



GAINS AND LOSSES OF INTERNATIONAL TRADE FOR DEVELOPING COUNTRIES: CASE OF SOUTH SUDAN

Daniel Kon Ater, Ph.D.

Deputy Commissioner for South Sudan Institute for
Revenue Administration (SSIRA), SSRA, South Sudan
danielkon@nra.gov.ss

Abstract

This paper examines the gains and losses of international trade for developing countries, focusing on the experience of South Sudan. While international trade can boost economic growth, technology transfer, and diversification, it also exposes developing economies to external shocks, deindustrialization, and unequal terms of trade. Using recent economic data, policy reports, and regional comparisons, the paper highlights both the opportunities and vulnerabilities that characterize South Sudan's trade relations. The study concludes that for South Sudan to maximize the benefits of international trade, it must prioritize diversification, investment in local industries, and strategic trade policies.

Keywords: South Sudan, international trade, export diversification, economic development, oil dependence, trade vulnerability, deindustrialization, technology transfer, policy, regional integration

INTRODUCTION

International trade is widely acknowledged as a major driver of economic development, particularly in the era of globalization and the increased integration of emerging markets into the world economy. For developing countries, trade provides access to larger and more lucrative markets, generates foreign exchange, and facilitates technology transfer and modernization (Krugman & Obstfeld, 2018; World Bank, 2021). However, trade also brings risks: it can expose economies to global price volatility, foster dependence on a narrow range of primary

commodities, and weaken domestic industries (UNCTAD, 2022). South Sudan presents a telling case. As a resource-rich but structurally undiversified economy, it is heavily reliant on oil exports and vulnerable to global market shocks. This paper explores both the opportunities brought by trade and the persistent risks and constraints facing South Sudan in the international trading system.

LITERATURE REVIEW

Theoretical Perspectives

Classical and neoclassical economic theories—such as Ricardian comparative advantage—argue that international trade allows countries to specialize in goods where they are most efficient, thereby maximizing total world output and welfare (Krugman & Obstfeld, 2018). However, dependency theorists and structuralists (Prebisch, 1950; UNCTAD, 2022) highlight that developing nations often remain locked in disadvantageous positions, exporting raw materials and importing high-value goods, which perpetuates underdevelopment and external dependency.

The Prebisch-Singer Hypothesis posits that the terms of trade for primary commodities deteriorate over time relative to manufactured goods, undermining the long-term development prospects of commodity-dependent countries such as South Sudan (UNCTAD, 2022).

Empirical Evidence

Empirical studies confirm that **trade openness** is generally correlated with higher rates of economic growth in developing countries, particularly where openness is accompanied by export diversification and the presence of robust institutions (World Bank, 2021; African Development Bank, 2023). The positive impact of trade is most pronounced in settings where countries are able to move beyond primary commodities and integrate into regional and global value chains with a variety of products and services.

For instance, research shows that economies with a broad export base are more resilient to external shocks. **Export diversification** reduces exposure to the price volatility of a single commodity and promotes more stable and sustainable growth (UNCTAD, 2022). In contrast, commodity-dependent economies—such as South Sudan, Nigeria, and Angola—often experience pronounced macroeconomic instability, as government revenues and budgets become highly sensitive to fluctuations in global commodity prices, particularly oil (UNCTAD, 2022). This volatility can lead to fiscal crises, inflation, currency depreciation, and social unrest, especially when export prices fall sharply.

The experience of **sub-Saharan Africa** offers important lessons. Countries that have prioritized **value addition**—processing raw materials before export—and actively pursued **strategic trade policies** have enjoyed more robust and inclusive growth. For example, **Ethiopia** has made significant strides in developing its agro-processing sector, supported by targeted investments in infrastructure, special economic zones, and export incentives. This has enabled Ethiopia to become a leading exporter of processed agricultural goods in the region, creating jobs and increasing foreign exchange earnings (UNCTAD, 2022; World Bank, 2021).

Similarly, **Kenya** has successfully capitalized on its horticultural sector, especially through the export of cut flowers, vegetables, and fruits. The government's focus on improving logistics, enforcing quality standards, and negotiating favorable trade agreements—particularly with the European Union—has facilitated Kenya's rise as a major horticultural exporter (African Development Bank, 2023). This diversification has helped cushion the economy from periodic downturns in other sectors, such as tourism or traditional cash crops like coffee and tea.

Conversely, countries that remain reliant on a narrow range of exports have struggled with persistent trade deficits, currency instability, and slow progress toward poverty reduction. The literature also notes that the presence of **robust institutions**—including efficient customs authorities, transparent regulatory frameworks, and effective dispute resolution mechanisms—plays a critical role in translating the potential benefits of trade openness into tangible development outcomes (World Bank, 2021).

Thus, the evidence from Africa and other developing regions underscores the importance of **diversification, value addition, and institutional strength** as prerequisites for realizing the full developmental benefits of international trade. For South Sudan, which remains highly dependent on oil exports and vulnerable to global price swings, these lessons are particularly salient.

CASE ANALYSIS: SOUTH SUDAN

Overview of South Sudan's Trade Profile

A. Dominance of Oil Exports

South Sudan's economy is overwhelmingly reliant on oil exports, which account for more than 90% of government revenue and foreign exchange earnings (South Sudan Revenue Authority, 2023; African Development Bank, 2023). This high dependency exposes the country to significant fiscal risks and macroeconomic instability, as oil prices are notoriously volatile on the global market. For example, when global oil prices fell sharply in 2020, South Sudan experienced a budget crisis, currency depreciation, and delays in public sector salaries.

B. Import Structure and Trade Deficits

South Sudan's imports consist mainly of manufactured goods, processed foods, fuel, and consumer products. These goods are sourced primarily from neighboring countries such as Kenya, Uganda, and Ethiopia, as well as from China and the Middle East. The country's reliance on imports has led to persistent trade deficits, especially during periods when oil revenues are insufficient to cover import costs.

Table 1: South Sudan's Trade Statistics (2020–2023)

Year	Oil Exports (USD million)	Non-Oil Exports (USD million)	Total Exports (USD million)	Total Imports (USD million)	Trade Balance (USD million)	Oil Exports as % of Total Exports
2020	2,660	140	2,800	2,200	+600	95
2021	2,883	217	3,100	2,400	+700	93
2022	2,250	250	2,500	2,900	-400	90
2023	2,464	336	2,800	3,000	-200	88

Sources: South Sudan Revenue Authority (2023); World Bank (2021)

C. Limited Export Diversification

Despite its vast agricultural and natural resource potential, South Sudan's non-oil exports remain minimal. Crops, livestock, fisheries, and forest products make up a small share of total export earnings. Structural barriers—including inadequate infrastructure, insecurity, limited access to finance, and weak institutional support—have stunted the growth of agriculture and manufacturing sectors. As a result, the economy remains acutely sensitive to disruptions in oil production or fluctuations in oil prices.

D. Sensitivity to External Shocks

The combination of a narrow export base and high import dependency makes South Sudan especially vulnerable to external shocks. Oil price volatility, regional instability, and disruptions to supply routes (such as pipeline closures or border disputes) can have immediate and severe impacts on government finances, exchange rates, and the cost of living. For example, during the 2020 oil price crash, South Sudan's foreign reserves shrank and inflation surged, leading to reduced capacity for public service delivery (African Development Bank, 2023).

E. Persistent Challenges and the Need for Reform

South Sudan's import reliance and lack of export diversification underscore the urgent need for structural reforms. Investments in transport infrastructure, value-added processing, agricultural extension services, and institutional capacity could help unlock non-oil sectors and reduce vulnerability. Policymaking must prioritize export diversification, industrialization, and the creation of a more resilient economy.

Gains from International Trade

A. Foreign Exchange Earnings

International trade, most notably through crude oil exports, is South Sudan's primary source of foreign currency. Oil sales generate the bulk of the country's foreign exchange reserves, which are vital for funding essential imports—such as food, fuel, medicines, construction materials, and machinery—and for servicing external debt. These revenues also support public investment in infrastructure, health, and education (World Bank, 2021; Krugman & Obstfeld, 2018).

However, this benefit comes with a trade-off: South Sudan's heavy reliance on a single commodity increases its exposure to global oil price fluctuations. Sudden declines in oil prices can rapidly erode foreign currency reserves, disrupt government budgets, and undermine economic stability (UNCTAD, 2022). Thus, while foreign exchange earnings are a key gain, their volatility poses ongoing risks.

B. Market Access and Income Generation

Regional trade agreements—such as those with the East African Community (EAC) and the Intergovernmental Authority on Development (IGAD), provide South Sudan with preferential access to larger regional markets. This access presents opportunities for South Sudanese businesses to export agricultural products, livestock, and manufactured goods beyond national borders, thereby generating additional income and stimulating economic growth (AfDB, 2023).

Nevertheless, research and regional experience show that market access alone is insufficient for sustained growth. To fully capitalize on these opportunities, South Sudan must improve its competitiveness and invest in value addition, such as agro-processing and manufacturing. Without these, the benefits of broader markets remain limited, and the country risks remaining a marginal player in regional trade (UNCTAD, 2022).

C. Technology and Knowledge Transfer

Participation in international trade exposes South Sudan to new technologies and business practices from more advanced economies. Imports of machinery and equipment, foreign direct investment (FDI), and joint ventures facilitate the transfer of technology, management expertise, and international standards (World Bank, 2021). This process—often referred to as “technology spillover”—is crucial for modernizing domestic industries and improving productivity. However, the effectiveness of technology transfer depends on the presence of strong institutions, skilled labor, and targeted policies that foster local capacity and innovation (Prebisch, 1950; UNCTAD, 2022). In the absence of these, technology transfer may remain superficial, with limited impact on long-term development.

D. Consumer Benefits

International trade expands the range and quality of goods and services available to South Sudanese consumers. Access to imported products, such as processed foods, electronics, clothing, and vehicles, enhances consumer choice and can lower prices through increased competition (Krugman & Obstfeld, 2018). These benefits contribute to improved living standards, especially as domestic production remains limited. However, there is a risk that poorly managed trade liberalization can crowd out local producers, stifling the development of homegrown industries and perpetuating dependence on imports (UNCTAD, 2022). It is therefore important to balance consumer gains with policies that also nurture domestic enterprise.

Table 2: Regional Trade Metrics Comparison (2022)

Country	Export Diversification Index	Oil Export Share (%)	Non-Oil Export Growth (%)	Average Tariff (%)	Trade Balance (USD million)
South Sudan	0.17	88	+12	9	-200
Kenya	0.48	5	+30	11	-1,000
Ethiopia	0.41	0	+18	14	-2,500
Uganda	0.35	2	+20	10	-500

Note: A higher index indicates greater export diversification (UNCTAD, 2022).

LOSSES AND RISKS FROM INTERNATIONAL TRADE

A. Vulnerability to External Shocks

South Sudan’s overwhelming dependence on oil exports renders its entire economy highly sensitive to changes in global oil prices. When oil prices fall—such as during the 2014–

2016 and 2020 global oil price collapses—the country immediately faces severe fiscal stress. Revenue shortfalls lead to government budget deficits, forcing cuts in essential services and public investment. These shocks also cause the South Sudanese Pound to depreciate rapidly, fueling inflation and eroding the real incomes of households (African Development Bank, 2023; South Sudan Revenue Authority, 2023). This vulnerability is a classic feature of undiversified, commodity-dependent economies.

B. Deindustrialization and Import Dependence

South Sudan's reliance on imported manufactured goods, food, and fuel undermines the development of its own domestic industries. Because imported products often outcompete locally produced goods—on price, quality, or availability—local manufacturing remains underdeveloped and job creation is limited. This import dependence perpetuates a structural trade deficit, as the country spends more on imports than it earns from exports, and it reduces incentives for local innovation and industrialization (UNCTAD, 2022).

C. Terms of Trade Deterioration

The terms of trade describe the ratio between export prices and import prices. South Sudan's export structure—dominated by unrefined crude oil—means it typically exchanges large volumes of low-value raw materials for relatively small volumes of high-value manufactured imports. Over time, as predicted by the Prebisch-Singer Hypothesis, the price of oil and other commodities tends to decline relative to manufactured goods (Prebisch, 1950; UNCTAD, 2022; Krugman & Obstfeld, 2018). This deterioration in terms of trade means South Sudan must export more simply to afford the same quantity of imports, thereby eroding national purchasing power.

D. Revenue Volatility

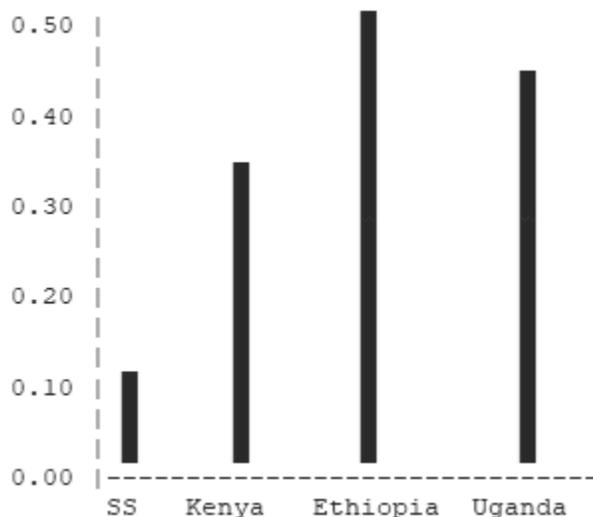
With the government's revenue stream so tightly coupled to oil exports, public finances become extremely volatile. When export earnings drop, the government's ability to fund public services, infrastructure, and social programs is severely hampered. Such revenue unpredictability complicates fiscal planning and discourages long-term investment in development (World Bank, 2021). This volatility can also exacerbate political instability, as expectations for government spending go unmet.

E. Trade Imbalances

South Sudan has experienced persistent trade deficits—where the value of imports consistently exceeds that of exports—especially during periods of low oil prices or production disruptions. These deficits erode foreign currency reserves, increasing vulnerability to currency crises, import restrictions, and inflation (UNCTAD, 2022). When reserves are depleted, the country may be forced to restrict imports of essential goods, further undermining economic stability and public welfare.

Figure 1: Export Diversification Index — Regional Comparison (2022)

Country	Export Diversification Index
South Sudan	0.17
Kenya	0.48
Ethiopia	0.41
Uganda	0.35



Interpretation: South Sudan's diversification index is much lower than regional peers, illustrating its dependence on a single export (oil).

DISCUSSION

South Sudan's experience highlights the dual-edged nature of international trade for developing economies. On the positive side, trade has enabled the country to earn foreign exchange, import goods, and access technology. However, it has also entrenched weaknesses—overdependency on oil, fiscal vulnerability, and underdeveloped manufacturing

(African Development Bank, 2023; South Sudan Revenue Authority, 2023). Evidence from other African countries shows that investment in local industry, export diversification, and value addition help mitigate these vulnerabilities (World Bank, 2021; UNCTAD, 2022). Ethiopia's agro-processing and Kenya's manufacturing growth illustrate the benefits of such strategies.

For South Sudan, success will require not only market access but also capacity building, infrastructure development, and supportive trade policy. Regional engagement can provide technical assistance, training, and better trade terms (African Development Bank, 2023). A critique of existing literature is that while most studies emphasize diversification and institutional strength, less research addresses political and conflict-related barriers unique to fragile states like South Sudan, or the time needed for structural change.

CONCLUSION

International trade offers both significant opportunities and notable risks for developing countries like South Sudan. Gains include foreign exchange, technology transfer, and improved consumer access, but these are offset by external vulnerability, structural dependence, and limited domestic value addition. To ensure trade drives sustainable development, South Sudan must prioritize economic diversification, investment in local industry, and robust trade policy frameworks. Lessons from regional peers and targeted reforms can help South Sudan leverage international trade for inclusive, long-term growth.

POLICY RECOMMENDATIONS

i. Promote Export Diversification

- **Action:** Prioritize the development of non-oil export sectors—especially agriculture, agro-processing, fisheries, forestry, and light manufacturing.
- **How:** Provide targeted incentives (tax breaks, production subsidies), improve access to finance for SMEs, and invest in research and extension services.
- **Why:** Reduces vulnerability to oil price shocks and creates broader-based, sustainable economic growth.

ii. Invest in Infrastructure and Trade Logistics

- **Action:** Upgrade transport infrastructure (roads, bridges, railways) and streamline customs procedures.
- **How:** Mobilize public and private investment, leverage regional infrastructure funds, and implement trade facilitation reforms in border posts.
- **Why:** Lowers trade costs, improves competitiveness, and allows rural producers better access to regional and international markets.

iii. Strengthen Institutional Capacity and Governance

- **Action:** Modernize trade, customs, and regulatory agencies (such as the SSRA) to improve efficiency, transparency, and enforcement.
- **How:** Invest in digital platforms, capacity building, and data-driven policymaking; combat corruption and promote merit-based recruitment.
- **Why:** Effective institutions are essential for enforcing trade policy, managing revenue, and reducing leakages.

iv. Enhance Regional Integration and Trade Agreements

- **Action:** Deepen engagement with the EAC, IGAD, and the African Continental Free Trade Area (AfCFTA) to improve market access and harmonize standards.
- **How:** Negotiate for fairer trade terms, participate in regional value chains, and seek technical assistance for trade capacity-building.
- **Why:** Regional integration offers scale, reduces dependence on a single partner, and supports learning from best practices.

v. Establish Stabilization and Sovereign Wealth Funds

- **Action:** Create mechanisms to manage oil revenue volatility, such as a stabilization fund or sovereign wealth fund.
- **How:** Legislate clear rules for saving oil windfalls and smoothing expenditures; ensure transparency and parliamentary oversight.
- **Why:** Provides financial buffers during downturns and supports intergenerational equity in resource management.

vi. Foster Technology Transfer and Skills Development

- **Action:** Promote foreign direct investment (FDI), joint ventures, and technical partnerships that facilitate technology transfer.
- **How:** Link investment incentives to local training, technology adoption, and backward linkages to domestic firms.
- **Why:** Builds local capacity for value addition, innovation, and integration into global value chains.

vii. Support Domestic Industry and Value Addition

- **Action:** Implement policies to stimulate local manufacturing and agro-processing, such as import substitution measures and production support.
- **How:** Gradually phase in tariffs on non-essential imports, provide infrastructure and utility subsidies for local industries, and support business incubators.
- **Why:** Reduces import dependence, creates jobs, and fosters economic resilience.

viii. Ensure Political Commitment and Stability

- **Action:** Demonstrate high-level political will to implement trade and industrial policies, and maintain peace and security.
- **How:** Build consensus among government, business, and civil society; uphold rule of law; resolve internal conflicts.
- **Why:** Sustained reforms require stable governance, confidence from investors, and the ability to plan long-term.

In summary, for South Sudan to maximize the benefits and minimize the risks of international trade, a multi-pronged approach—centered on diversification, institutional reform, regional integration, and stable political leadership—is essential. These policy actions can help transform trade from a source of vulnerability into a catalyst for inclusive and sustainable development.

LIMITATIONS OF THE STUDY

Despite the valuable insights provided, this study faces several limitations that must be acknowledged:

1. **Data Availability and Reliability:** As a newly established nation, South Sudan has limited institutional capacity for data collection and analysis. The lack of reliable, up-to-date economic and trade data poses challenges to the accuracy and comprehensiveness of this study's findings.
2. **Political Instability and Conflict:** The ongoing political unrest and frequent conflicts in South Sudan make it difficult to isolate the specific effects of international trade from other economic and social disruptions. This complicates the assessment of the true gains and losses resulting from international trade.
3. **Narrow Sectoral Focus:** The South Sudanese economy is heavily dependent on oil exports, with minimal diversification across other sectors. As a result, the findings of this study may not be broadly applicable to other sectors or to developing countries with more diversified economies.
4. **Short Time Frame:** With South Sudan having achieved independence only in 2011, the available time frame for assessing the long-term impacts of international trade is limited. This study may not fully capture the evolving nature of trade relationships and their broader, long-term effects.
5. **Lack of Comparative Analysis:** The research primarily focuses on South Sudan in isolation, with limited reference to other developing countries. This restricts the ability to

contextualize the findings and draw more generalizable conclusions about the effects of international trade.

6. **External Influences:** Factors such as international sanctions, fluctuations in global oil prices, and foreign aid flows significantly affect South Sudan's trade outcomes. These external influences may not be fully accounted for in this study, potentially impacting the results.
7. **Methodological Constraints:** Due to limitations in data and resources, the study relies mainly on qualitative analysis and secondary data sources. This may affect the robustness and objectivity of the conclusions drawn.

In summary, these limitations highlight the need for caution in interpreting the results of this study. Future research should aim to address these constraints by utilizing more comprehensive data, applying comparative methodologies, and considering a longer time frame to better understand the complexities of international trade in developing countries like South Sudan.

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