

**DIPLOMATIC RELATIONS  
AND THIER IMPACT ON  
DEVELOPMENT - THE CASE  
OF SOUTH SUDAN AND  
UGANDA**

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## DECLARATION

I declare that this research report, titled *Diplomatic relations and their impact on development: the case of South Sudan and Uganda*, my own original work done in accordance with research standards with analysis from other works in a similar field and has not previously been submitted by anyone for the award of any degree at any University.

Signature of student

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## ABSTRACT

Since Sudan's Comprehensive Peace Agreement (CPA) was signed in 2005, its border with Uganda has become a hub of activities. These economic activities have been enhanced by ethnic and political relations, but also by diplomatic relations between the two countries. Contrasting developments on the Ugandan side of the border with those on the South Sudanese side, this research draws on empirical fieldwork to examine the impact of diplomatic relations on the development between both countries since 2005, with international trade as the main aspect of development. The study sets out to show how trade between both countries has been affected by the diplomatic relations between them.

The post-CPA demand for goods and state-building processes created a range of economic opportunities for traders. This was particularly the case for Ugandan large-scale traders who, as a result, became an important and empowered group. These factors have further been enhanced by good diplomatic relations between both countries, and as a result South Sudan has become Uganda's most important trading partner as well as a destination for many Ugandans to conduct their trade.

Simultaneously, post-conflict problems have emerged in South Sudan such as insecurity, weak government institutions run by incompetent officials, corruption, high foreign exchange rate, cultural diversity, mistrust and poor infrastructure. These problems have emerged as major challenges to trade and investment by Ugandan traders in South Sudan with traders as well as government officials agreeing that these challenges present major setbacks to trade and investment in South Sudan. Ugandan small-scale traders in particular have become more vulnerable to expressions of authority on the part of South Sudan's post-CPA state, in which state or individual military might is used effectively to control trade. The current conflict, which began in December 2013, has added a new dimension to the list of impediments to trade as insecurity and economic instability have precipitated an atmosphere of uncertainty among many traders and investors. Despite all those challenges, Ugandan traders as well as government officials still view South Sudan as a business destination of choice. Overall, the study confirms that diplomatic relations have enhanced international trade between South Sudan and Uganda by way of solving trade disputes, investment promotion and influencing leadership on policy matters.

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# CHAPTER ONE

## INTRODUCTION

### **1.1 Background of the study**

South Sudan gained statehood on July 09, 2011 following a self-determination exercise granted to southerners by the Comprehensive Peace Agreement (CPA) of 2005 that ended two decades of civil war between the Government of Sudan and the Sudan People's Liberation Movement / Army (SPLM/A). The birth of South Sudan was mired by internal insecurity, strong tribal identities, non-existent infrastructure, poor human development indicators, and an uneasy relationship of dependence and vulnerability with its former enemy (Sudan).

The relations between Uganda and South Sudan have been shaped by the socio-economic as well as political interactions between the people of both countries. Socially, the people in northern and Eastern Uganda share a common ethnic background. Among many commonalties shared by both Uganda and Sudan is cross-border ethnicity. Cultural and physical similarities among the Acholi of Uganda and those of South Sudan exist and could perhaps even be referred to as identical. Likewise this is also applicable to the Madi and the Kakwa, among others. There are, therefore strong, obvious ethnic links between the people of Uganda and Sudan (Woodward, Peter, in Hansen & Twaddle, 1991).

Africans have persistently held colonial administration responsible for creating cross-border ethnicity on the continent. In other words, only colonial boundaries can explain the existing cross-border ethnicity in Africa. In this way the Acholi, Madi and Kakwa were separated by colonial boundaries and were forced to be citizens of one of the two countries, either Uganda or Sudan. In the same manner the Somali people were divided among the states of Somalia, Ethiopia, Kenya and Djibouti (Woodward, Peter, in Hansen & Twaddle, 1991).

The ethnic configuration along the Uganda South Sudan common border has not only shaped the economic interaction among the people from both countries but also the political relations between the two states. The support rendered to South Sudanese by their Ugandan counterparts through their long struggle against oppression by the Arabs has resulted in good diplomatic relations between the governments of both countries. Whether these relations have helped to lever economic development since 2011 is the purpose of this study.

After the signing of the Comprehensive Peace Agreement (CPA) in January 2005 between the government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A) there was a large influx of people into Sudan. This influx included nationals who were returning from foreign lands (refugees), foreign development workers and traders from neighbouring countries such as Uganda, as well as Eritrea, Ethiopia and Kenya, among others.

Given the relative peace after decades of war and devastation, virtually all goods and services that were needed to cater for this sudden surge in population had to be obtained from or through the neighbouring countries. Uganda, being the nearest country and with easy accessibility from Juba, the capital city of South Sudan, became the main source of most consumer goods, especially food items initially. Later, however, this also came to include other commodities such as construction materials, motor vehicles, spare parts and agricultural equipment to support the reconstruction programmes. This situation resulted in a trade boom between the two countries during the period 2005 to 2010. Informal exports of Uganda to South Sudan, for instance, grew enormously, from USD 9.1 million in 2005 to USD 929.9 million in 2008, while formal exports increased from USD 50.5 million in 2005 to USD 245.9 million in 2008 (AfDB, 2014).

Between 2005 and 2010, the business environment in South Sudan was marred by many challenges. Traders from Uganda were facing challenges of laws and procedures, some of which seemed very discouraging or, at least, strange to these traders and investors. Many Ugandan traders, for example, complained about the tax system in South Sudan where one had to pay more than ten different taxes in different offices. They were also faced with the challenges of handling trade disputes and contractual obligations with their South Sudanese partners. The increase in trade activities, on the one hand, and the increase in trade disputes, on the other, prompted the two governments to sign a bilateral trade agreement in 2008. This agreement, among other things, offered an opportunity for the two governments to protect their citizens and provide an enabling environment. During the Uganda and South Sudan Business Forum and Trade Fair, held in 2010, the two governments signed another Memorandum of Understanding (MoU) to promote and develop trade relationships between the two countries (AfDB, 2014).

This background information shows clearly that international trade and investment between South Sudan and Uganda face challenges arising from poor economic diplomacy. In



the research the extent to which the government of South Sudan has applied economic diplomacy in its diplomatic relations with Uganda to address the various factors that impede international trade between the two countries and make a scholarly contribution to the understanding of diplomatic relations and economic development is investigated. Specifically, how diplomatic relations are affecting the economy of this conflict stricken, land-locked country, whose economy is predominantly sustained by the oil sector is looked into.

The specific focus of the research will be on the relations between South Sudan and Uganda. Uganda has been chosen for this case study because of the cordial relations between the governments and people of the two countries, which have enhanced good trading and investment relations between them. The proximity of Uganda to Juba, and easy accessibility by road, has made Uganda the biggest trading partner of South Sudan.

## **1.2 Statement of the problem**

Since Sudan's Comprehensive Peace Agreement (CPA) was signed, its border with Uganda has become a hub of activity. Contrasting developments on the Ugandan side of the border with those on the South Sudanese side, the study draws on empirical fieldwork to argue that the CPA has created new centres of power at the margins of both states. However, in day-to-day dealings on either side of the border, South Sudanese military actors have become dominant. In the case of Arua, and the South Sudan–Uganda border, for example, past wartime authority structures determine access to opportunities. This means that small-scale Ugandan traders – although vital to South Sudan – have become more vulnerable to South Sudan's assertions of state authority. The experience of Ugandan traders calls into question the broad consensus that trade across the border is beneficial for peace building.

The research explores how diplomatic relations have leveraged trade between Uganda and South Sudan since South Sudan's 2011 independence. The research also explores and assesses the extent to which government policy, poor infrastructure and insecurity have impacted on investment between South Sudan and Uganda. Finally, the research will offer recommendations on how to prevent further internal political conflicts in trade between South Sudan and Uganda and work on the promotion of peace and development.

### **1.3 Research questions**

1. What has been the state of diplomatic relations between South Sudan and Uganda since 2011?
2. How did diplomatic relations affect international trade between Uganda and South Sudan?
3. Have the policies of the government of South Sudan, the perceived incompetency of government officials, corruption and poor infrastructure affected Ugandan trade and investments in South Sudan since 2011?
4. How have diplomatic relations been applied to resolve trade disputes between South Sudan and Uganda since 2011?

### **1.4 Aims and objectives of the study**

The overall aim of the study is to understand the impact of diplomatic relations on economic development. This is further broken down into specific objectives, as follows:

- To understand in depth how South Sudan's diplomatic relations leverage international trade with Uganda.
- To assess the extent to which government policy, incompetent government employees, poor infrastructure and corruption have impacted on investment by Ugandans in South Sudan.
- To gather and analyse data on diplomatic measures undertaken by South Sudan to resolve trade-related disputes with Uganda.
- To develop recommendations for possible improvement of South Sudan's diplomatic relations with Uganda, with the view to promoting a good environment for international trade and investment between the two countries.

### **1.5 Scope of the Research**

The study area for this research will cover South Sudan and Uganda during the period between 2011 and 2014. For the purpose of this research, economic development will be

examined through the variables of trade and investment, both being main factors that influence economic development. Thus, the study will consist of two thematic areas.

The first thematic area will focus on international trade as a vital component of economic development. It will look at how diplomatic relations between South Sudan and Uganda impact on international trade. Within this theme specific focus will be made on the area of economic diplomacy, the legal and institutional environment, and disputes arising from international trade between South Sudan and Uganda.

The second thematic area is the area of investment. Investment goes hand in hand with trade in enhancing economic development. Investment, in turn, is influenced by the kind of environment that is created by governments and their policies. Among others, governments are expected to provide physical infrastructure as well as the legal and institutional climate conducive for investments. This study intends to cover this area with the specific focus on the policies and institutional framework for the enhancement of investments in South Sudan – particularly investments from Uganda.

## **1.6 Significance of the research**

Most nations emerging out of conflict have the enormous challenge of reconstructing infrastructure destroyed during the conflict. In the case of South Sudan there was no infrastructure in terms of legal or bureaucratic frameworks that existed to begin with. Nothing was there to be reconstructed and therefore everything had to be created. Apart from the physical infrastructure, South Sudan also started with total policy and institutional deficiency, which impaired many functions of government internally but also in its relations with other countries in the region, thereby affecting vital economic activities such as international trade and investment.

This study will contribute to the in-depth understanding of the dynamics of economic diplomacy and economic development in South Sudan with specific focus on South Sudan and Uganda. The results of this research will be of use to academics as well as policy makers, business executives, diplomats and other researchers.

## **1.7 Limitations of the Research**

Poor institutional capacity has resulted in a scarcity of data in most government departments in South Sudan. The available data is sometimes out-dated and hard to access. In addition, the research lacks financial support and researchers have to make their own arrangements in order to travel between South Sudan and Uganda.

## **CHAPTER TWO**

### **RESEARCH METHODOLOGY**

This chapter outlines the research methodology of the study. It explains the rationale behind the methodology employed, how the research was conducted and what steps were taken to ensure data verification. Research methods involve the forms of data collection, analysis, and interpretation that researchers propose for their studies (Creswell, 2009:15).

#### **2.1 Methodology and data collection tools**

This study was carried out using desktop research and field research through the use of semi-structured and in-depth interviews with selected respondents from South Sudan and Uganda. The respondents included traders and government officials as well as local experts in order to obtain information relevant to the topic. People with expert knowledge on diplomatic relations were consulted for crucial information on the issue under discussion. A total of twelve respondents were interviewed: four traders, six government officials and two people with expert knowledge about the current diplomatic relations between South Sudan and Uganda.

Methodology is concerned with issues such as why certain data was collected, what data was collected, from where it was collected, when it was collected, how it was collected and finally how it was analysed. The goal of the study was to gain an understanding of diplomatic relations between South Sudan and Uganda.

#### **2.2 Qualitative research approach**

Qualitative methods are an approach to data collection that attempts to discover the quality of something, in other words its peculiar and essential character. These methods are inductive in nature and attempt to discover new explanations (Dudley, 2005:27-29). Dudley adds that qualitative approaches have a flexibility that allows the researcher to gather data on topics not initially identified. These methods are more useful when little is understood about the phenomenon. Therefore, flexibility is needed in the method used. In addition, these methods

involve more semi-structured searches. They ask questions or observe behaviours that are likely to be open ended. Open-ended questions do not have a defined set of response categories from which participants choose their answers. Instead, participants write responses in their own words in a blank space on a questionnaire or share their responses in their own words in an interview.

Denzin, Lincoln and Patton (in Engel &Schutt, 2010:243-244) review the ways in which qualitative research differs from quantitative research. The focus is on meaning, rather than on quantifiable phenomena. Qualitative research is based on the collection of lots of data on a few cases, rather than a little data on many cases. Qualitative researchers study in depth and in detail without predetermined categories or directions, rather than with an emphasis on analysis and categories determined in advance. The researcher in qualitative research is an ‘instrument’ rather than the designer of objective instruments to measure particular variables. Qualitative research is sensitive to context, rather than seeking universal generalisations.

In qualitative research, attention is paid to the impact of the researcher’s and other’s values in the course of the analysis, rather than presuming the possibility of value-free inquiry. Qualitative research is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant setting, data analysis that inductively builds from particulars to general themes, and the researcher making interpretations of the meaning of the data (Cresswell, 2009:3).

Rubin and Babbie (2010:34-35) add that qualitative research studies typically begin with a more flexible plan, one that allows the research procedures to evolve as more observations are gathered. Rubin and Babbie further elaborate that qualitative methods may be more suitable when flexibility is required to study new phenomenon about which we know very little, or when we seek to gain insight into subjective or complex phenomena to advance our conceptualisation of them and build a theory that can be tested in future studies.

Based on the aforementioned descriptions of qualitative research and its characteristics, the researcher came to the conclusion that the qualitative research methodology is suitable to answer the research questions. It is even more suitable when working with people, especially if the researcher (as in the case of this study) has acted as an active listener, whilst the participants as the ‘experts’ shared their experiences regarding cross-border diplomatic relations between South Sudan and Uganda.

### **2.2.1 Research design**

Research designs are the plans and procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis. Research design is a plan that describes how the research will be conducted (Dudley; 2005: 134). In this study, the researcher used an explorative and descriptive research design to gain understanding of business relations between two countries. The following description explains how the researcher utilised these research designs to achieve the goals of the study.

### **2.2.2 Descriptive research design**

In a descriptive qualitative study, the researcher observes and then describes what was observed. In qualitative studies, a descriptive study is more likely to refer to a thicker examination of phenomena and their deeper meanings. Qualitative descriptions tend to be more concerned with conveying a sense of what it is like to walk in the shoes of the people being described, providing rich details about their environments, interactions, meanings, and everyday lives rather than with generalising with precision from a larger population (Rubin & Babbie, 2010:42). According to Engel and Schutt (2010:9), descriptive research typically involves the gathering of facts. The researcher thus employed a descriptive strategy of inquiry to describe experiences about diplomatic relations between Uganda and South Sudan.

### **2.2.3 Sampling method**

Fossey *et al.*, (2002:726) state: “qualitative sampling is concerned with information richness, for which two key considerations should guide the sampling methods appropriateness and adequacy”. In other words, qualitative sampling requires identification of appropriate participants, in other words those who can best inform the study. It also requires adequate sampling of information sources to address the research question and to develop a full description of the phenomenon being studied. Qualitative researchers purposively seek out participants for inclusion in the sample because of their knowledge of the phenomenon, or part of the phenomenon, under study (Donalek & Soldwisch, 2004:356).

Dudley (2005:23) defines a sample as a subgroup of the population the researcher selects to study. In this study 12 people were selected. There are two general kinds of sampling approaches, namely probability sampling and non-probability sampling. Probability sampling is a sampling in which every person in the population has an equal chance of being selected. In other words, based on probability theory, it is probable that anyone in the population can be selected to be in the study.

Based on the aforementioned descriptions of sampling methods, the researcher came to the conclusion that non-probability sampling was suitable for this study. Dudley (2005:154) states that non-probability sampling is suitable for studies in which the researcher does not know much about the population, such as its size or its demographic characteristics. Examples of such populations might be foreign nationals, in other words Ugandans who are doing business in South Sudan. At times it may not be easy to identify such populations because of intentional concealment to protect themselves. The researcher, as a result of the above, used purposive sampling in the study.

Creswell (2009:178) suggests that the idea behind qualitative research is to purposefully select participants or sites that will best help the researcher understand the problem and answer the research question. The same author also notes that this does not necessarily suggest random sampling or selection of a large number of participants and sites, as typically found in quantitative research.

#### **2.2.4 Data collection**

The researcher used semi-structured interviews with the aid of an interview-guide as a data collection method. Grinnell and Urau (2011:306) state that a semi-structured interview schedule may include some specific items, but considerable room is given to interviewers to further explore issues pertaining to the research question being studied.

Rubin and Babbie (2010:104) define an interview guide as a qualitative measurement instrument that lists in outline form the topics and issues that the interviewer should cover in the interview, but it allows the interviewer to adapt the sequencing and wording of questions to a particular interview. They further elaborate that the interview guide ensures that the same predetermined topics and issues are covered while remaining open to further probe raised issues.

#### **2.2.5 Data analysis**

According to Stake (in Engel &Schutt, 2009: 346), qualitative data analysis is an iterative and reflexive process that begins as data is being collected rather than after data collection has ceased. The researcher used grounded theory to analyse the data in the study. The grounded theory approach entails a method of constant comparison, where “empirical indicators from the data are compared looking for similarities and differences” (Schwandt 2007: 131). This process leads researchers to categorise the data into thematic concepts and

sections (Gibbs 2007: 38). Finding relationships and connections among concepts and sections can lead to the emergence of key research findings or formation of theories.

As noted by Henn, Weinstein and Foard (2006: 199) “the cycle of sampling, data collection and coding is driven by the constant comparative method” which leads to saturation of the data, emergence of key findings and possible development of a theory. Using grounded theory, researchers can start with coding as soon as the initial data is collected. Birks and Mills (2011: 9) define coding as identification and labelling of important words, themes, ideas or arguments.

During the data analysis process, researchers look for themes, concepts, arguments and descriptions of processes that are frequently mentioned by respondents or found in the data that highlight the issues of importance or interest to the study. Identifying these phrases and arguments is called coding. Gibbs (2007: 40) writes that codes “form a focus for thinking about the data and its interpretation”. According to Babbie (2007: 296), when the grounded theory approach is used to analyse the data “systematic coding is important for achieving validity and reliability in the data analysis”. After the data is coded, researchers look for conceptual patterns. Categories and concepts that are ‘neutral’ appear frequently in the data, allow easy reference to other categories, possess clear implications for a formal theory and help to form key findings and grounded theories at the end of the research process (Sarantakos, 2005: 348).

#### **2.2.6. Validity and reliability of data**

Validity and reliability of the study is a “measure of precision, accuracy and relevance “of a study (Sarantakos 2005: 83). Validity is important in interpretive and qualitative social research. To achieve validity and credibility and strengthen the quality of their research, qualitative researchers provide detailed information about data collection and analysis, and support the findings by other studies (Sarantakos 2005: 86). One way to achieve triangulation is to compare and contrast multiple sources of data in order to enhance the validity, accuracy and quality of the research process and findings (Gibbs 2007: 94). In order to come up with reliable, consistent and dependable data, qualitative researchers consult various sources of data and “employ multiple measurement methods” (Neuman 2006: 196).

For this study, in-depth semi-structured interviews in diplomatic relations between Uganda and South Sudan and an extensive literature review were conducted in order to get multiple and diverse perspectives on different approaches to diplomatic relations and confirm the credibility and authenticity of the study and findings. The study was planned and



conducted in a comprehensive, accurate, ethical and professional manner to ensure its validity and reliability of the data and findings.

## **CHAPTER THREE**

### **LITERATURE REVIEW**

This section examines available literature on diplomatic relations and economic development drawn from academic journals, news articles and scholarly books. International relation is an academic discipline that focuses on the study of the interactions in international politics that includes state and non-state actors such as the United Nations and the World Bank etc. Also, Economic development are the efforts that a country seeks to improve the economic well-being and the quality of life for the community by creating and retaining jobs and supporting or growing incomes and the tax based of an economy([www.businessdictionary.com](http://www.businessdictionary.com)).

It is important to say that international trade is the exchange of goods and services along international borders. It allows for a greater competition and more competitive prices in the market which results in more affordable products for the consumer. This exchange of goods affects the demand and supply making goods obtainable which may not be available to consumers globally ([www.businessdictionary.com](http://www.businessdictionary.com)).

It is then divided into six sub-sections. The first sub-section provides some background on the political and economic developments between South Sudan and Uganda after the signing of the CPA, which ended one of the longest wars on the African continent. The second sub-section then looks at the theoretical understanding of the concepts of diplomatic relations and economic diplomacy. The third sub-section provides some information on the economy of South Sudan. The last two sub-sections (fourth and fifth) look at the diplomatic and trade relations between the two counties.

#### **3.1 New power centre after the CPA**

The development of a strengthened power centre on the Uganda–Sudan border since the CPA was signed is witnessed in the daily dealings between travellers, migrants, refugees and returnees, buyers and sellers, and controllers. This is a space of continuous negotiation in which fortune-seeking opportunists as well as political opponents try to evade state regulation and control, while others try to exert just that.

Tension appears when power is achieved or consolidated. With the CPA, South Sudan began its path toward sovereign statehood with its own international borders, established in 2011 after a referendum on independence from Sudan. South Sudan's border with what is now the Republic of Sudan is likely to remain the country's most volatile international border for a long time. In turn, the border with Uganda has gained tremendous importance as South

Sudan's most reliable supply line. For cross-border trade, the signing of the CPA has created significant opportunities in two ways: it has facilitated vibrant trade activities in areas that had been largely dormant in the past due to the war; it has significantly increased the demand for goods in South Sudan (Strike 2011).

The capital, Juba, attracts vast numbers of returnees, foreigners seeking opportunities in the city and the country, as well as numerous aid agencies (Keen & Lee 2007: 12-13). The border now provides what Vlassenroot and Buscher call "attractive spaces of opportunity" (2009: 3). Reliable and safe roads are still scarce, limiting agricultural production and the distribution of produce. South Sudanese production cannot meet the demand for goods and the closing of the north-south border in 2011 due to conflict between Sudan and South Sudan meant that all foreign goods came over the southern border. This has remained the trend even after the dispute with Sudan stabilised.

Goods mainly originate from Uganda but also come from Kenya, where they are either locally produced, or enter through Mombasa (having originated for the most part in the Far East). Both formal and informal exports from Uganda to South Sudan have skyrocketed since the CPA went into effect. According to the permanent secretary of the Ugandan Ministry of Tourism, Trade and Industry, Southern Sudan represented almost 40 per cent of the Ugandan export market in 2011 (Strike, 2011).

In 2008, Sudan was by far Uganda's most important export destination, taking in 68.9 per cent of Uganda's total exports. Informal exports to Sudan have grown enormously over the years, from 9.1 million USD in 2005 to 456.4 million USD in 2007 and 929.9 million USD in 2008. Formal exports increased, but less dramatically, from 50.5 million USD in 2005 to 245.9 million USD in 2008. In short, formal exports to Sudan have increased five-fold while informal exports increased 100-fold (Uganda Bureau of Statistics 2009).

In 2008 Uganda exported agricultural goods worth 111.5 million USD and industrial goods worth 816.1 million USD – together accounting for 68.9 per cent of Uganda's exports (Uganda Bureau of Statistics, 2009: 15). As soon as security had improved in the post-CPA environment, a large number of Ugandans flocked into Southern Sudan, trading a wide variety of goods for consumption such as beer, water, general foodstuffs as well as construction goods such as cement and iron sheets (Yoshino *et al.*, 2012: 43-45).

Theoretically, increased trade ought to be good news: it is widely agreed that trade has the potential to bring economic development and strengthen links between communities. This is particularly useful in a post-conflict situation needing a foundation for peace and reconciliation (Carrington 2009). However, Carrington writes that in this particular case

Ugandan traders perceived trade to be “conducted unfairly, exploitative in nature, and dominated by or serving the interests of a select elite” or that it “is marginalizing specific groups and risks fuelling unresolved tensions and creating new conflict dynamics” (Carrington 2009: 7). Specifically, Southern Sudanese have negative feelings toward foreigners (particularly Ugandans) for dominating the trade.

### **3.2 Diplomatic relations and economic diplomacy**

Matters of economic dimension have dominated the study of diplomatic relations between states. This has led to a shift in the focus of diplomacy from the traditional work of political relations to include economic relations. This shift has in turn opened a new area of study popularly known as economic diplomacy. Whereas diplomacy is concerned with measures that states apply in order to pursue their foreign policies (Berridge, 2002: 3), economic diplomacy deals with economic issues and economic security within the international system.

According to Baraney (2009), the phrase “Economic Diplomacy” assumes the diplomatic official activities that are focused on increasing exports, attracting foreign investment and participating in the work of the international economic organizations. Available literature on economic diplomacy further reveals that in economic diplomacy traditional diplomatic tools such as intelligence gathering, lobbying, representation, negotiation and advocacy are used to further the foreign economic policies of the state (Barston 1997; Berridge 2002; Hamilton & Langhorne 1995; Jönsson & Hall 2005; Watson 1982). In other words, economic diplomacy is concerned with the economic agenda in diplomacy in contrast to the political agenda.

Rana (2007) defines economic diplomacy as “the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important”.

There is a growing wealth of literature, which provides insight into the contribution of diplomatic relations on international trade and investment flows. Rose (2007) in a study of embassies in relation to international trade, reported positive and significant coefficients. The study associated the opening of an additional embassy or consulate to a six to ten percent increase in exports. This study was later reinforced by the work of van Veenstra, Yakop and van Bergeijk (2010) who discovered that economic diplomacy influenced bilateral trade flows.

While the role of diplomatic missions is increasingly shifting towards economic functions, it must be noted that many diplomatic missions are lagging behind in terms of institutional capacity. This has made the work of modern diplomats more challenging. Petrovsky (1998) admits that economic diplomacy is gradually taking over the traditional politics-oriented diplomacy. This, he points out, is manifested in the huge expansion of international trade, the power of private companies and the electronic transfer of money.

Barriers to international trade and foreign direct investment (FDI) remain significant despite the advances made in communication and transportation technology, lower transportation costs and reductions in formal trade barriers. This is mainly due to informal trade barriers, cultural and institutional differences and the prevailing modus operandus (Disdier &Head, 2008). Economic diplomacy is increasingly recognised as an instrument to deal with these intangible barriers to trade (Yakop &van Bergeijk, 2011).

### **3.3 The economy of South Sudan**

The South Sudanese economy is still largely underdeveloped, consisting predominantly of small- scale agriculture, livestock rearing and oil extraction. In monetary terms the oil sector is the largest sector of the economy. In 2011, the National Bureau of Statistics (NBS) produced the first estimates of South Sudan's GDP for the calendar years of 2008-2010. Nominal GDP in 2010 was estimated to be SDG 30.5 billion, with oil exports accounting for 71% of the value. The GDP estimates implied GDP per capita of USD 1,546.

There is little domestic commercial production, even for agriculture products, and few exports apart from oil. Available data indicates that 78% of households depend on crop farming or animal husbandry as their primary source of livelihood. The limited trade data available indicate that about 60% of imports from Uganda and Kenya are agriculture products(South Sudan MDG Status Report, 2012).

The AfDB in its African Economic Outlook of 2012 paints a picture of South Sudan's economy as "... fragile and underdeveloped. Fledgling government institutions, poor infrastructure, weak internal cohesion (as well as inter-ethnic conflict) and post-secession disputes with Sudan are potentially severe constraints to growth". The above description depicts a country that is faced with enormous challenges of state and nation building, where a much needs to be delivered within a short time and with very minimal resources. This calls

for rigorous planning and pragmatic implementation of government programs, as the African Economic Outlook further contends: “Achieving sustainable and equitable economic growth in South Sudan will thus depend on the government’s ability to create the conditions that will allow for a more diversified economy, investment in alternative sources of growth, and improved agricultural and rural development. Clearly, these conditions include peace and stability, policy and regulatory frameworks, and a prioritization of investment plans.”

### **3.4 The impact of the conflict on the economy of South Sudan**

On 15 December 2013 a new military conflict erupted in the South Sudanese city of Juba, which quickly spread to the northern states in South Sudan. Disruption to trade was inevitable and direct losses of property and trading opportunities increased rapidly.

The Voice of America on January 16, 2014 aired an interview with Patrick Ntege, head of the Uganda Traders Association of South Sudan that graphically summarises the effect of the conflict in the region. In his words, “... the conflict in South Sudan has been sending economic ripples across East Africa. Exact figures do not exist, but Uganda alone had tens of thousands of traders working in the country, according to Ntege (Head of Uganda Traders Association) South Sudan is Uganda’s biggest trading partner, bigger than even the whole of the European Union,” he noted, “So when trade is halted abruptly, it’s a blow to the economy of Uganda, it’s a blow to the business community, especially the small traders who are informal traders. It’s a very big blow”.

The World Bank in a World Economic Brief titled “The Economic and Poverty Impacts of the Recent Conflict in South Sudan” sheds more light on the impact of this conflict on the region: “Reduced oil production will impact Sudan’s economy through lower transit fees and a reduced wealth transfer. This will aggravate the strains on Sudan’s economy which is already suffering from a lack of foreign exchange, high inflation and a difficult fiscal situation, which has recently led to shortages of wheat and bread. Closer economic ties in the East African region have also been put on hold, because of the conflict in South Sudan. The Heads of States of Kenya, Uganda and Rwanda cancelled an important meeting to discuss the development of large regional infrastructure projects because South Sudan’s President could not attend. A slowing of investments in regional infrastructure would slow down the process of regional integration and limit growth opportunities in all affected countries”.

Research has shown that costs of political turmoil and civil wars in terms of output loss and standard of living can be significant. In the case of civil wars, there is a three percent

cumulative output loss after a decade. In the case of political crises, the output loss is about four percent on average over a 10-year period (Cera & Saxena, 2008:439-457). Applying these estimates to South Sudan, the cumulative output loss could be in the order of about 9 billion SSPs (or US\$3 billion) (World Bank, 2014). The conflict has had longer-term impact on oil production. Oil companies have decided not to invest further in a politically unstable environment where security risks have increased. As a result, the current conflict has precipitated the decline of South Sudan's oil production. This conflict has also impacted negatively on food harvests, further reducing non-oil GDP in 2015. Under this scenario, government revenue has remained low and further reduced resources destined to investment and social expenditure.

### **3.5 Diplomatic relations between South Sudan and Uganda**

Understanding diplomatic relations between South Sudan and Uganda requires background knowledge of the historical and geo-political linkages that exist between the two countries. One important linkage is the ethnic commonality amongst most people of the two countries. Trans-national ethnicity impacts on the diplomatic relations of many states in Africa. Ethnicity as a social grouping also affects relations between countries, as qualified by James Rossenau who argues that "the processes whereby international relations conducted by governments have been supplemented by relations among private individuals, groups, and societies can and do have important consequences for the course of events" (in Voitti & Kauppi, 1999:211).

The ethnic settings in both Sudan and Uganda transcend the official international boundaries because their international relations scenario is greatly influenced by the colonial legacy. Today many of the ethnic groupings in the two countries relate very well to each other within the context of shared languages, cultures and common origin. Trans-national ethnicity has on several occasions determined areas of conflict and cooperation between the two countries. For example, more often than not international dynamics such as conflicts, political changes and economic development in either of the countries finds expression in the other.

Another dimension to the diplomatic relations between South Sudan and Uganda lies in the political history of both countries. Whereas both countries were formerly colonised by the British, South Sudan went through a complex process of being sub-colonised by various other middle powers.

First, the British colonised the then Sudan through the Egyptians, in what came to be called the condominium rule. Later, when Sudan got its independence, the Southerners, who

were blacks, found themselves being ruled by the northern elites, who were mostly Arabs. This resulted in a struggle between the black African Southerners, who were predominantly Christians, against the Arab northerners, who were predominantly Muslims. This struggle lasted till 2005 when the CPA was signed and later gave way for the referendum, which resulted in the independence of South Sudan in July 2011.

During this period of struggle for the people of South Sudan, Ugandan people sympathised with the people of South Sudan. This was because of the ethnic linkages mentioned previously as well as the pan-Africanist understanding that the Black Africans were being subjugated by the Arabs. Although some of the regimes in Uganda had good political ties with the Arab regimes in Khartoum, the Southerners enjoyed good hospitality and support by local leaders and the population of Uganda. It is for this reason that throughout their struggle, the people of South Sudan moved and lived freely in Uganda with a good number acquiring their education in Uganda.

The government of President Yoweri Kaguta Museveni, driven by its Pan-Africanist agenda and angered by Khartoum's support for Ugandan dissidents, openly provided support to the SPLA in the 1990s until the signing of the CPA in 2005. This solidarity cemented the relations between South Sudan and Uganda. Even today there are many South Sudanese families living in Uganda, most of whom are living there because they want to benefit from, amongst other services, the education and health care services which are lacking in South Sudan. In turn, there are thousands of Ugandans in South Sudan trading and doing various jobs.

During the recent political crisis, which started on 15<sup>th</sup> December 2013 and resulted in violent confrontation, the Ugandan Government reacted swiftly by sending in troops to support the government of President Salva Kiir. Again, this rare show of solidarity by an African neighbour can only happen when the diplomatic relations between the two governments are at their best (International Alert, 2014).

### **3.6 Trade relations between South Sudan and Uganda**

Historically, trade in the region pre-dates colonial borders. Egyptian businessmen based in Khartoum had been trading with north-western Uganda since the late 1830s. Colonisation and the introduction of borders often made trade between these groups illegal, nonetheless trading patterns continued. Measures to formalise the economy in the colonial and postcolonial period largely pushed traders toward the informal economy (Meagher 1990: 66). Cross-border trade and contacts intensified through new cross-border markets in the late



1970s and 1980s, aided by refugee movements (Titeca 2009).

On the South Sudan–Uganda border, decades of violent conflict have determined how people live, move, survive, and interact with each other. The 435-kilometre stretch that connects Uganda’s north with what are today the Republic of South Sudan’s Eastern and Central Equatorial states has been an extraordinarily violent place (Schomerus & Titeca 2012).

South Sudan represented almost 40 per cent of the Ugandan export market in 2011. In 2008; South Sudan was by far Uganda’s most important export destination, taking in 68.9 per cent of Uganda’s total exports. In 2008 Uganda exported agricultural goods worth 111.5 million USD and industrial goods worth 816.1 million USD – together accounting for 68.9 per cent of Uganda’s exports (Uganda Bureau of Statistics 2009: 15).

However, tensions that arose from the trade relationship between Uganda and South Sudan, coupled with the volatile political situation within South Sudan, have affected the trade relationship between the two states. After an initial post-CPA boom, starting in 2010, exports from Uganda to South Sudan have significantly reduced. While formal exports remained at similar levels (Yoshino *et al.*, 2012: 44-45), informal exports strongly decreased, from 448.48 million USD in 2009 to 196.9 million USD in 2010 (UBOS 2011). One reason for this was unaddressed tensions at the border between Ugandan small-scale traders and South Sudanese state and non-state actors.

The International Alert (2014) in a report titled ‘Trading with Neighbours: Understanding Uganda–South Sudan Business Community Trade Relations’, points out that “Uganda’s trade volume was steadily reducing due to stiff competition from other countries such as China, Eritrea, Ethiopia, Kenya, Somalia and the United Arab Emirates (UAE) but also due to challenges related to the lack of information, lack of transparency regarding the implementation of government investment and trade policies, protection of property and lives of foreign investors and traders, lack of a culture of treating foreign investors as strategic partners, and poor enforcing contracts as well as law and order”.

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSION**

The findings in this chapter are based on the interviews and questionnaires administered to a wide range of respondents. The respondents were divided into following categories: Ugandan traders operating businesses in South Sudan; South Sudanese traders operating businesses in South Sudan; Staff of the Ministry of Commerce and Trade; Staff of the South Sudan Customs Service; Staff at the Ministry of Foreign Affairs in Juba and Staff of the Ugandan Embassy in Juba; Staff of the Ministry of Interior in South Sudan and members of the Ugandan Community in South Sudan (UCOSS). In addition, wherever appropriate, the information is either corroborated or disputed by the information from the literature.

#### **4.1 General overview after signing of CPA**

The signing of the Comprehensive Peace Agreement (CPA) in January 2005 between the government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A) resulted in a large influx of people into Sudan. This influx included previously displaced nationals, foreign development workers and traders from neighbouring countries such as Uganda, as well as Eritrea, Ethiopia and Kenya, among others. During the period 2005 to 2010, Uganda and South Sudan experienced a trade boom. This was, however, also accompanied by trade conflicts between trading communities, particularly involving Ugandans and local partners on issues such as contract breaches.

In addition, Ugandan traders raised several complaints against the Southern Sudanese authorities, such as the police and army, regarding claims of harassment, rape, torture, imprisonment, looting and the confiscation of properties. The Ugandan traders started to push for compensation from the Government of South Sudan (GoSS). This culminated in the blocking of the Kampala–Juba road by traders as well as bus and truck drivers in 2013. The Ugandan media took centre stage in reporting on the grievances of the affected traders.

Despite these conflicts, informal exports to South Sudan grew enormously during this period, from USD 9.1 million in 2005 to USD 929.9 million in 2008. Formal exports also increased, but less dramatically, from USD 50.5 million in 2005 to USD 245.9 million in 2008. In 2008 and 2010, Uganda and the GoSS signed a bilateral agreement and a Memorandum of Understanding (MoU) to safeguard the interests of both countries. During the period 2011 to 2015, trade took another turn. The increased market competition and fear of conflict after independence reduced the trade volume and revenue. On 4 November 2013

the Uganda Traders' Association of South Sudan (UTASS) summoned five members of the East African Community (EAC) namely, Burundi, Kenya, Rwanda, Tanzania and Uganda, before a regional court, seeking to block South Sudan's application for entry into the bloc. The traders argued that South Sudan did not meet the requirements expected of states applying to join the EAC. Media reports of this incident fuelled tensions between the two countries. On 15 December 2013 a new military conflict erupted in the South Sudanese city of Juba, which quickly spread to the northern states in South Sudan. Disruption to trade was inevitable and direct losses of property and trading opportunities increased rapidly.

#### **4.2 Size of Ugandan population in South Sudan**

According to most respondents from UCOSS, trade between Uganda and South Sudan has been functioning well, but there have also been some major challenges and constraints. The exact number of Ugandans running different businesses and services in South Sudan is unknown. According to UCOSS records, in 2008 there were about 900,000 registered Ugandans in the ten states of South Sudan, which dropped to about 500,000 in 2009. Senior staff at the Ugandan Embassy in Juba estimates that about 1.5 million Ugandans are present in South Sudan, while another respondent from the South Sudanese Ministry of Interior estimates that there are about three million Ugandans in South Sudan. The respondent from the Ugandan Embassy reports that efforts to register Ugandans operating businesses in South Sudan have not been very successful as only 40,000 turned up for registration in 2012.

#### **4.3 Occupations and enterprises of Ugandans in South Sudan**

According to respondents from the Ugandan Embassy in Juba, Ugandans living in South Sudan engage in a variety of occupations such as accountancy, management and project officer jobs. Other occupations include those of medical service providers, mechanical and electrical service providers, hairdressers, general merchandise retailers, fresh food retailers, motor vehicle retailers, commission agents/brokers, transporters, casual labourers and food vendors. Ugandans also work as hawkers, roadside retail vendors, sex workers, bar and restaurant tenders, event organisers, car hire service providers, spare-parts retailers, motel/lodge operators, timber importers and retailers, civil and engineering works providers, to name a few.

#### **4.4 Trade relations between Uganda and South Sudan according to respondents**

According to a respondent at the Embassy of South Sudan in Kampala, trade in the region pre-dates the colonial border demarcation. Egyptian business people from Khartoum had been trading with north-western Uganda since the late 1830s. In 1970s and 1980s, refugee movements further increased commercial activities. Investment and trade between Uganda and Sudan collapsed when the civil war in Sudan intensified after 1983, lasting until 2005. After the signing of the CPA in 2005, trade activities commenced following the establishment of the Government of South Sudan (GoSS).

However, according to a respondent who is a UCROSS executive member, trade underwent tremendous changes during the period from 2005–2010 compared with the investment and trade development activities after South Sudan gained its independence on 9 July 2011. In the respondent's words "although South Sudan has extended its goodwill to Ugandans especially in promoting investment and trade, the challenges faced by the new government are overwhelming".

According to this respondent, insecurity remains a constant destabilising factor for investment and trade in South Sudan, both internally and on its borders. Efforts have been made to improve security in Juba through day and night patrols provided by police officers as well as the military. The border guards are tasked with tackling small arms trafficking. Their work has, however, been made more challenging not only due to a lack of full border demarcation between South Sudan and Uganda, but also because markers such as trees are disputed. This limits people's freedom to move in disputed areas, with arrests and incursions occurring in both countries. In terms of promoting investment and trade, South Sudan is currently facing a range of significant and complex challenges. The challenges facing the Ugandan business community operating in South Sudan, according to this respondent, include:

- South Sudan's highly militarised and fragmented society, due to years of conflict, with frequent outbreaks of internal violence still occurring;
- The economy's dependency on a single resource – oil – which represents 98% of the government's income;
- The extremely limited nature of some of the essential services required to promote investment and trade, as government institutional establishments and some of the

trade policies at national, state and local levels are still in the process of being developed;

- The low human resource capacity to promote trade and investment;
- A complicated land ownership policy resulting in land disputes;
- Growing tension and mistrust among some of the foreign traders, especially Ugandans, and the local community.

The respondent nonetheless contends that despite these challenges South Sudan remains a lucrative market for Uganda and other East African countries.

#### **4.5 Key milestones in investment and trade development between Uganda and South Sudan that emerged from the interviews**

One custom official working at the border between South Sudan and Uganda said that decades of violent conflict have determined how people live, move, survive and interact with each other. The 435-kilometre stretch that connects Uganda's north with what are today the Republic of South Sudan's Eastern and Central Equatorial states has been dogged by violence. In northern Uganda, conflict continued between the government of Uganda and the Lord's Resistance Army (LRA) from the mid/late 1980s until 2005. At the same time, the activities of rebel groups such as the Uganda National Rescue Front (II) and the West Nile Bank Front in West Nile continued in the 1990s.

The respondent further points out that these conflicts have influenced all aspects of life and trade. Since Sudan's CPA was signed, South Sudan's border with Uganda has become a hub of economic activities. After the signing of the CPA, there was a demand for goods, and South Sudan started to build institutions and processes, creating a range of economic opportunities for Ugandan and South Sudanese traders both formally and informally. In the initial period of post-war South Sudan, small-scale traders from northern Uganda dominated the cross-border trade in Yei, Kaya, Juba, Rumbek and other key towns. The respondent was of the opinion that this was because these traders lived close to the border. Traders from other parts of Uganda, especially from the central region, soon became aware of the business opportunities in South Sudan and started to look for opportunities as well.

The number of South Sudanese traders engaged in these businesses also increased. Some of them got their supplies from Northern Uganda and even travelled as far as the major supply points in Kampala and also to Kenya. However, non-South Sudanese traders

continued to dominate the trade and soon conflicts between these groups became inevitable, especially regarding who should dominate the trade.

Another respondent who is a Ugandan trader said that trade was often conducted unfairly and that it was exploitative in nature and dominated by, or serving the interests of, a select category of people who are “well connected” to the leadership in South Sudan. This respondent further explained that some Ugandan businesses are connected to senior government and military officials in both countries, thereby creating a patronage regime which favoured these businesses while marginalising the others. On the other hand, many South Sudanese traders expressed negative sentiments towards foreigners (particularly Ugandans) for dominating trade in their country (South Sudan), what one South Sudanese trader referred to as “robbing the local traders of petty businesses”.

From the perspective of the South Sudanese respondents in this study, it was reported that, in 2008, each South Sudanese national who crossed the border into Uganda had to pay the Ugandan authorities USD 10 (UGX 26,350) for an entry visa, including students crossing the border for education purposes. The South Sudanese small-scale traders reported in 2008 that additional (possibly illegal) charges and customs were highly unpredictable, thus becoming an obstacle for most small-scale trade. Moreover, the Ugandan shilling remained the more powerful currency for trading along the border area, thus putting the South Sudanese traders at a disadvantage. Regardless, the business of money exchange was also dominated by Ugandans. The exchange rate became even more unfavourable for the South Sudanese following the 2007 replacement of the dinar by the pound (SSP).

According to the Ugandan traders interviewed in Juba, some of the Ugandan small-scale traders in particular became even more vulnerable to coercive measures by the GoSS, with state or individual military might be used to control trade under the pretext of security improvements. In the meantime, South Sudanese military actors also became dominant in trade between the two countries. During the same period, some of the purported Ugandan traders also reportedly breached trade subcontracts with their South Sudanese counterparts who reportedly disappeared with large sums of money or supplied substandard commodities. This situation was made possible by the lack of financial institutions and the reliance on verbal contracts based on trust and referrals from trusted personalities. Some Ugandan traders claimed that they were targeted by South Sudanese citizens because their fellow Ugandans had been unethical in business.

While trade was profitable for Ugandan traders and the volume of goods and services traded was very substantial, according to the representative of the Joint Action for the

Redemption of Traders in Southern Sudan (JARUT), many Ugandan traders reported dreadful accounts of mistreatment by South Sudanese security personnel. The accounts included reports of murder, torture, robbery and non-payment of owed monies by, among others, GoSS agencies or officials and the military. The media has also on many occasions reported that some Ugandan traders had been arrested, intimidated, harassed and even raped.

From the perspective of many South Sudanese traders, most of their colleagues simply lacked the capital needed to get businesses going, while others lacked the skills needed to compete for employment opportunities due to a shortage of training programmes during the war. These respondents also point out that South Sudanese returnees who were displaced during the war to Northern Sudan had received their education in an Arabic system, which meant that they had an added linguistic problem of adjusting to the English language that dominates the trade between South Sudanese and Ugandans. This situation further contributed to the potential for conflicts.

According to the Southern Sudan Human Rights Commission (SSHRC), at least 20 Ugandans died in South Sudan at the hands of Sudanese security personnel in the first eight months of 2007, especially at Juba customs and Konyo-Konyo Market. A string of rape cases involving Ugandan women working in the markets was reported and monitored by the SSHRC in 2008 (Schomerus & Titeca, 2012). It has not been established whether the Ugandans who were killed were thieves, innocent traders or criminals caught in action.

Despite these on-going conflicts, informal exports to South Sudan grew enormously over the years from USD 9.1 million in 2005 to USD 456.4 million in 2007 and to USD 929.9 million in 2008. Formal exports increased, but less dramatically, from USD 50.5 million in 2005 to USD 245.9 million in 2008. In short, formal exports to South Sudan increased nearly five-fold while informal exports increased 100-fold. However, after an initial post-war boom, exports from Uganda to South Sudan fell significantly from 2010. While formal exports remained at similar levels, informal exports strongly decreased, from USD 448.48 million in 2009 to USD 196.9 million in 2010 (Yoshino *et al.*, 2012).

The Uganda Bureau of Statistics (2011) states that the drop in trade value was attributed to the unaddressed tensions at the border between Ugandan small-scale traders and South Sudanese state and non-state actors. The increased export volume from Dubai, Eritrea, Ethiopia and Kenya further contributed to Uganda's reduced export value.

In addition, Ugandan exports to South Sudan declined due to the import controls imposed by the Central Bank of South Sudan in order to lessen foreign exchange pressures and to safeguard the foreign exchange reserve position. Despite all these trade disruptions, foreign

investors have increasingly continued to establish formal investment projects in South Sudan, especially in Juba.

According to one respondent at the Ministry of Commerce and Trade, South Sudan is still in the process of developing its tariff structure and operating system to serve as a starting point for promoting trade and investment. Other key non-tariff concerns remain, such as the lack of access to financing, the poor road network, poor air and river transport infrastructure, unpredictable bureaucratic procedures and weak administrative capacities.

According to this respondent, however, despite those challenges, some positive investments and trade developments have been achieved by South Sudan. For instance, the country has managed to attract a number of banks, which have increased from two to eighteen in just four years. Additionally, Juba has seen the number of airlines landing at its airport rise from two to eleven, with daily direct connections to its neighbouring countries, to North Africa and to the Middle East, as well as easy connections to the rest of the world.

#### **4.6. Investment opportunities and actors according to respondents**

The second section provides an overview of investment opportunities, the challenges that actors face in building strong trade relations, and the business development opportunities available to Ugandans working in South Sudan.

##### **4.6.1. Major investment and trade participants in South Sudan**

According to one respondent at the Ugandan Embassy in Juba, the exact number of Ugandans running different businesses and services in South Sudan remains unknown to the authorities. The Ugandan Embassy estimates that there are about 1.5 million Ugandans living in South Sudan, while unconfirmed reports from the Ministry of Interior in South Sudan estimate that there are about three million Ugandans. Whatever the number, the respondent said that Ugandans were engaged in a wide range of activities. It is hard to determine how much money is sent back home by Ugandans as remittances since most of these funds are remitted to Uganda through personal links, with no banking records.

##### **4.6.2 Investment and trade opportunities in South Sudan**

There are plenty of investment and trade opportunities in South Sudan in all sectors. However, many opportunities remain unexploited, as reported by the interviewed respondents. According to a respondent at the South Sudanese Ministry of Commerce Trade and Investment, South Sudan is searching for committed investors to bring in capital and



technology to the country, which could have multiple effects on the economy. South Sudan has extended goodwill to Ugandans to promote trade by allowing Ugandan traders who do not meet investment requirements to continue operating their small businesses, especially in Juba as well as in other cities.

Major investment opportunities exist in the agricultural business, tourism, trade, energy, education and transport services. In order for foreign investors to exploit these opportunities, they have to register formal businesses with at least 31% local ownership, secure land through partnering with the local community, and integrate business concepts into the local community by understanding local government policies, regulations, laws and cultural structures. The investor must also meet a number of criteria to achieve the business objectives and overall goal, a systematic formalisation of the business process, an understanding and localising of the business concept, and implementation of the required practices and processes in order to work efficiently within the existing regulations, laws and policies (Investment Promotion Act, 2009).

#### **4.6.3 Importance of South Sudan market to Uganda**

The commercial relationship with South Sudan is extremely important to Uganda, with Uganda's exports to South Sudan being larger than all of Uganda's other regional exports combined. South Sudan's consumers and businesses import large quantities of Ugandan products and services. Moreover, respondents from the Embassies of both countries agree that the South Sudanese have spent a substantial amount of money in Ugandan education, health, transport and other sectors, such as construction. These trade and investment transactions between South Sudanese and Ugandans have helped to generate considerable benefits to the economies of the two countries. South Sudan refers to Uganda as a 'lifeline trade route and home', and Uganda refers to South Sudan as the 'best export destination on the world market'. Ugandan and South Sudanese trade is a key mechanism linking Ugandan producers and traders to markets.

Investment and trade, according to the respondents, have several tangible benefits. These include creating employment opportunities, providing additional markets for Uganda's agricultural products, providing a source of foreign currency, facilitating regional integration, and assisting the spread of new farming technology and the introduction of new crops to meet market demands.

## **4.7 Trade benefits, constraints and challenges in South Sudan trade**

### **4.7.1 Business growth**

Respondents drawn from the business communities from both Uganda and South Sudan also agree that business opportunities in South Sudan have continued to grow and expand as the business environment improves, creating considerable economic opportunities for Ugandan traders. For instance, in 2010, 2,136 businesses were registered, compared with only 136 in 2005. There were just three private vehicles in the entire city of Juba in 2005, but today there are thousands. In 2005, there were no airlines flying into Juba International Airport, but today there are over 30 operators flying to Juba with the vast majority being foreign airlines. There were no hotels in Juba in 2005, but by 2010 there were over 40 hotels in the city. The small-scale Ugandan-owned enterprises have grown at a similar rate, and some enterprises have managed to meet the initial minimum investment capital requirement of about USD 100,000. Examples of such enterprises include Da Genesis Medical Centre, Tiboobiga International Inc. Ltd. and Famms Trading and Investment Co. Ltd.

Ugandans continue to provide services as well as run businesses in several major sectors in South Sudan. Several community members interviewed strongly commended Ugandans for providing quality services such as auditing and accounting, electrical, mechanical, design and health services, entrepreneurship, carpentry and many others.

### **4.7.2 GoSS and embassy support**

The Government of South Sudan continues with its willingness to foster small-scale informal trade activities with its neighbouring countries, despite the new investment and trade policy that prohibits some trading activities. According to a senior official at the South Sudanese Ministry of Foreign Affairs and International Cooperation, the top leadership of GoSS is willing to allow informal Ugandan traders to operate businesses in Juba and other towns as a gesture of goodwill between Uganda and South Sudan that has existed over recent years.

### **4.7.3 Institutional development and support**

One respondent at the Ministry of Commerce Trade and Investment said that since independence South Sudan had embarked on institutional development to support trade and investment. The South Sudan Chamber of Commerce Industry and Agriculture (SSCCIA), the South Sudan Investment Authority (SSIA), the judiciary, police departments and many

others are examples of institutions that are now available to support foreign investors and provide incentives for formal enterprises that meet investment requirements.

#### **4.8. Major constraints and challenges**

##### **4.8.1 High foreign exchange rate**

One Ugandan trader said that, following the currency reform and implementation of new government policy on foreign exchange control after independence in South Sudan, the cost of foreign exchange has increased and the dollar has become scarce: “Foreign exchange has been a major hindrance to trade. We sell in South Sudan pounds and import in US dollars from Japan”.

According to a trader in Konyo-Konyo market in Juba, since December 2013 there has been a serious shortage of US dollars in South Sudan and the cost of exchanging on the black market has been too high. He also said that, at times, after exchanging money, “thieves hunt for you”. The same respondent said that “local foreign exchange bureaus only exchange funds periodically with quotas; the first priority is given to students, sick persons and government officials. In most cases, Ugandan traders buy US dollar from the black market at a higher rate.” The black market is associated with several challenges such as the risk of counterfeits, theft of cash and sometimes outright cheating.

##### **4.8.2 Multiple taxation**

The inconsistent implementation of trade policies between states and by central government at the South Sudanese Customs raises the cost of trading for many businesses. There is significant confusion and lack of consistency in implementing trade policies, including tariff rates, according to several respondents interviewed. In Jabel Market, Ugandan traders highlighted the problem of multiple taxation, which may continue for some time due to the constitutional and federation governance structure that currently exists.

##### **4.8.3 Cultural differences**

Many South Sudanese business people also revealed that they had lived together with the Arab community for decades under Sharia law, which prohibits vices such as theft and prostitution. The local population quickly adopted these dictates and continued to practice them even after the CPA was signed and once the country was independent. Most South Sudanese are strongly against theft and lying; they do not believe in written contracts and

mainly rely on trust in business transactions, which is contrary to the behaviour of some Ugandans.

According to one South Sudanese respondent who is a trader, the arrival of Ugandans and other foreigners into the country introduced new behaviours and practices that go against local customs. She lamented her frustration by saying, “The first Ugandans in South Sudan ripped off many South Sudanese of their money. Ugandans introduced us to fake money. They built houses that collapsed in six months. We never had mugging and thefts in Juba like it is the case today. Now the situation is different. Locals describe a Ugandan or foreigner as a ‘Wewe’ [a thief]. These Ugandans don’t want to abide by the laws and regulations of our country”.

#### **4.8.4 Poor road infrastructure**

A respondent from the Ugandan business community mentioned that the road between Gulu in northern Uganda and Nimule in South Sudan is in a poor state; yet, it is regarded as the current lifeline of South Sudan’s economy. The 192-kilometre road from Juba to the Ugandan border (Juba–Nimule Road), which connects South Sudan to Kenya’s Indian Ocean ports and the outside world, is very important for the promotion of Uganda–South Sudan trade. The Elegu–Kafu section, via Gulu and Karuma, is equally in a very bad state. Traders from both countries reported problems regarding the delay in the supply of goods, the high cost of transportation as well as the high cost of maintaining trucks and damage to perishable products, all of which result in heavy losses for the traders on both sides. The bad condition of this road has forced the South Sudanese to airlift goods from China and the UAE directly to Juba.

#### **4.8.5 Biased media**

A respondent in Uganda said that Ugandans have a relatively higher level of media freedom compared with the South Sudanese nationals. Media freedom has been misused by media houses when they have published messages that are not conflict-sensitive and that lack proper research. Some of the Ugandan media reports may be biased, failing to take into account the perspective of the South Sudanese. “Ugandan media reporting is not ethical but rather they fabricate stories in order to lure the readership”, said a South Sudanese respondent.

#### **4.8.6 Lack of financial support for investment**

The Ugandan business community has been constrained by a lack of Ugandan-owned banks operating in Juba to support their investment and trade in South Sudan. All of the respondents interviewed in the Gudele, Jabel and Konyo-Konyo markets acknowledged the importance of establishing a Ugandan bank network to handle foreign exchange issues and transfers to accelerate trade and investment. Kenya Commercial Bank (KCB) and Equity are Kenyan-owned banks and their terms and conditions are unfavourable to the Ugandan traders, according to the respondents.

#### **4.8.7 Low enforcement of business contracts**

There is generally poor enforcement of business contracts in South Sudan, according to interviewed respondents from the business operators from both Uganda and South Sudan, which is a major constraint to businesses. Although there are now several legal advisers in Juba, the level of understanding of many Ugandans as well as the South Sudanese on legal matters is extremely low.

#### **4.8.8 Land ownership problems**

Long-term investments require long-term lease agreements, which may be difficult to achieve in South Sudan. The land ownership policy tends to discourage long-term investments and Ugandans opt for a short-term and quick return on investments. Land acquisition in South Sudan go hand-in-hand with respecting the local culture, a culture based on trust and mutual benefit. Businesses established on acquired land, whether long-term or short-term, must benefit the local community to become acceptable.

According to one Ugandan respondent: “Land can be made available for investments from the local community, but what is important is what investment the investor has brought and how the local community shall benefit from this business”. If the investor is pursuing a long-term and quick return on investment without local community integration and benefits, access to land for investment may not be possible. An important thing to note is that other community members have established permanent businesses, such as hotels, apartments and supermarkets, despite challenges with land ownership. The success of these investments, according to the respondents, was based on the good land arrangements and agreements, including agreed mutual benefits.

## **CHAPTER FIVE**

### **RECOMMENDATIONS AND CONCLUSION**

#### **5.1 Reflecting on the findings**

In this section a synopsis is made of the findings presented above in relation to the following research questions.

1. What has been the state of diplomatic relations between South Sudan and Uganda since 2011?
2. How did diplomatic relations affect international trade between Uganda and South Sudan?
3. Have the policies of the government of South Sudan, the perceived incompetency of government officials, corruption and poor infrastructure affected Ugandan trade and investments in South Sudan since 2011?
4. How have diplomatic relations been applied to resolve trade disputes between South Sudan and Uganda since 2011?

On research questions 1 and 2, the findings of the research point to the existence of good diplomatic relations between South Sudan and Uganda, strengthened by the historical and economic ties that have existed for a long period of time between the two areas. It is these good diplomatic relations that have positively affected international trade between the two countries through the provision of a favourable environment for trade.

However, notwithstanding the good diplomatic relations that have promoted trade between the two countries, findings on question 3 have shown that both Ugandans and South Sudanese agree to the existence of challenges that are impeding trade and investment by Ugandans in South Sudan. These challenges are centred on insecurity, weak government institutions run by incompetent officials, corruption, high foreign exchange rate, cultural diversity, mistrust and poor infrastructure – both physical and commercial. Finally, the findings also confirm the application of diplomatic relations in the resolution of trade disputes through arbitrations, as well as interventions of both governments (MOUs).

#### **5.2 Recommendations**

As is the case with most neighbouring countries worldwide, countries coexist in similar circumstances and their people often have similar aspirations, making the need for closer cooperation very important. It is on this basis that activities such as cross-border trade should be promoted on either side of the border. For this cooperation and trade to be sustainable, the movement of goods ought to be a two-way process for the equitable and mutual benefit of the trading partners.

Moreover, such a development cannot take place unless the political climate permits it, thus guaranteeing peace. The case of Uganda–South Sudan trade bears witness to these assertions. When there has been peace, trade has flourished, and the contrary also holds true. However, this specific trade situation has predominantly been a one-way venture, with Uganda exporting its produce to South Sudan. Ultimately, peace and stability in South Sudan should lead to more balanced business operations, which is the basis for the following recommendations:

### **5.1.2 Business associations and traders**

Ugandan investors and traders should promote partnership businesses or limited liability companies in South Sudan in order to provide an opportunity for local formal businesses to be established. Partnership businesses or limited liability arrangements can quickly increase access to land, registration of businesses and integration of businesses into the local community. The issues of cultural difference, documentation and contract enforcement have a huge impact but can nevertheless be addressed with mutual respect and understanding from both parties.

The Ugandan Community in South Sudan (UCOSS) should strive to strengthen its capacity throughout its subsidiary branches in the nine states, thus providing for an environment of increased networking among Ugandan traders and professionals in South Sudan. Networking and organisation within the community provide an opportunity to share information, coordinate trade support and increase patriotism and solidarity among citizens. The Ugandan community should learn from other east African countries whose communities in South Sudan are very strong due to good organisation and networking practices.

The Uganda National Chamber of Commerce and Industry (UNCCI), the Uganda Export Promotion Board (UEPB), the Uganda Investment Authority (UIA) and SSCCIA should jointly organise and implement regular trade fairs and business forums to foster business-to-business relations. Key objectives should be to attract new investments, to identify potential opportunities and to improve the cordial relationship and image of both Uganda and South

Sudan. Business associations such as UNCCI, SSCCIA and UCOSS should support and establish accessible cultural education centres to enhance cultural education for all potential investors and traders in a manner that is applicable to business transactions.

### **5.1.3 Civil society**

Civil society organisations should help UNCCI and SSCCIA to organise joint capacity-building programmes on trade, targeting business communities in both countries. The capacity building and training programmes should comprise business management training, trade guidelines and best practices, technical assistance to provide advisory services as well as counselling.

Technical assistance should be provided to UCOSS on capacity building and training to increase networking among Ugandans. Civil society should support business associations such as UNCCI, SSCCIA and partner organisations to develop a comprehensive stakeholder sensitisation and reconciliation programme. This programme should target traders and investors as well as other stakeholders such as the police and immigration officials from both countries. The sensitisation programme should aim to harmonise the implementation of trade and investment policies, regulations and laws, as well as the sharing of vital trade information.

Furthermore, civil society should provide counselling support for Ugandan and South Sudanese traders affected by the current civil strife, which has led to loss of life and property. The counselling services should help victims to reintegrate into the local community, thus reducing future conflict fuelled by the increased frustration of victims.

### **5.1.4 Ugandan financial institutions**

Ugandan-owned banks should search for new markets in South Sudan by opening branches or Forex bureaus to facilitate access to foreign currency, thus easing trade transactions. However, a thoroughly researched study into the financial sector would be useful beforehand to establish the challenges and opportunities involved in launching such ventures. The value of transactions by the Ugandan community is estimated to be high.

### **5.1.5 Ugandan government and the GoSS**

Both the Ugandan and South Sudanese governments should continue to hold bilateral meetings to create an environment more conducive to trade and investment. The meetings should aim to resolve issues related to government-to-government as well as trader-to-trader



investment. They should also produce positive tangible outcomes to grievances such as those concerning contentious compensation to Ugandan traders and unexplained instances of double taxation on the South Sudan side of the border.

Moreover, decisions reached in forums that concern traders should be relayed to beneficiaries to prevent information gaps. Participants should include both technical staff and political leaders. The Ugandan government should review policy to support the development of the Trade Development Strategy (USSTDS) by engaging both government departments and private sector agencies. The policy review process should take into account the fact that Uganda has ceded some ground in its trade with South Sudan and that it should therefore seek to regain and expand its market share.

#### **5.1.6 Policy review**

A policy review process should further help to redefine the role and responsibility of key players (UNCCI, MTIC, the Ugandan Embassy in South Sudan, UCOSS, UIA and UEPB, among others) in facilitating growth and development of South Sudan and Uganda trade. The Government of Uganda, represented by the Uganda National Roads Authority (UNRA), should focus on the completion of current infrastructure projects such as the Gulu–Nimule road. It should also support the construction of alternative roads to Juba such as the Yumbe–Kajokeji route to Juba via Lobe, Kei sub-county in the West Nile region. The completion of the Koboko–Kaya road will provide an added advantage to the expansion of trade.

#### **5.1.7 Acquisition of travel documents**

There is a need to enforce compulsory acquisition of travel documents and national identity cards to ensure proper registration of Ugandans working in foreign countries, particularly South Sudan, in this context. The Ugandan Embassy in South Sudan should be empowered to issue identification documents (particularly passports) to Ugandans. This strategy would help the Ugandan government's interventions during crisis incidents such as the recent evacuation services following the outbreak of violence in December 2013 as well as in the earlier reported cases of torture and arbitrary arrests of Ugandan nationals living in South Sudan.

The government of Uganda, through the Ministry of Agriculture and Animal Industry and in collaboration with development partners, should develop an agricultural productivity enhancement programme for northern Uganda as a key cornerstone to increase export of agricultural products to the South Sudan market. These targeted efforts would make Ugandan

agricultural products more competitive in the South Sudanese market in terms of pricing and quality (freshness).

#### **5.1.8 Peaceful resolution of conflict and relief support**

As much as the government of Uganda has supported the South Sudanese government militarily, it should equally pursue peaceful dialogue. This would have a positive impact on Uganda's image as well as on Uganda's future investment and trade relations with South Sudan. Governments on either side, in collaboration with international agencies, should provide quick relief support to the Ugandans and South Sudanese who have fled military conflict in South Sudan and who have lost property and businesses. This initiative would help to reduce tension between the returnees, local communities and South Sudanese.

#### **5.1.9 The role of media**

The media has a critical role to play in terms of relaying information to stakeholders. Media houses should aim to gather factual information from business entities such as UNCCI, UIA, SSCCIA and traders' associations, as well as from relevant government establishments in order to provide informed reporting. Such reporting should be conflict-sensitive and constructive, with the ultimate aim of seeking to contribute to an enabling business environment.

## **5.2 Conclusion**

South Sudan remains a strategic trading and investment partner for Uganda, and trade has enormous benefits for both countries. South Sudan's economy and business environment has changed dramatically in the periods 2005–2010 and 2011–2015. The two phases of transformation came with different benefits, challenges and constraints. During the period 2005 to 2010, Ugandan traders benefited significantly from the business boom (especially during 2008 to 2009); however, at the same time, some of the Ugandan traders made huge losses due to several of the aforementioned factors. The current unstable environment for trade and investment in South Sudan could generate even greater conflict within the business community in South Sudan.

Following independence in 2011, South Sudan embarked on institutional reform and development. The level of trade and investment activities has improved and the challenges faced by Ugandan traders are quite different from those constraints experienced in the first phase (2005–2010). Uganda's trade volume is steadily reducing due to stiff competition

emerging from other countries such as China, Eritrea, Ethiopia, Kenya, Somalia and the UAE.

The South Sudanese business environment needs to become more enabling, effective and efficient, especially regarding information dissemination to key actors, transparency in the implementation of government investment and trade policies, efforts to protect the properties and lives of foreign investors and traders, a culture of treating foreign investors as strategic partners, and the enforcement of contracts and law and order. Trade has created employment opportunities, a market for agricultural and manufactured Ugandan products and revenue for both government and traders.

However, there are major constraints hindering trade and investment to date. These include the high foreign exchange rate, cultural diversity, mistrust and disunity, weak Ugandan community organisation, weak national interest by the Ugandan government, as perceived by Ugandan traders, and poor institutional support. Despite these challenges, trade and investment remain highly profitable. The sudden outbreak of military conflict in Juba on 15 December 2013 has had a negative impact on investment and trade development between Uganda and South Sudan. The conflict has again threatened peaceful investment and trade activities, also resulting in loss of life, property and investment capital.

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**APPENDIX 1**

**Informed Consent Form**

Participant's full name  
-----ID or passport number  
and email address  
-----  
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-----I was invited to participate in the below mentioned research project undertaken by Mikaya Modi Legge, an MA candidate in Development Studies at the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa.

**TITLE OF RESEARCH PROJECT**

Diplomatic relations and its impact on economic development: A case of South Sudan and Uganda.

**Principal Investigator: Mikaya Modi Lubajo Legge**

The following aspects of the study have been explained to me, the participant:

**AIMS AND OBJECTIVES OF THE RESEARCH:**

- To understand in depth how South Sudan's diplomatic relations leverage international trade with Uganda
- Explore how policy and institutional environment has impacted on investment by Ugandans and South Sudan.
- To gather and analyze data on diplomatic measures undertaken by South Sudan to resolve trade related dispute with Ugandan.

**PROCEDURES:**

I understand that the investigator will use semi-structured interviews and literary analysis to gather information Diplomatic relations and its impact on economic development: A case of South Sudan and Uganda.



The data gathered through the interviews will be used for an MA dissertation. I understand that the result of the research may be presented at conferences, published in specialist publications and communicated to the media and academic community.

**POSSIBLE RISKS:**

Participants may reveal information that may harm them. The principal investigator has advised me not to reveal any sensitive information that can put me in jeopardy after the research is made public

**POSSIBLY BENEFITS:**

- Better understanding of the field diplomatic relations and development
- Contribution to the academic debate about political recovery and development.
- Offering of recommendations on promotion of peace and development between both countries.

**CONFIDENTIALITY**

My identity will not be revealed in any discussion, description or scientific publications by the investigator. If I choose to give permission to the primary investigator to use my name in the research report, I will sign a document that will serve as my written permission.

**ACCESS TO FINDINGS**

As a participant, I will receive the final research report in an electronic form via email after the research project is completed.

My participation is voluntary and my decision whether or not to participate will in no way affect my present or future career/employment/lifestyle:

The information above was explained to me (the participant) by Mikaya Modi Lubajo Legge in the English Language and I am in command of this language. I was given the opportunity to ask questions and all questions were answered satisfactorily. No pressure was exerted on me to consent to participate and I understand that I may withdraw at any stage without penalization. Participation in this study will not result in any additional cost to me.

I hereby voluntarily consent to participate in the above-mentioned project.

Signed in-----Date-----

Name of Participant-----Signature-----

## APPENDIX 2 Map of South Sudan



Source: Ministry of Investment, South Sudan (2011).