |

Source: United Kingdom Delegation to NATO

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