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Assessment of the impact of Foreign Direct Investment (FDI) in the Productive Sectors of the Economy of Sudan

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ABSTRACT

This paper discusses the inflow of foreign direct investment (FDI) to the Productive sectors in the Sudanese economy during the period from 1999 to 2010 and evaluates the size of FDI in agriculture, industry, and the service sectors. The study also aims to determine the impact of FDI on the economic development in Sudan and highlights the unequal distribution of the foreign direct investments among the productive sectors. The rise of the FDI to the petroleum sector at the expense of the other productive sectors has caused unbalanced growth between among the economic sectors of the Sudanese economy during the period that followed oil production in.

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INTRODUCTION

Foreign direct investment becomes as a phenomenon widespread over the world. The international monitory fund IMF described FDI as a category of global investment that reflects the objective of resident entry in one economy (direct investor) of establishing a lasting interest in an enterprise (the direct investment enterprise) resident in another economy (IMF., 2003), the inflow of FDI all over the world approximately at 1.24 trillion in 2010. (IMF., 2003). The size of FDI in developing economic rose by 12% in 2010 to reach about 574 billion which equal 50% of globe FDI inflow (UNCTAD, 2011). This ingress reflects the willingness of the developing countries to encourage foreign investment. The existing recourses and raw materials in addition to availability of new markets are the most significant factors attract investors to developing countries. The World Bank and the international monitory fund IMF have increasingly promoted FDI; due to it create new job opportunities, spread technology, and leading economic growth.

Foreign direct investment has become more significant for developing countries, because it is a substantial source of external funding. Sudan, as such a developing country, has sought to attract foreign investments by opening the door for investment in various productive sectors. However, the industry sector, including oil, has taken on a significant investment since 2000. The Sudanese economy, during the period from 2000 to 2010, suffered from an unequal distribution of FDI among the productive sectors where the inflow of the foreign investment was limited mainly in the industrial sector

The main purpose of this paper is to examine the inflow of foreign direct investment to the productive sectors during the period from 2000 to 2009. Moreover, the study attempts to investigate the impact of the FDI in the agriculture, service and industry sectors in addition to highlighting the risk that faces the national economy when the investment is concentrated in only certain sectors rather than the distribution among all of the productive sectors. Undoubtedly, the investment legislation is one of the main determinants of the investment climate. Since independence in 1956, Sudan adopted various investment laws. The privileges granted law is the first investment law released immediately after independence. This act promotes the investment in industry in order to develop the industrial sector. In 1966, a new law released to encourage investment. However, this law followed by the new one in 1973 to regulate investment in transport, tourism and agricultural sectors. In 1999 new legislation set to avoid the shortcomings in previous laws. However, this one also amended in 2000. The constant changes in investment laws reflects a desire of the government's to attract foreign investment, But on the other hand this confusion may create unattractive environment for investment. The Successive governments in Sudan sought to attract foreign investors by offers more facilities and adopted

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financial exemptions for the investor. But, Sudan's investment climate could not be described as an attractive, because of unstable economic and political condition.

Literature Review:

There has been several studies evaluate the role of FDI in the long-term growth of national economies. These studies found similar results about the effects of foreign direct investment on economic growth. (Hassan Ali Gadkarim2010) In his study attempt to explain the importing of FDI in the Sudanese development path, he tries to examine and understand the locational-specific characteristics of the investors and the country which shaped the current FDI situation in Sudan. (Tim and Helen 2008) Focusing on the relationship between trade and investment, they point out the inflow of foreign direct investment to developing countries is varies greatly across countries and over time and they mention to the political significant factors affect inflows of FDI. (Raphael and Mike 2009) study the impact of FDI in Sub-Saharan Africa (SSA) using Chinese investment as case study. The study concludes that FDI makes both negative and positive impact to the host economies. They advise Sub-Saharan Africa countries to seize the opportunity to maximize their benefit from FDI. (S. IbiAjayi 2006) found the average annual inflows of foreign direct investment (FDI) into Africa increased significantly over the time. He point out, there is significant evidence that FDI impact positively in development and growth by complementing with local investment and by transfer of knowledge and facilitating trade.

Methodology:

This paper examines the size of foreign direct investment in three productive sectors, include industry, agriculture and service sectors. This study adopts a descriptive approach to address the evidence and examine the impact of FDI in to the economic productive sectors. Such analyses are based on secondary data gathered from central Bank of Sudan and the ministry of investment publications covering the period 2000 to 2010.

Discussion:

The structure of the Sudanese economy consists of three main productive sectors, which are the agricultural, industrial and service sectors. Previously the agricultural sector played an influential role in the Sudanese economy. But the great inflow of the foreign direct investment to the industrial sector, particularly the oil sector, caused the unbalanced growth among the economic sectors of the Sudanese economy over the last ten years. The total inflow of FDI in 2008 and 2009 amounted at $2511, 28 and $2881, 35 million respectively. The percentage of FDI to GDP estimated at 7.8% in 2006 as highest rate in last ten years. According to the Ministry of investment in the Sudan, the total FDI was estimated at $ 28.475 billion during the period from 2000 to 2010; included $21.05 billion in the oil and mining sectors, $4.799 billion in the service sector, $2.221 billion in the industrial sector but only 0.405 billion in the agricultural sectors (Ismail, Z., 2011). The Ministry of investment pointed out that the foreign investment in 2010 grew from 2 to 3 billion U.S dollars. The majority of this investment came from Asia and Arabic countries in particular from China, Malaysia, India, Saudi Arabia, Kuwait, and Egypt. However, most of these investments focused on oil and infrastructure

The feasibility studies were carried out by the Ministry of investment in Sudan amounted to more than 30 billion dollars of Arab investment during the period from 2000 to 2010; this amount was distributed among the productive sectors where 14 billion dollars went to the industrial sector, 2.2 billion to the agricultural sector and 14 billion to the service sector, Kuwait was the largest Arab investor in Sudan. The Kuwait's investments were estimated at 6 billion dollars while the registered investments of the UAE were around 2 billion dollars at the end of 2010. According to ministry of investment, the number of approved FDI project during the third quarter of the 2010 amounted at 1550 ; include 453 projects in industry sector, 523 projects in agricultural sector and 574 projects in service sector and. (Ismail, Z., 2011)

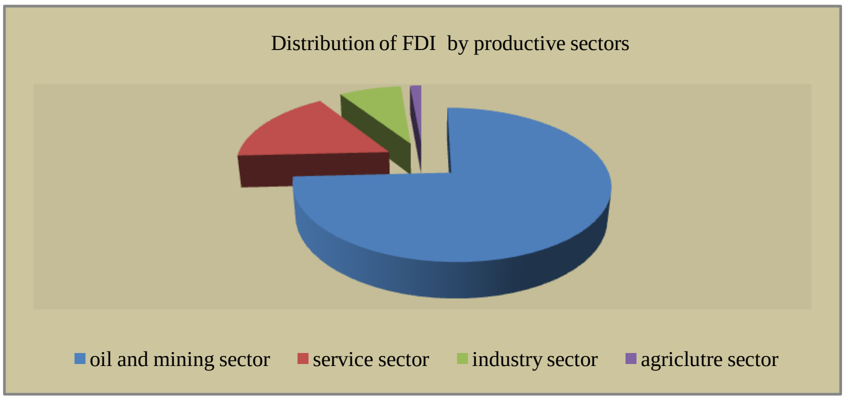

Fig. 1: distribution of FDI by productive sector during the period from 2000 to 2010
Source: Ministry of investment Khartoum- Sudan

Figures No (IMF., 2003) indicate the wide gap between the investment in the oil sector and the other productive sectors. This discrepancy was due to the emergence of multinational companies as influential players in the oil field. The FDI in the non-oil sector was largely concentrated in the service and industry sectors while the agricultural sector received few investment projects during the period from 2000 to 2010. The inflow of FDI to service, non-oil industry and agricultural sectors in 2005 was estimated at $ 2216, $ 973 and $16 million, respectively. (Ismail, Z., 2011).

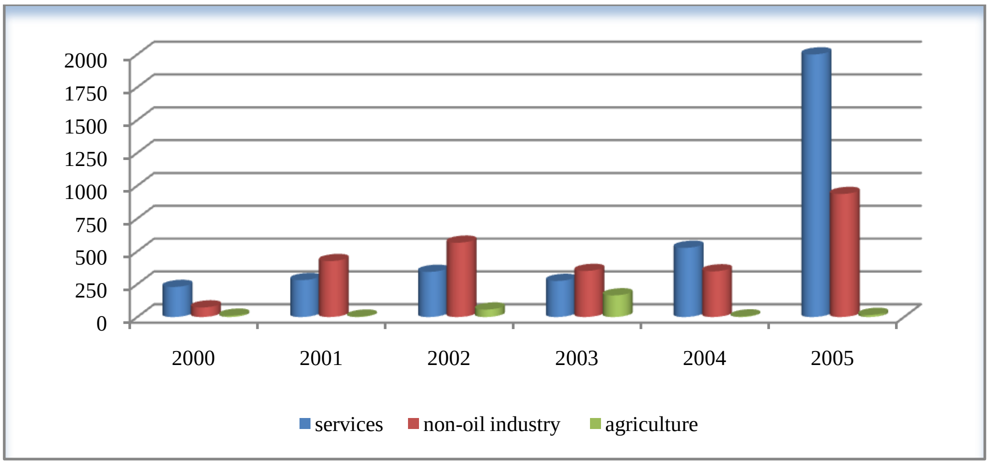

Fig. 2: distribution of FDI in productive sector by $ million
Source: Ministry of investment Khartoum- Sudan

The Lack of investment in the agricultural sector contributed to decline the performance of this sector even the national investment concentrated mainly in service and industry sector; the value of national investment in the agriculture sector during the period from 2000 to 2005 accounted $315 million, while the inflow of national investment in service and non-oil industry during the same period estimated at $12594 billion and $6890 billion respectively. (Ismail, Z., 2011) The shortage of investment in both foreign and national in the agriculture sector reflects uncertainty of the feasibility of investment in this area. This can attribute to the weak infrastructure and the declining of the arable area in addition, to the constant change in the policies and procedures for investment.

A. FDI in agricultures sector:

Sudan has rich and various natural resources. The arable land estimated at 200 million acres with diversity climate influence on the agricultural production all over the country. In spite, of the existence of these resources, but it did not fully exploit. The inflow of FDI in the agriculture sector affected by various factors, deterioration of agricultural, poor infrastructure, high cost of production, restrictive regulations and displacement of manpower, all this factors impacted significantly to humility the foreign investment in the agricultural sector. The total agriculture project implemented by foreign investorsduring the period from 200 to 2009 only about 102 projects (Ismail, Z., 2011), this figure is quite modest compared with the investment in the industry and service sectors. Arab investment is the dominant feature in the agricultural sector it equal more than 90% of the total investment project. Saudi Arabia, Egypt and the United Arab Emirates are the most countries' investment in this sector. However, the Majority of this investment is small project. The figure below explains the distribution of FDI in the agriculture sector during the period from 2000 up to 2009.

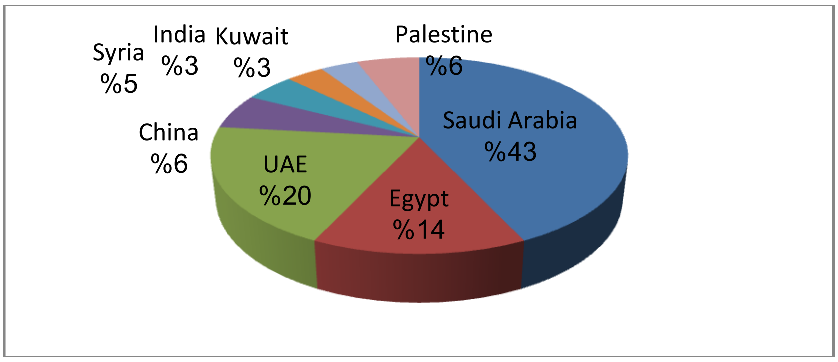

Fig. 3: Distribution of FDI in agriculture sector per country during period2000 to 2009 {5}
Source: ministry of investment- Khartoum- Republic of Sudan

Private and public investment from Arabic countries in particular, Saudi Arabia, UAE, Qatar, and Jordan, holds privilege to invest more than two million acre of arable land in Sudan. Saudi Arabia, which already had agricultural investments amounted $2 billion in north Khartoum considered as most countries investment in the agricultural sector, follow by Egypt and UAE. Investments in agriculture sector have increase sequentially in the last few years, where it rising from $175 million in 2008 to $650 billion in 2009. Cultivation cash crops such as cotton and wheat In addition to vegetables, is most important aspects of agricultural investment. In 2009 Cotton production was estimated at 200,000 bales which increase more than 52% of the production in previous years. Table below explain the inflow of FID in agriculture sector based on feasibility studies which authenticated by the Ministry of Investment.

Table 2: flow of FDI in agricultural sector during the period from 2009 to 2009.By million USD

years	Flow FDI in agricultural sector
2001	3,421,541
2002	36,398,622
2003	372,813,921
2004	3,733,645
2005	16,170,977
2006	185,581,479
2007	785,884,875
2008	175,075,861
2009	650,465,717

Source: ministry of investment – Khartoum-Sudan

Clearly there is increase in the size of investment in the agricultural sector from year to year. 1n 2007 the inflow of foreign investment to agriculture sector reach more than $ 785 million as the highest rate in the recent period. Although this increase, the value of investment in agriculture still much less than other sectors. In general the agriculture which accounts third of GDP, suffering from a paucity of fund and lack of critical investment projectIndustry sector in Sudan accounted for an estimated 30 percent of GDP in 2009. In the last twenty years this sector grew increasingly, especially after the discovery of oil. Since oil production in 1999, theindustrial sector divided to oil industries and non-oil industries, non-oil industries include traditional industries, construction, energy and mining. The foreign investment in this sector mainly confined in food and construction, in addition, to some of plastics industry. The total FDI projects certified by the ministry of investment during the period from 2000 to 2009 estimated at 985 projects. Major investment in this area was Arabic investment such as Jordan, Turkey, Egypt, Syria, and Saudi Arabia.

Table 3: flow of FDI in industry sector during the period from 2009 to 2009.By million USD

country	project	Cash flow by USD	type of industry
Turkey	155	543462799	Furniture and construction materials
Jordan	153	2491658337	construction materials and food industries
Saudi Arabia	119	2700041628	construction materials, iron and food industries
Syria	114	3651957	Plastic and Food Industries
Egypt	110	1147229211	construction materials , iron and food industries
Lebanon	75	645197963	construction materials and food industries
China	73	238669347	Plastic, mining and Engineering Industries

Source: ministry of investment – Khartoum-Sudan

Food industry is the first followed by the construction industry. Although of these multi-industrial projects but there was a lack in heavy industries considering that all these projects considered as small industry. Most FDI in the industrial sector came from Saudi Arabia, Turkey and Jordan where the investments of these countries reached approximately 427 projects during the period from 2000 to 2009.

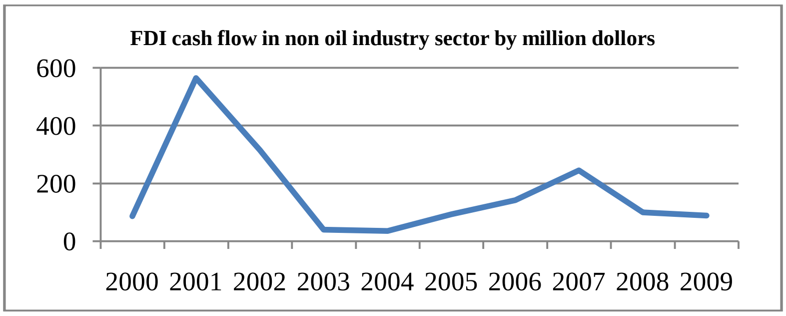

Fig. 4: Value of FDI in non-oil industry during 2000 to 2010
Source: Ministry of investment, Sudan - Khartoum

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C. DFI in oil industry:

The first appearance of the foreign direct investment in the oil sector in Sudan initiated in 1959 by Italian oil company Agip, this company granted an exploration concession in the Red Sea area north east Sudan. However, these efforts failed. The relative stability prior the end of the first civil war in 1972 encouraged the oil company to extend the oil exploration to southern Sudan. In 1975, the American oil company Chevron awarded a concession area in the south and southwest. First oil discovery in Sudan mad by Chevron in the Unity oil field. During the period from 1974 to 1983, Chevron carried considerable exploration efforts; The American Company discovered oil in the south and southwest of Sudan. This period witnessed first attempts to build an oil pipeline from the oil fields in the west and south Sudan to Port Sudan on the Red Sea. .In 1983 Sudanese government and group of oil companies include, Chevron, Royal Dutch and Shell formed the White Nile Petroleum company in order to build an oil pipeline. However, the second civil war began in 1983. Chevron suspended all southern activities and fully withdrew from exploration area in south. In 1992, Chevron relinquished all of its concessions area and sold its concession to the Sudanese company Concorp. (Ministry of oil, 2011)

In the mid-nineties, State Petroleum Corporation started operating in Sudan; however, it soon sold 75% of its shares to the China National Petroleum Company (CNPC) and PETRONAS (Malaysia). These companies established the Greater Nile Petroleum Operating Company (GNPOC). Two years later State Petroleum Corporation sold its 25% share in the GNPOC to the Canadian company Talisman. The GNPOC made Great discoveries; it also succeeded in build the pipeline from the oil field in Heglig and Unity to Port Sudan on the Red Sea. In 1999, the pipeline completed and became ready to carry the first Sudanese oil exports to Port Sudan. Few years' later Talisman Operating Company withdrew from Sudan and sold its shares to the Indian company (ONGC). Another concession in the south "block 5A" granted to consortium includes the Swedish company Lundin, PETRONAS and Austrian oil and gas company OMV. Same consortium granted new concession area over block 5B in 2001. However, later OMV and Lundin withdrew from this area. China National Petroleum Corporation (CNPC) granted a concession area in block 6 western Sudan. Moreover, new consortium consists of CNPC, PETRONAS, formed petrodar operating company which granted a concession in block 3&7. In 2006 another pipeline, from Upper Nile in southeast Sudan' to the Port Sudan became operational.[9]. main oil production area located in the south Sudan, therefore more than 70 present of oil production come from the south. After south Sudan gained independence in 2011, the Oil fields distributed between north and south. The Greater Nile Oil Project "Blocks 1, 2 and 4"divided between north and south. The Unity field located wholly in South Sudan While the block 2, 4 in Heglig oil field located in the common border between the two countries. Fula oil field in block 6 fully located within the borders of Sudan. Blocks 5A, which include TharJath and Mala oil fields located in south. Moreover, large area of Blocks 3 and 7 which composed, Adar, Yale, and Palogue oil fields located in the South. The oil industry in Sudan is organizes by the Ministry of Energy and Mining, later the name change to the ministry of petroleum. This ministry control over all activities in oil. The inflow of FDI in the oil sector exceeded the size foreign investment in other sectors. The table below explains the cost of oil production in main blocks.

FDI in Sudan during the period from 1995 to 2009 concentrate largely in oil industry, while other sectors experienced poor investment particularly agricultural sector. This situation caused imbalance growth among the productive sectors. Since early nineties, the growth rate for agricultural sector has greatly deteriorated, it has experienced decreasing growth rates from year to year, in 1992 the growth rate reached about 31.5% and since that year, these percentages have begun to decline even further to only 6% in 2007. On the other side, the industrial sector made great strides above all other sectors, when they reached a 47% growth rate in the year 2000.

RESULT AND DISCUSSION

Despite the expansion of FDI in last ten year years, particularly in the field of oil, there are some barriers obstructing the investment process. These barriers include some of legal, political and economic policy, in addition, to the instability condition in Sudan. Furthermore, there are international hurdles represented in the international economic sanctions which affect significantly to the flow of FDI to the country. These barriers obstruct the investment process and reduced the size of foreign investment in productive sectors.

Concentrating the investment, both foreign and domestic, in the oil sector caused the unbalanced growth among the productive sectors of the Sudanese economy. In the last twenty years, the performance of the agricultural sector significantly declined while the industrial sector achieved significant growth; this could lead to disastrous consequences in the future. Investment in Sudan for a long time can be affected by the change of policies and legislation; therefore, the government must promote investment in the agricultural sector and work to rehabilitate the infrastructure for agriculture. Reviewing the investment laws and granting some exemptions for investors will assist to create an attractive environment investment.

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