

UNIVERSITY OF NAIROBI



THE IMPACT OF ETHNIC CONFLICT ON INTERNATIONAL TRADE:

A CASE OF KENYA-SOUTH SUDAN, 2011-2017.

BY

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DECLARATION

This project is my original work and has not been presented for examination in any other University.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this work to God Almighty who has given me mental strength to complete my project within the stipulated time. I also dedicate this work to my wife and children who always inspired me.

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I express my heartfelt gratitude to all the University lecturers who imparted knowledge and participated in the course of my study. This too goes to the entire fraternity of the Institute of Diplomacy and International Studies and Defence Staff College who were very supportive. Special thanks go to my University Supervisor Dr Mwiti who gave me advice and support that shaped my project from the start till the completion of this research. He was patient with me and available for consultations. I would not have made it in this project if not for his immense assistance and continuous guidance.

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ABSTRACT

Trade has been a source of wealth and power, and countries always seek to increase their exchanges with the outside world. Globally, many factors however affect trade relations between and among countries. One of the major factors that affect trade internationally is ethnic conflicts. South Sudan's instability has prevented Kenyans from pursuit of their economic interest through Kenya's renewed economic diplomacy and this has consequently caused economic insecurity for the Kenyans trading in goods and services. The objective of the study was to examine the impact of ethnic conflict on international trade using Kenya - South Sudan as the case study. The study was based on conflict and development theory. The design used in this study was qualitative. This research depended on both primary and secondary data. Secondary information was collected from journals, books, newspapers and online sources. Primary data was collected by use of semi-structured interview. The questions presented in the interview were mostly open-ended with the purpose of respondents to reply in which matter they chose. This research made estimation on the population from where representative samples was drawn. The study targeted 54 Kenyan exporters to South Sudan located in Nairobi County. Purposive sampling was used to obtain 40% of the total respondent. The manufacturers were issued with interview tool to respond to. In total, the research was conduct survey from a pool of 22 respondents. The gathered data was analysed using content analysis. This study reveals that ethnic conflict in South Sudan is the stumbling block to Kenya's economic growth.

ABBREVIATIONS AND ACRONYMS

AMIB - African Mission in Burundi

AMIS - African Union Mission in Sudan

AMISOM - African Union Mission in Somalia

AU - African Union

CAAU - Constitutive Act of the African Union

CADSP - Common African Defense and Security Policy

CMD - Conflict Management Division

CMC - Conflict Management Center

ECOMOG - Economic Community of West African States Monitoring Group

ECOSOCC - Economic, Social and Cultural Council

ECOWAS - Economic Community of West African States

GDP - Gross Domestic Product

ICJ - International Court of Justice

IGAD - Inter- Governmental Authority on Development

MCPMR - Mechanisms for Conflict Prevention, Management and Resolution

NATO - North Atlantic Treaty Organization

NEPAD - New Partnership for Africa's Development

OAU - Organization of African Unity

OD - Operation Democracy

PAP - Pan-African Parliament

PFCMD - Peace Fund and Conflict Management Division

PRC - Permanent Representatives' Committee

PSC - Peace and Security Council

PSD - Peace and Security Directorate

PSO - Peace Support Operations

PSOD - Peace Support Operation Division

SADC - South African Development Community

STC - Specialized Technical Committee

UN - United Nations

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Chapter One

Introduction

1.1 Introduction

Globally, Conflicts have shut the dreams of so many people. They have brought some people a lot of agony and distress all their lives. But in places where signs of these conflicts have been detected early, they have managed to stay out of them. Ethnic conflict remains the biggest cause of deaths especially in the continent of Africa.¹ Virtually all states of Africa have in one way or another been involved in warfare of ethnic basis. Conflicts within States in Africa might be attributed to several factors. One of these factors is the powerlessness of governments to provide essential administration and security services within their territories. In many cases, powerless governments have had little ability to stop the emission and spread of viciousness. Another causative factor is the struggle for power among the elite, especially within dictator frameworks or one-party control regimes.²

In Africa, States burdened by ethnic conflict have endured sharp inequalities among social, ethnic and regional groups, also similarly reflected in unequal access to political power without avenues for peaceful change. In most cases, ethnic conflicts within African States are political and involve subjects battling for inward change including secessionist movements, by and large, led by a gathering of individuals, as a rule, a minority inside a group. These are groups who wage war to battle for the foundation of either a self-sufficient substance inside a current State or a completely new and independent State of their own.³

¹ De, W. *The real politics of the Horn of Africa: Money, war and the business of power*. Cambridge, UK; Malden, MA (2015). pp. 60-62

² Mengisteab, K. *Critical factors in the Horn of Africa's raging conflicts*. Uppsala: Nordiska Afrika institute. (2011).

³ Straubhaar, Thomas, and Florin P. "International migrant remittances and their role in development." (2018): 13-37.

Ethnic division brings in conflicts which lead to political instability and civil wars that have long-lasting economic effects.⁴ People change their economic behaviours by resulting to spending most of their finances on activities of consumption than investment e.g. looking for rent in safer places. Ethnic diversity becomes a hindrance to the economic growth and development together with social stability. For example, if some group of people/community is given some special treatment by the government like it happens in most African states, and then growth is not equitable.⁵

Ethnic conflicts affect international relations and foreign policy. Thus, the political demands of some ethnic groups (e.g. secession) may affect the legitimacy of the state's territorial borders. Internal conflicts have a killing effect on deeper geo-economic relations between states in trade, transport, communications, energy resources and transportation.⁶ For instance, the wars in Azerbaijan and Chechnya have hindered the process of transporting Caspian oil to the European energy market. Wars in Afghanistan and Tajikistan violated trade in Central Asia, has closed the trade routes that had served for hundreds of years to exchange goods, restricted trade and foreign investment, as a result, many groups have been involved in drug trafficking.⁷

South Sudan's instability has prevented Kenyans from pursuit of their economic interest through Kenya's renewed economic diplomacy and this has consequently caused economic insecurity for the Kenyans trading in goods and services. It is against this background of geopolitical importance that South Sudan's instability can result to economic security threats to the region and Kenya in particular.⁸ Its population of 11,090,104 people serves as a vast market to

⁴ Burr, J. Millard. *Requiem for the Sudan: war, drought, and disaster relief on the Nile*. Routledge, 2018. pp. 45-49

⁵ Höhne, M. *Borders & borderlands as resources in the Horn of Africa*. Woodbridge, Suffolk: James Currey. (2010). pp. 56-57

⁶ Williams, P. D. *War and Conflict in Africa*. New York, NY: (2013). pp.19-21

⁷ Ohaegbulam, F. *Dimensions of U.S. role in conflict resolution: Four case studies in post-colonial Africa*. New York: Peter Lang. (2005). pp.109-110

⁸ Leiden N. Marx and Engels, *The Communist Manifesto*, introduction by Martin Malia (New York: Penguin group, 1998), p. 35

Kenya's export products and services. South Sudan's vast arable but uncultivated land has high potential for Kenyans interested to farm and increase food security for South Sudanese people. Instability in South Sudan can cause economic harm to Kenya in its renewed quest to tap from South Sudan virgin economic frontier with massive potential that can serve Kenya's economic security. This study therefore seeks to examine South Sudan's ethnic conflicts and its impact on South Sudan's economic development; Analyse South Sudan's ethnic-based civil war and its impact on Kenya's economic development; and explore the linkage between ethnicity and economic development in South Sudan and Kenya.⁹

1.2 Statement of the Problem

Kenya being a major trade partner with South Sudan hasn't been able to exploit optimally the export market in South Sudan as a result of instability. In a situation of conflict, there is expected to be impacts.¹⁰ In all conflicts of ethnic nature involving communities with different tribal background, there is bound to be effects on social, economic or political. In a nutshell, all ethnic conflicts have consequences. When people fight instead of participating in economic activities, then the growth and development of that particular economy fails to take place. Property is destroyed, life is lost, infrastructure brought down and investors are scared away. The diversity of ethnic groups brings in an aspect of diversity in cultures, language, and religion.¹¹ A peaceful state attracts successful intercommunity trade, tourism attraction, a lot of learning from each other and generally a super blending among people of different backgrounds. It is the best thing that brings about unity in diversity and a lot of symbiosis. The resultant of all this is a hybrid country. However, this scenario of unity in diversity does not always manifest itself especially among ethnic

⁹ Bujra, A. *African Conflicts: Their Causes and Their Political and Social Environment*. Development Policy Management Forum, Ethiopia, Addis Ababa. (2002). p.55

¹⁰ El Muck. "Intergovernmental Transfers", a report presented to the Second Sudan Consortium pp.19- 20. *Journal on International Politics* (2010). pp.119-120

¹¹ Aitken, B J., and Ann E.. "Do domestic firms benefit from direct foreign investment? Evidence from Venezuela." *American economic review* 89, no. 3 (2018): 605-618

communities that build up African countries.¹² On the contrary, there are permanent wars that exist between these groups and the main contributing factors being greed and protection of ethnic interests.

South Sudan is not different when it comes to inter-ethnic wars. Evaluating the impact of these wars, it's realized that a lot has been lost both internally and internationally. Of course, lives, natural resources and private investment have been destroyed.¹³ But looking further, there has been a reduced investment where investors have closed businesses in areas prone to these conflicts. The country has lost a lot of investors as well as tourists who bring in foreign exchange. Besides losing business with states and non-state international organizations, the country's image in the international community becomes tainted.¹⁴

The era between 2003 and end of year 2013, immediately after enforcement of CPA, presented Kenya with a complex situation in which the country's economic interests were threatened in more than one way.¹⁵ First, the final conflictual stages before signing of CPA presented with cross-border crimes especially between Turkana of Kenya and Sudanese' refugees, the collapse of larger Sudan's market due to secession and assessing afresh economic diplomacy for Sudan and South Sudan Nations before and after secession, dependence burden created by high numbers of refugees streaming into Kenya from South Sudan and porous borders that threatened regional security and Western interests hence creating low foreign investor's confidence. There is shortage of literature addressing the effects of ethnic conflicts on international trade especially in regards with Kenyan-

¹² O'Ballance, E. *The Secret War in the Sudan*: Hamden, Connecticut: Archon Books. Faber and Faber edition. (1977). p.109

¹³ Zeleza, P. *The roots of African conflicts: The causes & costs. Addis Ababa: Ossa, in association with*. Ohio: Ohio University Press. (2008). pp.190-195

¹⁴ Natsios S. *Sudan, South Sudan, and Darfur: What everyone needs to know?* Oxford: Oxford University Press. (2012). p.33

¹⁵ Muchie, M. *The African Union Ten Years After: Solving African Problems with Pan-Africanism and the African Renaissance*. Oxford: Africa Institute of South Africa. (2013). pp.45-47

South Sudan case given that the latter achieved its independence a few years ago i.e. 2011. This study sought to fill the gap.

1.3 Objectives of the Study

The overall objective of the study was to examine the impact of ethnic conflict on international trade. The specific objectives of the study were to:

- i. Examine South Sudan's ethnic conflicts and its impact on country's economic development;
- ii. Analyse South Sudan's ethnic-based civil war and its impact on Kenya's economic development;
- iii. Explore the linkage between ethnicity and economic development in South Sudan and Kenya.

1.4 Justification of the Study

Due to globalization and global economic inter-dependence, the instability in one nation can cause direct negative effects in another state's economic, political and social standing. Instability creates a stumbling block against other states ideal or realistic economic interest. Instructively, South Sudan's instability has prevented Kenyans from pursuit of their economic interest through Kenya's renewed economic diplomacy and this has consequently caused economic insecurity for the Kenyans trading in goods and services.

This study covered the activities of conflicts that have been the focus of previous studies on South Sudan. Other entities that may make use of and benefit from this study include, but not limited to the following:

First, the findings of this study do inform policy and decision makers, politicians, senior military personnel and other stakeholders on the dangers and consequences of conflicts on social development and service delivery. Policy development and dissemination is also another important area that informs and facilitates policy makers in formulation of sound decisions and strategies.

In addition, the academic community however benefits with special focuses on the following areas: Theory building, teaching which will be assimilated by the recipients, publishing and knowledge creation. All these are meant to reinforce each other and to improve people's lives and their well-being.

The information generated from this study is designed to assist development actors in the following areas: formulation of sound initiatives / interventions, strategies, action plans development and implementation mechanisms with clear budgetary allocation.

1.5 Literature Review

This section reviews literature relevant to this study. The review is organized as follows: Ethnic Conflict; International Trade and the relationship between Ethnic Unrest and the Effect on Trade.

1.5.1 Ethnic Conflict

Ethnic conflict is a concept that is difficult to define and perhaps, more difficult to comprehend. Conflict between ethnicities is a phenomenon that has occurred for hundreds of years and in all corners of the earth.¹⁶ In Ethnic Conflict authors Karl Cordell and Stefan Wolff define conflict as such: "The term conflict describes a situation in which two or more actors pursue incompatible, yet from their individual perspectives entirely just, goals. An ethnic conflict is one particular form of this: that in which the goals of at least one party are defined in (exclusively) ethnic terms, and the primary fault line of confrontation is one of ethnic distinctions". Throughout Africa myriad ethnic groups exist, each with its unique culture, customs, and political institutions.¹⁷ Given its diversity, it is not surprising that Africa has, therefore, experienced a vast number of civil wars and genocides directly related to fissures that have developed along ethnic lines.¹⁸

¹⁶ Metz, H. *Sudan: A Country Study*. Washington: GPO for the Library of Congress. pp. "The Coming of Islam"(1991). pp.18-20

¹⁷ Amusan, L. *Germinating Seeds of Future Conflict in South Sudan*. African Conflicts & Peace building Review, Volume 4, Number 1, Spring 2014, pp. 120-133

¹⁸ Arnold, M. *South Sudan: From revolution to independence*. London: Hurst. (2012). p.110

In the past two decades or so, there has emerged a noticeably high growth of written materials on the topic of ethnic conflict. In some aspects, authors have agreed on the content and context of this subject matter. According to Cordell and Wolff it is most likely for academicians to disagree than agree which in itself is a good thing. In this particular case, most of the authors have disagreed on the causes, course and consequences of these conflicts and ways in which affected people should try to respond to them. ¹⁹

The disagreements have emerged from the different approaches the authors have taken in terms of the Geography and political locations and backgrounds. Rodolfo says that ethnic conflict is a clash in whichever level where the people or groups/ parties involved try to identify themselves and others, including those from outside the group, in ethnic terms and using ethnic process. In this description, the common bond between members of the group is basically ethnicity and people and outsiders see the unity of the group as because of the ethnic principle embedded in the culture, language, and all behaviours attributable to the ethnic group.²⁰

An ethnic conflict is a conflict between two or more contending ethnic groups. While the source of the conflict may be political, social, economic or religious, the individuals in conflict must expressly fight for their ethnic group's position within society. This final criterion differentiates ethnic conflict from other forms of struggle.²¹ Ethnic conflict does not necessarily have to be violent. In a multi-ethnic society where freedom of speech is protected, ethnic conflict can be an everyday feature of plural democracies. For example, ethnic conflict might be a non-violent struggle for resources divided among ethnic groups.²² However, the subject of the confrontation must be either directly or symbolically linked with an ethnic group. In healthy multi-ethnic

¹⁹ Wolff, Stefan, and Karl C. "24 Power sharing." *Routledge Handbook of Ethnic Conflict* (2010): p.300.

²⁰ Gambini, Rodolfo, and Jorge P. "Nonstandard optics from quantum space-time." *Physical Review D* 59, no. 12 (1999): 124021.

²¹ Duursma and Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): pp.101-102

²² Leiden: Nijhoff. Marx and Engels, *The Communist Manifesto*, introduction by Martin Malia (New York: Penguin group, 1998), p. 35

democracies, these conflicts are usually institutionalized and "channelled through parliaments, assemblies and bureaucracies or through non-violent demonstrations and strikes."

While democratic countries cannot always prevent ethnic conflict flaring up into violence, institutionalized ethnic conflict does ensure that ethnic groups can articulate their demands in a peaceful manner, which reduces the likelihood of violence.²³ On the other hand, in authoritarian systems, ethnic minorities are often unable to express their grievances. Grievances are instead allowed to fester which might lead to long phases of ethnic silence followed by a violent outburst. Therefore, ethnic peace is an absence of violence, not an absence of conflict. Another consequence is that violent ethnic rebellions often result in political rights for previously marginalized groups.²⁴

South Sudan has been continuously subject to ethnic conflict since the 1950s, including the 'Southern Resistance' in 1955 (i.e. before Sudan's independence from colonial rule in 1956) which was rooted in the exclusion of Southern Sudan from the political independence process. The first civil war ('Ananya I') broke out in late 1960s until it was resolved by the 1972 Addis Ababa Agreement. The decade of relative peace that followed was shattered by the second civil war that erupted in 1983, pitting the Government of Sudan against the Sudan's People Liberation Army/Movement (SPLA/M). Lasting over two decades, this second civil war led to the death of an estimated 2.5 million people and the displacement of some 4.6 million people. The 2005 Comprehensive Peace Agreement between the warring factions formally ended the civil war and led to the creation of the independent country of South Sudan in 2011. Fewer than two-and-a-half years after Independence, large scale violence again erupted at the end of 2013. A formal peace agreement between the conflicting parties was signed in August 2015.²⁵

²³ Johnson, H. *Briefing: The crisis in South Sudan*. African Affairs, (2014). 113(451), 300-309.

²⁴ Stern, O. *Hope, pain & patience: The lives of women in South Sudan*. Auckland Park, South Africa: Jacana Media. (2011). pp.39-40

²⁵ Matheson, M. J. *International civil tribunals and armed conflict*. (2012). p.141

1.5.2 International Trade

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has existed throughout history (for example Uttarapatha, Silk Road, Amber Road, scramble for Africa, Atlantic slave trade, salt roads), its economic, social, and political importance has been on the rise in recent centuries. Carrying out trade at an international level is a more complex process than domestic trade. Trade takes place between two or more nations.²⁶ Factors like the economy, government policies, markets, laws, judicial system, currency, etc. influence the trade. The political relations between two countries also influence the trade between them. Sometimes, the obstacles in the way of trading affect the mutual relationship adversely. To avoid this, international economic and trade organizations came up. To smoothen and justify the process of trade between countries of different economic standing, some international economic organizations were formed. These organizations work towards the facilitation and growth of international trade.²⁷

Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies, and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments.

Exports create jobs and boost economic growth. They give domestic companies more experience in producing for foreign markets. Over time, companies gain a competitive

²⁶ Lee, C. *Sudan—A cultural profile*. Toronto: University of Toronto, Faculty of Social Work. AMNI Centre. (1998). pp.19-20

²⁷Themnér, Lotta, and Peter W. "Armed Conflicts, 1946–2011." *Journal of peace research* 49, no. 4 (2012): .565-575.

advantage in global trade. Trade also makes companies more efficient. Research shows that exporters are more productive than companies that focus on domestic trade.²⁸

Global trade allows wealthy countries to use their resources whether labour, technology or capital more efficiently. Because countries are endowed with different assets and natural resources (land, labour, capital and technology), some countries may produce the same goods more efficiently and therefore sell it more cheaply than other countries.²⁹ If a country cannot efficiently produce an item, it can obtain the item by trading with another country that can. This is known as specialization in international trade.

International trade not only results in increased efficiency but also allows countries to participate in a global economy, encouraging the opportunity of foreign direct investment (FDI), which is the amount of money that individuals invest into foreign companies and other assets. In theory, economies can, therefore, grow more efficiently and can more easily become competitive economic participants.³⁰

For the receiving government, FDI is a means by which foreign currency and expertise can enter the country. These raise employment levels, and, theoretically, lead to a growth in the gross domestic product. For the investor, FDI offers company expansion and growth, which means higher revenues.

1.5.3 Ethnic Unrest and the Effect on Trade

The existing trade literature can be broadly partitioned into two types of investigations. The first strand seeks to explain the volume of trade for individual countries by studying factors that

²⁸ Lee, Cecelia. *Sudan—A cultural profile*. Toronto: University of Toronto, Faculty of Social Work. AMNI Centre. (1998). pp.210-211

²⁹ Höhne, M. *Borders & borderlands as resources in the Horn of Africa*. Woodbridge, Suffolk: James Currey. (2010). p.16

³⁰ Kaltani L. "The Macroeconomics of Oil Booms: *Journal on Lessons for SSA*," *Development Economics Research Group*. (2007). p.19

could promote or inhibit import or export demand.³¹ The second type of literature is more concerned with trade patterns and endeavours to decipher which factors account for the differences in existing trade intensity between pairs of nations, often by making use of the gravity model of trade first promoted by Tinbergen.³² Significantly more effort has been put into understanding the consequences of international or bilateral conflict on trade patterns than the effect of internal instability on a nation's trade volume. Consequently, all of the literature discussed next implement the gravity model of trade in the analysis.³³

Bloomberg and Hess identify two channels through which conflict affects economies: the domestic channel and the trade channel.³⁴ The domestic channel concerns the allocation of factors; if the government spends a larger amount for military purposes, this will likely crowd out investment and/or consumption. Naturally, a decline in investment now will lead to lower economic growth in the future. Any type of conflict, be it external or internal, affects the economy via the trade channel by imposing a distorting tariff on trade, inhibiting free trade and thus leading to a fall in economic activity.³⁵

It is essential to recognize that the endogeneity problem continues to be a possibility, for imports can come at times of shortages and exports can function as a means to do away with domestic surpluses in production.³⁶ Bloomberg and Hess pursue the second channel in their investigation to quantify the effect of all types of conflict on trade; the types of conflict included are terrorism, external war, revolutions, and inter-ethnic fighting, where revolutions provokes political instability. The authors use a panel data set covering 177 countries from 1968 to 1999, and their

³¹ Abdulsamed F. *Somali investment in Kenya*. Chatham House, 2011. pp.27-28

³² Tinbergen, Niko. "On aims and methods of ethology." *Zeitschrift für Tierpsychologie* 20, no. 4 (1963): 410-433.

³³ Craze, J. *Creating facts on the ground: Conflict dynamics in Abyei*. Geneva: Small Arms Survey. (2011). p.100

³⁴ Bloomberg, S. Brock, and Gregory D. "How much does violence tax trade?" *The Review of Economics and Statistics* 88, no. 4 (2006): 599-612.

³⁵ Kaltani L. "The Macroeconomics of Oil Booms: *Journal on Lessons for SSA*," *Development Economics Research Group*. (2007). pp.19-20

³⁶ Craze, J. *Creating facts on the ground: Conflict dynamics in Abyei*. Geneva: Small Arms Survey. (2011).

regression results include country- and time-fixed effects. They found a robust relationship between conflict and trade; for the purposes of this study only the effects of terrorism, inter-ethnic fighting, and revolutions will be mentioned.³⁷

All three types of conflict experienced by one of the two countries significantly reduce bilateral trade; terrorism reduces bilateral trade by 4 percentage points and inter-ethnic fighting reduces trade by 12 percentage points. If both trading countries experience revolutions this will reduce their bilateral trade by 40 percentage points. Bloomberg and Hess account for endogeneity by using IVs, but this does not alter the main thrust of the article. In the same vein, Nitsch and Schumacher use an augmented gravity model with several measures of both internal and external conflict and violence, and find that an increase in any type of domestic violence greatly reduces the volume of bilateral trade flows.³⁸ A significant neglect in this latter article is the absence of any consideration of endogeneity; the authors solely employ the ordinary least squares (OLS) technique with year effects. Another branch of research has endeavoured to distinguish whether there are different effects depending on whether the conflict takes place in the importing country or the exporting country.³⁹

Srivastava and Green make this distinction and define political conflict as the irregular transfer of power.⁴⁰ They find that low levels of instability in the exporting nation are associated with higher trade intensities. The same result does not hold in their analysis for instability in the importing nation: the coefficients are insignificant in the majority of the cases. Similar results were found by Eckstein and Tsiddon who examined the short-run effects of terrorism on the macro economy in Israel using the VAR method; the impact on exports was much more volatile than the

³⁷ Bloomberg, S. Brock, and Gregory D. "How much does violence tax trade?" *The Review of Economics and Statistics* 88, no. 4 (2006): 599-612.

³⁸ Nitsch, Volker, and Dieter S. "Terrorism and international trade: an empirical investigation." *European Journal of Political Economy* 20, no. 2 (2004): pp 423-433.

³⁹ *Ibid* pp. 67-68

⁴⁰ Srivastava, Rajendra K., and Robert T. "Determinants of bilateral trade flows." *Journal of Business* (1986): 623-640.

impact on, for example, non-durable consumption.⁴¹ However, Eckstein and Tsiddon disregard the effects of conflict on import demand.⁴² Neyapti, Taskin, and Üngör⁴³ do consider all trade, and find a positive effect of political security on Turkish export demand and, in contrast to Srivastava and Green also on import demand.⁴⁴

1.6 Theoretical Framework

This study was guided by Conflict and Development Theory. This theory is most appropriate because it has been used to explain a wide range of social phenomena, including wars and revolutions, wealth and poverty, discrimination and domestic violence. The theory ascribes most of the fundamental developments in human history, such as democracy and civil rights, to capitalistic attempts to control the masses rather than to a desire for social order. The theory revolves around concepts of social inequality in the division of resources and focuses on the conflicts that exist between classes.⁴⁵

The concept of development has widely received an international attention especially in the face of conflict, industrialization and the growing scarcity of natural resources. Some of the major proponents include Barbanti & Olympio who have categorized development into three categories: macro, meso and micro perspectives.⁴⁶ Accordingly, macro issues pertain to the nation's overall pattern of growth; meso however refers to problems such as river basin plans, whereas micro issues are concerned with local community development plans.⁴⁷ These three issues are interrelated and

⁴¹ Eckstein, Z, and Daniel T. "Macroeconomic consequences of terror: theory and the case of Israel." *Journal of Monetary Economics* 51, no. 5 (2004): 971-1002.

⁴² Ibid p.789

⁴³ Neyapti, Bilin, Fatma T, and Murat Ü. "Has European customs union agreement really affected Turkey's trade?" *Applied Economics* 39, no. 16 (2007): 2121-2132.

⁴⁴ Srivastava, Rajendra K., and Robert T. "Determinants of bilateral trade flows." *Journal of Business* (1986): 623-640.

⁴⁵ Natsios, A. *Sudan, South Sudan, and Darfur: What everyone needs to know?* Oxford: Oxford University Press. (2012). p.199

⁴⁶ Barbanti, Olympio. "Development and conflict theory." *Beyond Intractability. Boulder: Conflict Research Consortium: University of Colorado* (2004). pp.120-122

⁴⁷ Dias, A. *State and societal challenges in the Horn of Africa: conflict and processes of state formation, reconfiguration and disintegration.* Lisbon: Center of African Studies (CEA) ISCTE-IUL, University Institute of Lisbon. (2015). pp.68-69

spread out in various dimensions or forms such as economic, cultural, religious, and gender. Additionally, the current conflict and development theory focuses on the structural changes that are required to implement development efforts, thereby preventing conflict while at the same time managed conflict in the event that it has erupted.⁴⁸

This theory was used in this study to help the researcher address the ethnic conflict in South Sudan. This is because the theory does not only look development efforts as they are being implemented, but at the same time look at the structures put in place to manage such efforts. Similarly, Collier looked at conflict in relationship to economic advancement either as an offshoot or as cause. He claimed civil war retards development. The retardation brought as a result of war led to more conflict and economic stagnation.⁴⁹

1.7 Research Hypothesis

The study was guided by the following hypothesis:

- i. South Sudan's ethnic conflicts have no significant effect on the country's economic development.
- ii. South Sudan's ethnic-based civil war has no significant effect on Kenya's economic development.
- iii. There is no linkage between ethnicity and economic development in South Sudan and Kenya.

1.8 Methodology

In order to accomplish the objectives of the study, different methods of data collection and analysis was used. The study collected both primary and secondary data to enrich the study.

⁴⁸ Ibid pp.19-22

⁴⁹ Collier, Paul. "Doing well out of war." In *conference on economic agendas in civil wars*, London, vol. 26, p. 27. 1999.

1.8.1 Research Design

The design that was used in this study is qualitative. The use of qualitative research is preferable when the researcher does not know the important variable to examine; which makes it particularly appropriate when a topic is new and exploratory.⁵⁰ The fact that qualitative approach does not have a standard measure but rather is concerned with subjective assessment of attitudes, options and behaviour is that it makes it suitable for the research.⁵¹ In addition, with regard to viability, this study employs the use of qualitative research. Quantitative measure and statistical analysis simply do not fit the problem under the study. In other words, the research problem has an adequate measure or it is difficult to capture with precise measure.⁵²

1.8.2 Data Collection

This research depended on both primary and secondary data. Secondary information was collected from journals, books, newspapers, online sources, conversations with the people who might be resourceful to this topic.

Primary data was collected by use of semi-structured questionnaire. The questions presented in the questionnaire were mostly open-ended with the purpose of respondents to reply in which matter they choose. Open and closed ended questionnaires gives the participants the opportunity to elaborate on questions which again can provide further interesting and valuable information.⁵³

1.8.3 Sampling Techniques

According to Bryman & Bell a sample design is a definite plan for obtaining a sample from the sampling frame.⁵⁴ It refers to the technique or the procedure the researcher would adopt in selecting

⁵⁰ Zhang, W, and John C. "The use of "mixing" procedure of mixed methods in health services research." *Medical care* 51, no. 8 (2013): e51-e57.

⁵¹ Kothari, Chakravanti R. *Research methodology: Methods and techniques*. New Age International, 2004.

⁵² Kothari op. cit., 245-263

⁵³ Bryman, A. (2008). *Social Research Methods*. 3rd Ed. Oxford: Oxford University Press, p.21

⁵⁴ Bryman, A. & Bell, E. *Business Research Methods*. Oxford: Oxford University Press. (2007). P.12

some sampling unit from which inferences about the population is drawn. Sampling design was determined before data was collected.

The study of Exporting Manufacturers, mostly from Nairobi City County, was used mainly to test the objectives. Nairobi City County where industries trading between Kenya and South Sudan are located is well mapped out and afforded ease of sampling but industries preferred classifying information in fear of business intelligence and possible harm to their operational plans. This research made estimation on the population from where representative samples will be drawn.

In total, the research conducted survey from a pool of 54 respondents. Purposive sampling was used to obtain 40% of the total respondent. The respondents were interviewed in terms of availability and willingness to give information. The manufacturers were issued with the tool to respond to. In total, the research conducted survey from a pool of 22 respondents.

1.8.4 Data Analysis

The gathered data was analysed using both qualitative and quantitative methods. All the data collected from closed ended questions was analysed in terms of percentages. Qualitative data collected was analysed using Content analysis. This data included data from open ended questions as well as data from secondary materials. From the collected data, themes were developed according to the study's objectives.

1.9 Chapter Outline

This study contains five chapters as follows:

Chapter One: Introduction. This chapter gives the statement of the Problem; Objectives of the Study; Justification of the Study; Literature Review; Theoretical Framework; Research Hypothesis and Methodology of the study.

Chapter Two: Ethnic conflicts and economic development in South Sudan. This chapter discusses the following: ethnic conflicts and economic development; status of the conflict in south

Sudan; ethnic conflicts impact on gross domestic product; ethnic conflicts impact on foreign direct investment; ethnic conflicts impact on inflation and exchange rates; ethnic conflicts, political situation and economic development; ethnic conflicts, export challenges and economic development; ethnic conflicts, government operations and economic development and ethnic conflicts, social challenge and economic development.

Chapter Three: South Sudan's civil war and Kenya's economy. This chapter examines the following: Kenya's interests in South Sudan; Ethnic Conflicts, Kenyan Investments in South Sudan; Kenyan Banking and Business Interests in South Sudan; Trade between Kenya and South Sudan; Ethnic Conflicts and Infrastructure projects; Ethnic Conflicts, Refugees from South Sudan and Ethnic Conflicts to South Sudan Membership of the EAC.

Chapter Four: Analysis and Presentation of Data. This chapter underscores the following: demographic information; ethnic conflicts impact on households; effects of South Sudan civic wars on economic development; impact of ethnic conflict on oil and aid sectors; Kenya's main exports to South Sudan; the impact of ethnic conflict on Kenya's economy; impact of ethnic conflict on demand; impact of ethnic conflict on market composition; impact of ethnic conflict on prices and the impact of ethnic conflict on trade flows.

Chapter Five: Summary, Conclusions and Recommendations. This chapter presents the summary of the findings of the entire study, Conclusions and Recommendations based on the study findings.

Chapter Two

Ethnic Conflicts and Economic Development in South Sudan

2.1 Introduction

This chapter discusses the impact of ethnic conflicts on economic development in South Sudan. It examines in details: the ethnic conflicts and economic development; status of the conflict in south Sudan; ethnic conflicts impact on gross domestic product; ethnic conflicts impact on foreign direct investment; ethnic conflicts impact on inflation and exchange rates; ethnic conflicts, political situation and economic development; ethnic conflicts, export challenges and economic development; ethnic conflicts, government operations and economic development and ethnic conflicts, social challenge and economic development.

Ethnic conflicts have a myriad of impacts to the communities in warfare. There is a direct linkage between ethnic conflicts and its impacts including economic growth and development of a country.⁵⁵ Any economic, social or political development requires an environment of stability and peace. More specifically, activities of economic growth and development require the players to be in a non-conflict situation. Besides this, ethnic conflict also destroys a lot of what has been developed during the time of stability. It breaks structures created for economic development. Businesses are brought down; infrastructure is destroyed and lives of people who drive development activities are lost.⁵⁶

Countries like Nigeria, Democratic Republic of Congo, Rwanda, Syria, and parts of Kenya have had instances of underdevelopment precipitated by ethnic conflicts. While it is true that ethnic conflict affects the economy, economic interests of a country or community may play a big role in ethnic conflict and hence lead to even more destruction into the economy. It ends up being a never-

⁵⁵ Suliman and Mohamed. "Civil war in Sudan: the impact of ecological degradation." *Contributions in Black Studies* 15, no. 1 (2007): 7.

⁵⁶ Verhoeven, H. "Climate change, conflict and development in Sudan: global neo-Malthusian narratives and local power struggles." *Development and Change* 42, no. 3 (2011): 679-707.

ending vicious cycle.⁵⁷ The situation of ethnic conflict has been considered to be the greatest contributor to the slow pace of development in Africa. Many decades after independence, ethnic conflicts are still in the news today from central Africa to Nigeria. The effects of these conflicts have been on income, growth and economic policies. By this it means that in the situation of warfare in countries of African, and even globally, there can never be any meaningful economic growth.⁵⁸

The warring communities divert their resources and energies to fighting with each other and hence lose out on developing their communities and nation in terms of engaging themselves in meaningful economic activities. Where there is a slow pace of growth and of developing structures and system that are meant to improve the living standards of people, it is considered to be underdevelopment.⁵⁹

2.2 Ethnic Conflicts and Economic Development

Ethnic division brings in conflicts which could lead to political instability and civil wars that have long-lasting economic effects. People change their economic behaviours by resulting to spending most of their finances on activities of consumption than investment e.g. looking for rent in safer places.⁶⁰ Ethnic diversity can become a hindrance to the economic growth and development together with social stability. For example, if some group of people/ community is given some special treatment by the government like it happens in most African states, and then growth is not equitable. Ethnic diversity, as it is meant to be and when it is encouraged by leaders, can lead to great social and economic growth and the reduction or elimination of poverty. Many

⁵⁷ De Waal, Alex. "When kleptocracy becomes insolvent: Brute causes of the civil war in South Sudan." *African Affairs* 113, no. 452 (2014): 347-369.

⁵⁸ McFerson, Hazel M. "Extractive industries and African democracy: can the "resource curse" be exorcised?" *International Studies Perspectives* 11, no. 4 (2010): .335-353.

⁵⁹ Pedersen, Ascha, and Morgan B. "Considering the impact of oil politics on nation building in the Republic of South Sudan." *The Extractive Industries and Society* 1, no. 2 (2014): 163-175.

⁶⁰ Miguel, Edward, Shanker S, and Ernest S. "Economic shocks and civil conflict: An instrumental variables approach." *Journal of political Economy* 112, no. 4 (2004): 725-753.

scholars and leaders have suggested that possible ethnic inequalities should be incorporated into overall development policies, in order to have an effective conflict prevention strategy.⁶¹

Ethnic conflicts have a myriad of impacts to the communities in warfare. There is a direct linkage between ethnic conflicts and its impacts including economic growth and development of a country.⁶² Any economic, social or political development requires an environment of stability and peace. More specifically, activities of economic growth and development require the players to be in a non-conflict situation. Besides this, ethnic conflict also destroys a lot of what has been developed during the time of stability. It breaks structures created for economic development. Businesses are brought down; infrastructure is destroyed and lives of people who drive development activities are lost. Countries like Nigeria, Congo, Rwanda, Syria, and parts of Kenya have had instances of underdevelopment precipitated by ethnic conflicts.

While it is true that ethnic conflict affects the economy, economic interests of a country or community may play a big role in ethnic conflict and hence lead to even more destruction into the economy. It ends up being a never-ending vicious cycle. Ethnic conflict affects people's economic incentives. Some sections of the economy flourish, while others suffer. To evaluate this, researchers have tested and discovered that the less destructive conflicts affect the labour-intensive sectors more.⁶³ Conflict reduces the share of the manufacturing sector in the GDP, increasing the exploitation of some natural resources and reducing. Labour-intensive sectors are also negatively affected by conflict. It is also found that exporting sectors and industries that require external financing suffer more during conflict.⁶⁴

⁶¹ Patey, Luke Anthony. "State rules: Oil companies and armed conflict in Sudan." *Third World Quarterly* 28, no. 5 (2007): 997-1016.

⁶² Collier, Paul. *Breaking the conflict trap: Civil war and development policy*. World Bank Publications, 2003.p.23

⁶³ Easterly, William. *Can institutions resolve ethnic conflict?* The World Bank, 1999. 245-263

⁶⁴ Suliman and Mohamed. "Civil war in Sudan: the impact of ecological degradation." *Contributions in Black Studies* 15, no. 1 (1997): 7.

Ethnic Conflict among other types of conflict can affect the level of development in a country in many other ways. In some ways, conflict is likely to disrupt distribution of food and other resources to the population affected by it.⁶⁵ For instance reason so many people died in the 1984 famine in Ethiopia was not drought but because the food could not be distributed to the people due to the magnitude of the war which was going on at the time. Conflicts also affect many services, such as schools which get devastated by conflict and this may cause literacy rates to fall and it's obvious that levels of literacy are an indicator of widespread development. Also, ethnic conflict can bring an imbalance in the population structure, since men of economic age are those most likely to be involved in the fighting and get killed in some cases. A case in point is Rwanda where the war led to men getting away from economic activities as they fought and unfortunately, most of the men were killed in the wars.⁶⁶

The situation of ethnic conflict has been considered to be the greatest contributor to the slow pace of development in Africa. Many decades after independence, ethnic conflicts are still in the news today from central Africa to Nigeria. The effects of these conflicts have been on income, growth and economic policies. By this it means that in the situation of warfare in countries of African, and even globally, there can never be any meaningful economic growth. The warring communities divert their resources and energies to fighting with each other and hence lose out on developing their communities and nation in terms of engaging themselves in meaningful economic activities.⁶⁷

⁶⁵ McFerson, Hazel M. "Extractive industries and African democracy: can the "resource curse" be exorcised?" *International Studies Perspectives* 11, no. 4 (2010): 335-353.

⁶⁶ Easterly, William. *Can institutions resolve ethnic conflict?* The World Bank, 1999. 245-263

⁶⁷ Miguel, Edward, Shanker S, and Ernest S. "Economic shocks and civil conflict: An instrumental variables approach." *Journal of political Economy* 112, no. 4 (2004): 725-753.

2.3 Status of the conflict in South Sudan

The government of South Sudan is experiencing a struggle over legitimacy and monopoly on the use of force. The moment a state loses control of the monopoly over the use of force, be it through a union, revolution, collapse or conquest, then the state is dead. In the case of South Sudan, the situation has remained alarming as legitimacy and monopoly over the use of force is not solely in the hands of the current government since the opposition has significant support, legitimacy and a strong army of fighters which has taken control of several parts of the country.⁶⁸

Weeks into the fighting that began in 2013, the United Nations (UN) estimated that thousands had been killed, and around 120 000 others internally displaced of whom around 63 000 were seeking shelter at the UN Peacekeeping Base. The UN Security Council was called into action rapidly with the unanimous adoption of Resolution 2132 that required an increase of the number of troops serving under the United Nations Mission in South Sudan (UNMISS) to 12 500 soldiers and immediate cessation of hostilities.⁶⁹ To show the seriousness of the South Sudanese case, Secretary-General Ban Ki-Moon authorized the transfer of troops from other conflict regions such as the African Union-United Nations Hybrid Operation in Darfur (UNAMID), the United Nations Operation in Côte d'Ivoire (UNOCI), the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO) and the United Nations Mission in Liberia (UNMIL). Such a drastic response can be explained by the fact that although it is not very clear how many people had been killed in the first three months, aid agencies put the figure at over 50 000 people, which is higher than those who had been killed in Syria at the time and that while the population of South Sudan is only about half of that of Syria.⁷⁰

⁶⁸ Deng, Luka B. "Education in Southern Sudan: war, status and challenges of achieving Education for All goals." *Background paper for UNESCO EFA Global Monitoring Report (2003)*. 24-26

⁶⁹ Harbom, Lotta, Stina H, and Peter W. "Armed conflict and peace agreements." *Journal of Peace Research* 43, no. 5 (2006): .617-631.

⁷⁰ Dagne, Ted. *Sudan: The Crisis in Darfur and Status of the North-South Peace Agreement*. Diane Publishing, 2010.p.9

The conflict continued with heavy casualties witnessed until 2015, when a temporary peace treaty was signed. Cessation of hostilities did not last long as both sides accused each other of violating the terms of the peace treaty.⁷¹ Episodic violence kept erupting as the country remained unstable. Even the Southern parts that were relatively peaceful and known for their high crop yields came under attack. This affected food production in the country and diminished supply quantities. The government lost monopoly over coercive power and was unable to administer justice, provide basic services to the citizens and guarantee their security. Domestic sovereignty and more particularly the legitimacy of the political elites were highly disputed as the country was staring into a possible genocide.⁷²

In 2017, four years into the war, the number of displaced persons had increased to over 2.3 million people, and renewed fighting was taking place in the Equatorials, Western Bahr al Ghazal and the Greater Upper Nile, causing the death of thousands more. The government was accused of illegal detentions, restriction of media freedom and suppression of critics. The number of people seeking shelter at UN peacekeepers' bases had also increased to 230 000 from 63 000.⁷³ The situation was made even worse with the outbreak of a severe famine, especially in the former Unity state, which lasted for more than six months. The unchecked violence has seen war crimes and crimes against humanity committed, according to the African Union Commission of Inquiry.⁷⁴

In 2018, reports by the Mercy Corps indicate that 1 out of 3 people in South Sudan is a refugee, 1.9 million people are internally displaced while more than 2.1 million have fled out of the country. This shows an increase in the number of internally and externally displaced persons from 2 million

⁷¹ Reithinger, Richard, Simon B, and Jan H. Kolaczinski. "Visceral leishmaniasis in eastern Africa—current status." *Transactions of the Royal Society of Tropical Medicine and Hygiene* 101, no. 12 (2007): 1169-1170.

⁷² Roberts, Bayard, Eliaba Y, Olivia L, and Egbert S. "The influence of demographic characteristics, living conditions, and trauma exposure on the overall health of a conflict-affected population in Southern Sudan." *BMC Public Health* 10, no. 1 (2010): 518.

⁷³ Gurr, Ted Robert. "Communal conflicts and global security." *Current History* 94, no. 592 (1995): 212.

⁷⁴ Themnér, Lotta, and Peter W. "Armed Conflicts, 1946–2011." *Journal of peace research* 49, no. 4 (2012): 565-575.

to 4 million.⁷⁵ Already, approximately \$20 billion has been spent by the UN on its peacekeeping missions in South Sudan since 2014 with little results in terms of achieving sustainable peace.⁷⁶

Targeted attacks on civilians, gender-based violence including rape, burning of homes and livestock, murder and kidnapping continue to be widespread. Aid convoys continue to be attacked and relief food looted by different warring groups. According to the United Nations International Children's Emergency Fund (UNICEF), almost 50% of all children eligible to be enrolled are out of school. The violence continues to affect not just school-going children, but also farmers and other workers who have abandoned their duties to find other means of surviving.⁷⁷

The situation in South Sudan is among the worst in the world. Understandably this is so because the region became independent after three decades of fierce fighting with the North. Before the dust of the independence celebrations even settled, the civil war erupted, and as a result there was no adequate time to establish institutions and response mechanisms that could have at least reduced the effects of the war. This has seen South Sudan ranked the highest on the world index of fragile states that can collapse anytime. Inadequate funding has been a big challenge, too, in facing the conflict. For example, the budget needed to respond to the crisis in 2017 was \$1.64 billion, which was expected to help 7.6 million beneficiaries. However, only 73% of the total budget was financed.⁷⁸

In 2018 the targeted budget by the UN is \$1.8 billion to help the internally displaced and \$1.7 billion to assist those who have fled out of the country.⁷⁹ Given the failure to meet the full budget in the previous years, aid agencies may need to look to the private sector among other options, for sufficient funding. Lack of funds is further worsened by the excess spending and extravagant

⁷⁵ Mercy Corps 2018

⁷⁶ Themnér, Lotta, and Peter W. "Armed Conflicts, 1946–2011." *Journal of peace research* 49, no. 4 (2012): 565-575.

⁷⁷ Dagne, Ted. *Sudan: The Crisis in Darfur and Status of the North-South Peace Agreement*. Diane Publishing, 2010. 245-263

⁷⁸ Rolandsen, Øystein H., and Nicki K. "South Sudan: A Political Economy Analysis." (2017). 45-63

⁷⁹ Mozersky, David, and Daniel M. "South Sudan's Renewable Energy Potential." *The Struggle for South Sudan: Challenges of Security and State Formation* (2018): 243.

lifestyle of the political class. The International Monetary Fund (IMF) is warning that the prolonged war threatens a complete collapse of the South Sudanese economy if the large economic imbalances and exhausted economic buffers are not addressed.⁸⁰

The economic situation in the country suffered a serious blow from the global oil price decline since 98% of the government revenue comes from oil exports.⁸¹ The South Sudanese Pound also lost around 90% of its value following the 2015 liberalization of exchange rates that saw the country lose ground against other global currencies.⁸² In 2016 inflation surpassed the 550% increase rate leaving the government with over \$1.1 billion deficit in the 2016–2017 financial year.⁸³ Wages were significantly reduced while the prices of even the most basic products skyrocketed inflicting more suffering on the people.⁸⁴

2.4 Impact of Ethnic Conflicts on Gross Domestic Product

South Sudan's economy has struggled recently due to civil unrest and ongoing disagreements with the government of Sudan over oil rights, as well as other disruptions to economic activity. In 2012, a dispute over oil fees led Sudan to shut down South Sudan's oil export pipelines, only resuming shipments in 2013. As a result, South Sudan's GDP declined approximately 50% from nearly USD 22 billion in 2011 to just under USD 12 billion in 2012. While GDP grew about 25% to almost USD 15 billion between 2012 and 2013, South Sudan's recovery has been hampered by the civil war. Despite the country's abundant oil resources, South Sudan's GDP per capita was only USD 1,350 in 2013, approximately 50% of the sub-Saharan average of USD 2,673 per capita

⁸⁰ Sudan Tribune 2016

⁸¹ Barry, Hannah. "Starving Out the Enemy: Withholding food aid as a tactic of war in South Sudan." *Mapping Politics* 8, no. 2 (2017). 90-99

⁸² Vhumbunu, Clayton H. "The National Dialogue Initiative in South Sudan." *Conflict Trends* (2018): 1.

⁸³ IMF 2017

⁸⁴ Vhumbunu, Clayton H. "The National Dialogue Initiative in South Sudan." *Conflict Trends* (2018): 1.

Oil is the driving factor of the economy and is estimated to account for up to 80% of GDP and almost all exports, making South Sudan the most heavily oil-dependent nation in the world.⁸⁵

The government of the Republic of South Sudan (GoSS) is also deeply dependent on these exports as nearly 98% of its revenues in recent years have been generated by the oil industry. South Sudan's 2012 oil shutdown demonstrated the importance of oil to the economy. In January 2012, the government was forced to halt production and export of oil due to ongoing disagreements with Sudan, primarily around fees to use Sudan's infrastructure.⁸⁶ These disagreements stem from uneven distribution of oil reserves and infrastructure dating back to pre-independence; as of 2014, Sudan possesses 1.5 billion barrels in oil reserves while South Sudan has more than twice that number 3.5 billion barrels. While almost 70% of unified Sudan's oil reserves were in the south, the majority of export infrastructure was developed in the north. Therefore, independent South Sudan lacks the necessary infrastructure to export its oil, forcing it to rely on Sudan and making it vulnerable to conditions imposed by the Sudanese government. Without revenues generated by oil production and export, the GoSS was forced to implement significant austerity measures, reducing its 2012 spending by approximately 45% from 2011 levels followed by additional spending cuts in its 2012/2013 budget.⁸⁷

These cuts included reductions in operating costs, capital expenditure, and transfers to South Sudanese states, leading to GDP decline and economic challenges. With the resumption of oil flows, the economy rebounded in the second half of 2013, despite production levels nearly 40% lower than 2011.⁸⁸ While oil is the key driver of South Sudan's economy, agriculture is the primary

⁸⁵ Dousman, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 245-263

⁸⁶ Appe, S, and Fabian T. "Grassroots International NGOs: Using Comparative Interpretive Policy Analysis to Understand Meanings in Private Development Aid." *Journal of Comparative Policy Analysis: Research and Practice*.p.77

⁸⁷ Rowhani, Pedram, Olivier D, Debarati G, and Eric F. "Malnutrition and Conflict in Eastern Africa: Impacts of Resource Variability on Human Security." In *Climate Change, Human Security and Violent Conflict*, pp. 559-571. Springer, Berlin, Heidelberg, 2012.p.45

⁸⁸ Sørbo, Gunnar M., and Abdel M. Ahmed. *Sudan divided: continuing conflict in a contested state*. Springer, 2013. pp.99-100

economic activity for most South Sudanese citizens. Agriculture is still primarily subsistence farming as almost 80% of South Sudanese households rely on crop farming or animal husbandry as their primary source of income. The reliance on subsistence agriculture makes the country susceptible to natural disasters such as floods, droughts, and crop diseases. Such disasters disproportionately impact South Sudan's most vulnerable; among Sudan's bottom quintile by income, more than 80% rely on agriculture for their primary source of income⁸⁹. However, the crop production has been much affected by the ongoing conflicts hence reduction in GDP.

2.5 Impact of Ethnic Conflicts on Foreign Direct Investment

Foreign Direct Investment (FDI) has been a subject of interest for decades. The influx of FDI surged primarily in the 1980s when lending by commercial banks to the developing economies dried up, which forced most countries to ease restrictions and offer tax incentives and subsidies to attract foreign capital. Consequently, FDI contributes positively to the Gross Domestic Product (GDP) of the host countries by bringing in foreign exchange reserves and improvement of the Balance of Payment (BoP) for the local economies.⁹⁰ The rate of technological progress enhances with FDI since foreign firms bring in more advanced technology and management practices to the host countries. FDI can ease the transfer of technological and business know-how to the less developed economies with the consequent reduction of the 'idea gaps' between rich and poor countries. In addition, the new ideas can 'spill over' to other sectors and segments of the economy which are not FDI recipients; thereby, boosting the productivity of more firms in the process.⁹¹

With South Sudan's weak private sector and history of conflict, there have been limited international investments in the country. Although FDI statistics for South Sudan as a nation are

⁸⁹ Mozersky, David, and Daniel M. "South Sudan's Renewable Energy Potential." *The Struggle for South Sudan: Challenges of Security and State Formation* (2018): 243.

⁹⁰ Vhumbunu, Clayton H. "The National Dialogue Initiative in South Sudan." *Conflict Trends* (2018): 245-263

⁹¹ Duursma, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 0022343318800522.

unavailable, the oil sector receives the majority of foreign investments given its role in the economy. These are primarily from large foreign oil companies including China's National Petroleum Company, Malaysia's Petroliam Nasional Berhad (PETRONAS), and India's Oil and Natural Gas Corporation (ONGC). Other countries with business interests in South Sudan's oil industry include the U.S., Russia, France, and Kuwait. Other than oil investments, international companies that operate in South Sudan include South African brewer SABMiller, telecommunications operators MTN, Vivacell, and Zain, airlines such as Air Uganda and East Africa Airlines, as well as insurance and banking institutions from Kenya, South Africa, and Ethiopia.⁹²

The secession of South Sudan in July 2011 shifted 80 percent of the country's oil wealth to the South and renewed prospects for potential oil exploitation.⁹³ Major oil operations are underway in Unity state where the Greater Pioneer Operating Company, a consortium of Chinese, Malaysian, Indian and South Sudanese interests, run the extraction industry. Such businesses have been affected by the conflict. State reports claim that rebels have seized oil wells, and a significant proportion of expat workers (whom the industry rely upon) have been evacuated.⁹⁴

South Sudan hoped to partner with Western states in oil exploration initiatives. Indeed, both French and U.S. petrol firms have been involved in negotiations to explore southern regions the areas currently embroiled in conflict. At the beginning of December 2013, South Sudan's President Kiir attempted to lure foreign investment, through a two-day business conference. Susan Page, the U.S. Ambassador to Juba, previously announced that U.S. companies were interested in South Sudan's oil. Moreover, British Expertise conducted a scoping mission in March 2012 to South Sudan and is looking to begin another mission in conjunction with the South Sudan Business

⁹² Oman, Charles P. "Policy competition for foreign direct investment." (2018). p.8

⁹³ Asongu, Simplicé A. "How would population growth affect investment in the future? Asymmetric panel causality evidence for Africa." *African Development Review* 25, no. 1 (2013): 14-29.

⁹⁴ Aitken, Brian J., and Ann E. "Do domestic firms benefit from direct foreign investment? Evidence from Venezuela." *American economic review* 89, no. 3 (2018): 605-618.

Association. There is interest, but Western countries are cautious to encourage investment in the current environment.⁹⁵

2.6 Impact of Ethnic Conflicts on Inflation and Exchange Rates

South Sudan's Central Bank was established shortly after independence in 2011, and there is limited reliable data available on the bank's operations and lending rates to date. Inflation in South Sudan has been erratic due to the economic uncertainty that has plagued the country since independence. Starting at 45% in 2012, the inflation rate peaked at almost 80% in mid-2012 due to rising fuel prices and exchange rate pressure. The inflation rate then plunged to just slightly negative in 2013 before rising to an estimated 11% in 2014. The International Monetary Fund (IMF) expects inflation in South Sudan to gradually decline and stabilize at approximately 5% over the next few years, but continued unrest may drive inflation higher than expected.⁹⁶

Meanwhile South Sudan's currency, the South Sudanese Pound (SSP), has remained fairly stable, averaging an official exchange of SSP to the dollar between 2012 and 2014, although investors interviewed for this report suggest that black market exchange rates fluctuate significantly.⁹⁷ It is heavily supported by the country's foreign exchange reserves from oil. As a result, the 2012 oil shutdown led to a slight devaluation of the SSP as the government was forced to spend foreign exchange reserves.⁹⁸

2.7 Ethnic Conflicts, Political Situation and Economic Development

There are overwhelming political and development challenges with complex and slowly implemented strategies that hampers progress in resolving persistent conflicts in South Sudan. The

⁹⁵ Straubhaar, Thomas, and Florin P. "International migrant remittances and their role in development." (2018): .13-37.

⁹⁶ Sachs, Jeffrey, and Pia M. "The economic and social burden of malaria." *Nature* 415, no. 6872 (2017): 680.

⁹⁷ Asongu, Simplicie A. "How would population growth affect investment in the future? Asymmetric panel causality evidence for Africa." *African Development Review* 25, no. 1 (2018): pp.14-29.

⁹⁸ Bardhan, Pranab. "Method in the madness? A political-economy analysis of the ethnic conflicts in less developed countries." *World development* 25, no. 9 (1997): pp.1381-1398.

challenges of nation, state and peace building have persisted and escalated since the civil war of 2013, reflecting the complex and multifaceted nature of the situation. The issues driving these challenges include multiple, interconnected internal and regional conflicts; disagreements among political and military elites and allies that limit consensus on key governance issues; communal conflicts along ethnic and tribal lines that increase social tensions; weak political and governance institutions; lack of effective governance mechanisms, and corruption.⁹⁹

The crisis in South Sudan is structural and systemic in terms of the ethnic tensions and the regional dimension of the IGAD framework, and systemic in terms of the internal divisions within SPLM. The ethnic tone of the crisis is associated with intertribal massacres and revenge attacks by militia and soldiers from the opposing side.¹⁰⁰ These attacks have been driven by the presence of armed militia, ethnic rivalry, disputes over land and cattle, availability of arms, a high number of soldiers that are not demobilized, high levels of youth unemployment, power struggles, and unresolved post-secession issues with the Republic of Sudan. These conditions have worsened poverty, human development indicators, governance, institutions and infrastructure. By 2012, the government was finding it difficult to be effective, had setbacks in coordination and was dealing with economic mismanagement, corruption, power struggles and economic planning failure.¹⁰¹

SPLM's internal conflicts affect the political situation. Preparations for 2015 elections reignited leadership frustrations centring on marginalization and dominance along ethnic lines. Leaders who previously belonged to SPLM became political rivals in the presidential race; the president dismissed his entire cabinet. The creation of a private presidential guard intensified SPLM divisions. Fighting broke out in Juba in December 2013 on allegations that Machar and some ministers dismissed by Kiir had attempted a coup. This turned into a countrywide tribal and

⁹⁹ Thomson, Alex. *An introduction to African politics*. Routledge, 2016.

¹⁰⁰ Haynes, Jeffrey. "Religion, ethnicity and civil war in Africa: The cases of Uganda and Sudan." *The Round Table* 96, no. 390 (2017): 305-317.

¹⁰¹ Barakat, Sultan, David Cy, Frank H, and Vanita S. "The role of basic education in post-conflict recovery." *Comparative Education* 49, no. 2 (2013): 124-142.

factional conflict that was severe in Upper Nile, Jonglei and Bentui. Uganda sent troops in to prevent the collapse of the South Sudan state. The current political crisis and the armed conflict between the government and rebels loyal to Riek Machar can be partly explained by the dysfunctional political system, inadequate political leadership, historical distrust between the Dinka and the Nuer, and an unhealthy dependence on oil rents.¹⁰²

Unresolved issues exist between Sudan and South Sudan. The immediate post- independence years were marked by Sudan-South Sudan tensions. South Sudan seceded before agreeing with Sudan on several issues including their border, the future of their citizens residing in each other's country, and the cost of moving oil through Sudan. The failure of South Sudan to pay oil transport fees in 2012 led to the seizure of its oil shipments by Sudan and the eventual shutdown of oil production in January 2012.¹⁰³ With a cooperation agreement on oil transport fees signed by the two countries on September 27, 2012, oil production resumed in April 2013. The agreement addressed the "fourteen-mile area" dispute on the border between Southern and Eastern Darfur (northern Sudan) and Western and Northern Bahr al Ghazal States (South Sudan) among other issues. South Sudan backtracked on the implementation of the agreement in the disputed area owing to pressure from local political elites, whose support the presidency needed before implementing the agreement. Some oil fields in the border between the two states are contested, e.g. Abyei. Perhaps IGAD should address the Abyei issue as soon as it is practicable.¹⁰⁴

Opposition groups in South Sudan and Sudan share a name. Conflict with Sudan could occur over the existence of SPLM/A-North, an armed opposition group fighting Sudan. The Sudan leadership demands that this group be dissociated from the movement and armed forces of South

¹⁰² Grant, Richard, and Daniel T. "The development complex, rural economy and urban-spatial and economic development in Juba, South Sudan." *Local Economy* 28, no. 2 (2013): 218-230.

¹⁰³ Hendrix, Cullen, and Henk-Jan B. "Food insecurity and conflict dynamics: Causal linkages and complex feedbacks." *Stability: International Journal of Security and Development* 2, no. 2 (2013).

¹⁰⁴ Lake, David A., and Donald R. "Containing fear: The origins and management of ethnic conflict." *International security* 21, no. 2 (1996): .41-75.

Sudan. It remains unclear why this has persisted.¹⁰⁵ South Sudan is among the world's most corrupt countries. In 2017, South Sudan was the second most corrupt country after Somalia and has consistently ranked poorly in international corruption indices, indicating that the political elites continue to divert state resources into private hands. In May 2012, President Kiir asked 75 officials to return stolen oil receipts in exchange for amnesty. Government officials had shipped out over US\$ 4 billion, about one third of oil incomes for 2005- 2011. The officials were never prosecuted, as legal and anti-corruption systems are weak. Kiir dismissed all ministers leaving the country without a cabinet for 10 days in 2012, which caused challenges in governance and sent signals of political instability.¹⁰⁶

Rent seeking in South Sudan is extreme. Rent seeking occurs in state institutions and sometimes presents through rebellions. Security has been promoted by renting army and elites loyalty. Rent-seeking rebellions began during the CPA period when discontented SPLA commanders and other local leaders mutinied, simultaneously fighting the government and bargaining with it for better benefits. This continues and is likely to lead to desperate attempts to sustain loyalties if the money to pay the rents runs out. Black market 'rent seeking' has been evident from gains in currency exchange, the use of fuel subsidies, and 'land-raiding rights' exchanged for military alliances.¹⁰⁷

The central development challenge for South Sudan is transitioning from conflict to peace to initiate economic recovery. In August 2015 the IGAD process resolved the 2013 conflict and ARCSS was signed. ARCSS established TGoNU with Salva Kiir as president and Dr. Riek Machar as vice president, each with a separate army. But the two armies clashed in July 2016 and

¹⁰⁵ Zambakari, C. "Post-Referendum South Sudan: Political Violence, New Sudan and Democratic Nation-Building." (2013).

¹⁰⁶ Breidlid, Anders. "The role of education in Sudan's civil war." *Prospects* 43, no. 1 (2013): .35-47.

¹⁰⁷ Baylis, John, Steve S, and Patricia O, eds. *The globalization of world politics: An introduction to international relations*. Oxford University Press, 2017.

fighting spread across the country.¹⁰⁸ This derailed the implementation of the power-sharing and security provisions in the agreement. Despite declarations by the government that it will adhere to the ceasefire declared on July 11,2016, violence has intensified on several fronts. It is clear that personal, political and ethnic fractures pose the greatest difficulties in resolving conflict in South Sudan. Lack of peace and security limits development, as many locations cannot be reached.¹⁰⁹

2.8 Ethnic Conflicts, Export challenges and Economic Development

Oil exploitation since 1999 shifted the structure of the South Sudanese economy from relying predominantly on agriculture to relying on oil. Estimates showed the country to have proven oil reserves of 3.75 billion barrels at the time of independence, making it 28th among the world's oil reserve capacity and 7th in Africa.¹¹⁰

South Sudan's narrow trade basket is heavily dependent on a single export commodity, exposing its economy to shocks from changes in oil production, global demand and world prices. Frequent disruptions in oil production have led to fluctuations. In 2012, a conflict with Sudan over oil revenue sharing forced South Sudan to unexpectedly shut down oil production, which shrank the economy by 51.5%. Production resumed in April 2013 after an agreement with Sudan, under which South Sudan would pay S\$9.10/barrel to Sudan in transit fees and US\$ 15/barrel under the Transitional Financial Arrangement.¹¹¹ In December 2013 and July 2016, violence broke up following internal disputes over SPLM leadership, affecting oil and agricultural production. Oil production has remained low at about investment climate, which could raise recovery rates in turn and add to the reserves. The functioning of the oil sector will be essential for the GDP per capita

¹⁰⁸ Lake, David A., and Donald R. "Containing fear: The origins and management of ethnic conflict." *International security* 21, no. 2 (1996): 41-75.

¹⁰⁹ Montalvo, José G., and Marta R. "Ethnic polarization, potential conflict, and civil wars." *American economic review* 95, no. 3 (2005): 796-816.

¹¹⁰ Scherrer, Christian P. *Ethnicity, nationalism and violence: Conflict management, human rights, and multilateral regimes*. Routledge, 2017. 245-263

¹¹¹ Montalvo, José G., and Marta R. "Ethnic polarization, potential conflict, and civil wars." *American economic review* 95, no. 3 (2005): 796-816.

growth in South Sudan over the coming decade or two. A decline in the oil sector may be hard to compensate for with growth in the non-oil GDP in the medium run.¹¹²

International oil prices fell from July 2015 when oil production in South Sudan had declined and the country was dealing with high inflation and depreciation of the South Sudanese pound. Effective average oil export prices declined from US\$ 98 per barrel to US\$ 33 per barrel. Crude oil prices started picking up in early 2018 after OPEC countries agreed to cut production and were about US\$ 69.39/bbl. for Brent oil in February. After the price discounting of about US\$ 5/bbl. and payment of transit fees to Sudan, South Sudan is left with around US\$ 40.29/bbl. of crude oil exported.¹¹³

Due to ethnic conflicts there was a massive increase in government revenue, from US\$ 1.2 billion in 2006 to US\$ 2.6 billion in 2008 and to US\$ 3.3 billion in 2011/2012 before oil production stopped in 2012.¹¹⁴ At independence, South Sudan had a budget surplus. Oil revenue net of transfers dropped to US \$500 million in 2015/16 with the decline in global oil prices and production. Rising oil prices will raise oil revenue to US\$ 821 million in 2017/2018. The estimated oil revenue available to fund the 2017-18 budget is US\$ 166 million, or 20% of the gross oil revenue. The rest will go to pay Sudan (US\$ 453 million) and to cater for the fuel subsidy by Nilepet (US\$ 183). South Sudan missed the opportunity to build a social contract around taxation and services when its oil revenues. Average Annual Net Oil Revenues (2006/7-201 7/1 8).¹¹⁵

Disruption of oil production has had the largest economic impact on South Sudan. It is difficult to quantify the decline in South Sudan's output associated with conflict, but there are severe

¹¹² Sharkey, Heather J. "Arab identity and ideology in Sudan: The politics of language, ethnicity, and race." *African Affairs* 107, no. 426 (2008): 21-43.

¹¹³ Tchamyou, Vanessa S. "The role of knowledge economy in African business." *Journal of the Knowledge Economy* 8, no. 4 (2017): 1189-1228.

¹¹⁴ Kirton, John J., and Michael J.. *Hard choices, soft law: Voluntary standards in global trade, environment and social governance*. Routledge, 2017. P.8

¹¹⁵ Asongu, Simplice A. "Knowledge economy gaps, policy syndromes, and catch-up strategies: Fresh South Korean lessons to Africa." *Journal of the Knowledge Economy* 8, no. 1 (2017): 211-253.

economic effects: the country's fiscal position has deteriorated as government revenues have declined and reserves have been nearly exhausted. The economic situation is still dire and economic growth has been erratic. Economic growth has reflected the disruptions in oil production and the volatility of the international crude oil price. During 2008-2011, the oil sector accounted for between half and two-thirds of GDP and 95% of export earnings, 90% of government revenue, and a significant share of private sector employment. The economy is highly volatile; the GDP growth rate shrunk to a record low of -51.5% in 2012 owing to fluctuations in oil production and oil prices and conflict. The resulting budgetary constraints and low investment led to an average real GDP growth rate of -2.4% between 2009 and 2015.¹¹⁶

South Sudan's inflation increased rapidly after independence and worsened when oil production was shut down, reaching exceedingly high levels of 45% on average in 2012.¹¹⁷ A new wave of increases began in 2015, reaching a peak of 550% in October 2016, the highest in the world, before declining to 370% in January 2017 and to 117% by December 2017, due to the implementation of strict fiscal measures during the financial year 2016/17. High inflation reflects strong growth in the money supply (from SSP 34.22 billion in the third quarter of 2016 to SSP 41.42 billion in the fourth quarter of 2016) and the depreciation of the South Sudanese pound. Food inflation is a major fact in the overall inflation in South Sudan because food accounts for 70% of the overall CPI. Most food items are imported from East African countries, so food inflation reflects the depreciation of the exchange rate.¹¹⁸

To cope with the decline in oil production, lower prices and civil wars while maintaining expenditure levels, government reserves and savings were exhausted and substantial loans were incurred. The country currently faces a difficult macroeconomic situation and hugely diminished

¹¹⁶ Woodward, Peter. "Politics and oil in Sudan." In *Extractive Economies and Conflicts in the Global South*, pp. 125-136. Routledge, 2017. 21-23.

¹¹⁷ Omeje, Kenneth. *High stakes and stakeholders: Oil conflict and security in Nigeria*. Routledge, 2017.

¹¹⁸ Montalvo, José G., and Marta R. "Ethnic polarization, potential conflict, and civil wars." *American economic review* 95, no. 3 (2005): 796-816.

government spending power which, for FY 2017/18, is projected at 20% around one-fiftieth of what it was in 2011/12.¹¹⁹ The government continues to face a budget deficit and may continue to fund it through external borrowing. The budget surpluses in 2008 and 2011 and deficits since 2012 were all driven by fluctuations in oil production and international oil prices. Conflicts have compromised the efforts made by the government to rebuild and reform its economy. As a result, development partners have halted some of their activities in South Sudan, others have temporality pulled out and yet others have shifted from development activities to humanitarian support. With the current economic crisis, the government is limited in the alternative policies to use to stabilize the economy. However, with increases in both oil production and prices, South Sudan may recover from some of the current economic challenges if the oil rents are used to improve the welfare of citizens.¹²⁰

2.9 Ethnic Conflicts, Government Operations and Economic Development

Government budget emphasizes security spending Security expenditure has been increasing to support a huge army. In 2012, SPLA had 230,000 troops plus 80,000 others in the police, prisons and wildlife security departments. Over 600 were generals, among the highest number in the world. The government set aside US\$ 2 million to train and arm village militia. The disarmament, demobilization and reintegration (DDR) program that was intended to downsize the forces by 78,000 men by the end of 2013 demobilized no more than 10,000 female, underage, disabled or ageing fighters. Expenditures on security in the 2017/18 budget were projected to be 21% of the total, a decline compared with the actual security.¹²¹

¹¹⁹ De Waal, Alex. "When kleptocracy becomes insolvent: Brute causes of the civil war in South Sudan." *African Affairs* 113, no. 452 (2014): 347-369.

¹²⁰ Asongu, Simplicie A. "How would population growth affect investment in the future? Asymmetric panel causality evidence for Africa." *African Development Review* 25, no. 1 (2018): 14-29.

¹²¹ Pedersen, Ascha, and Morgan B. "Considering the impact of oil politics on nation building in the Republic of South Sudan." *The Extractive Industries and Society* 1, no. 2 (2014): 163-175.

Corruption contributes to the high security expenditure as there is a large number of "ghost soldiers" and the pay for SPLA personnel was raised to match their counterparts in Sudan to keep them loyal. By the time of the oil production shutdown in 2012, the security payroll accounted for 58% of the total government spending. Wages and salaries of security personnel took about 50% of the security budget each year from 2011/2012 to 2013/14, and rose to more than 75% from 2014/15 to 2017/18.¹²²

The sharp rise in the fiscal budget and current account deficits has depreciated foreign reserves, increased domestic and external debts, depreciated the parallel domestic currency exchange rate, and accelerated consumer inflation. The International Monetary Fund warned in June 2016 of "a risk of total economic collapse" and a macroeconomic situation where "imbalances are large and economic buffers are exhausted." The financial year 2017/2018 will have a budget shortfall as the government has to repay oil advances among its other commitments. About 27% of the US\$ 1.6 billion required in December 2017 is unfunded. Government expenditures are mainly for salaries, operations, and transfers to the states and the capital.¹²³

Government initiatives and reforms to attract private investors are hindered by the weak institutional capacity. There was a lot of interest to invest in South Sudan by the neighbouring countries especially immediately after independence. Kenya and Ethiopia established commercial banks in South Sudan among other investments. Infrastructure underdevelopment has curtailed investment in the country. In addition, failure to implement reforms has hampered investment, affected investor confidence, and increased the cost of doing business. Several initiatives to

¹²² Straubhaar, Thomas, and Florin P. "International migrant remittances and their role in development." (2018): 13-37.

¹²³ Deng, Luka B. "Education in Southern Sudan: war, status and challenges of achieving Education for All goals." *Background paper for UNESCO EFA Global Monitoring Report* (2003). 211-253.

improve the legal and regulatory framework for investment have yet to yield expected results. This is reflected in the country's international investment climate ranking.¹²⁴

The Global Partnership for Effective Development Cooperation notes that the business climate is hampered by institutional weakness or the absence of regulations in several areas, particularly the labour, environment and competition regimes. Rising inflation, weakening national currency, hard currency shortages, and high energy costs severely constrain the private sector. The decline in the country's banking sector has led to offshore banking especially having the private sector, humanitarian agencies, development partners among others keep their money in banks in the neighbouring countries. For an investment climate to trigger higher investments, it will require a stable peace between South Sudan and Sudan, peace and security in South Sudan and a legal and institutional framework providing predictability and incentives for long run investment.¹²⁵

South Sudan's reconstruction and development vision prioritizes private sector development. But there is limited involvement of women involvement in the private sector. Women are mostly in the underdeveloped and uncoordinated informal sector and subsistence agriculture; they are limited because of high illiteracy levels, lack of access to productive assets and low business skills and management capacity.¹²⁶

South Sudan's economic trajectory is highly unstable. The country risks falling into a spiralling trap of deteriorating economic performance and worsening security with continued high humanitarian costs Economic prospects will depend on the successful implementation of the peace agreement, a significant recovery in global oil prices, and the implementation of the economic and

¹²⁴ Roberts, Bayard, Eliaba Y, Olivia L, and Egbert S. "The influence of demographic characteristics, living conditions, and trauma exposure on the overall health of a conflict-affected population in Southern Sudan." *BMC Public Health* 10, no. 1 (2010): 518.

¹²⁵ Dagne, Ted. *Sudan: The Crisis in Darfur and Status of the North-South Peace Agreement*. Diane Publishing, 2010. 21-25.

¹²⁶ Vhumbunu, Clayton H. "The National Dialogue Initiative in South Sudan." *Conflict Trends* (2018): 1.

fiscal measures announced in September 2016.¹²⁷ Worsening economic conditions have significant implications for political stability and the operating conditions for humanitarian organizations in the country. Concerns exist that the economy may trigger violence and disruptions, especially because of shortages and prices of commodities, including fuel. If peace were achieved, the fiscal deficit could fall to 2- 3% of GDP in the coming years, consistent with a return to single digit inflation and exchange rate stability. The IMF envisages a GDP growth of 5-6% in the next five years, associated with oil production and non-oil GDP recovery. But restoring macroeconomic stability will require tighter fiscal and monetary policies and sound economic management to foster renewed growth. Investing in productive capacity would create a broad and inclusive economy.¹²⁸

2.10 Ethnic Conflicts, Social challenge and Economic Development

Before the December 2013 conflict, half of all households depended on salaried jobs and all others on business income, remittances and rental income. Since 2014, remittances and private business have been the major sources of financing for private consumption while dependence on jobs and rental income has declined.¹²⁹ Rental income decline could be due to the departure of people from Juba; for example, two-thirds of the population is refugees living in IDP camps or PoC sites. Others left the country after conflict started in December 2013.

The contribution of remittances to GDP increased from 2.2% in 2013 to 10.3% in 2016 with Uganda as the main source of remittance. This rise is likely due to economic contraction and family and friends out of the country providing financial support. The figure might be higher; most remittances for South Sudan are spent in Uganda and Kenya, where South Sudanese travel to

¹²⁷ Aitken, Brian J., and Ann E. Harrison. "Do domestic firms benefit from direct foreign investment? Evidence from Venezuela." *American economic review* 89, no. 3 (2018): 605-618.

¹²⁸ Mozersky, David, and Daniel M. "South Sudan's Renewable Energy Potential." *The Struggle for South Sudan: Challenges of Security and State Formation* (2018): 243.

¹²⁹ Duursma, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 0022343318800522.

receive them and for goods and services, as their financial institutions do not function. This makes it difficult to track remittances to the country, and data collected do not show whether remittances contribute to rural development. The paradox is that the South Sudan elite sends remittances to their families living mainly in Uganda and Kenya. A high outflow of remittances from South Sudan to Kenya and Uganda to support families is likely.¹³⁰

The December 2013 conflict affected income opportunities. Some outcomes of the conflict include loss of assets and livelihood, and hunger, which are exacerbated by the stringent private sector loan conditions attributed to weak economic activities and uncertainty. This situation will likely continue for some time as the banking sector has nearly collapsed. Current borrowers are mainly from domestic trade, real estate, energy and water services.¹³¹

As a result of ethnic conflicts, the government struggles to pay its staff because of limited revenue and high security expenditures. Civil servants suffer from long delays in remuneration of up to six months occur, and some government agencies use up annual operational budgets by the middle of the financial year. This results in low motivation, loss of trained and experienced personnel and high staff turnover. The quality of outputs is affected and illicit money-making activities are rife, including trading in charcoal and other items, bribery and extortion.¹³²

Interrupted subsistence agriculture by conflict, coupled with insecurity along the main trade routes, limits food availability in major towns. Food-producing areas in the north and areas like Yambio are inaccessible because of poor roads and insecurity. These difficulties exacerbate food insecurity and increase the cost of living in the towns, where most food must be imported from

¹³⁰ Sørbø, Gunnar M., and Abdel M. Ahmed. *Sudan divided: continuing conflict in a contested state*. Springer, 2013. 11-12.

¹³¹ Sassen S. *Cities in a world economy*. Sage Publications, 2018. 211-253.

¹³² Hale, and Sondra. *Gender politics in Sudan: Islamism, socialism, and the state*. Routledge, 2018.p.26

Kenya or Uganda, making survival difficult for the poor, some of whom depend on humanitarian supplies.¹³³

Over half of the population lives below the poverty line. Poverty prevalence in South Sudan is widespread but unevenly distributed among the states, ranging from three in four people in Northern Bahr el Ghazal state to one in four people in Upper Nile state. A concern for South Sudan is that regional disparities can easily be seen as marginalization and lead to rebellion and conflict. The country's development indicators are some of the worst in the world; e.g. only 8% of women are literate, only 27% of the population 15 years and older is literate, and one in three children is moderately or severely stunted. The already high illiteracy levels are likely to worsen as insecurity prevents some children from attending school. South Sudan is among the bottom five countries for 11 of the 22 Millennium Development Goal indicators for which there are data. Inequities in service access, resources and opportunities, combined with a politics of exclusion and patronage, ineffective governance and lack of transparency in oil revenue, pose serious threat to physical and economic security and undermine the institutional transformation needed to secure South Sudan's stability and legitimacy.¹³⁴

Youth constitute both an opportunity for economic growth and a potential driver for social instability. About 51% of South Sudan's population is under 18 years of age and 72% is under 30 years of age. Unemployment is highest among the youth: more than 50% of those aged 15-24 years is unemployed. Much of this stems from the weak economy, limited education and employment opportunities, lack of work experience, oversaturated job markets and nepotism.¹³⁵

Women shoulder the burden of household survival: The fact that men and women do not have the same political rights, authority, resources or needs and that domestic violence against women

¹³³ Rena, Ravinder. *A Handbook on the Eritrean Economy: Problems and prospects for Development*. Dar es Salaam, Tanzania: New Africa Press, 2006.p.18

¹³⁴ Borgatti, Stephen P., Martin G. and Jeffrey C. *Analysing social networks*. Sage, 2018. 11-13

¹³⁵ Verick, Sher. "Female labour force participation and development." *IZA World of Labour* (2018).

increases during and after conflict is related to shifting gender roles. In South Sudan, women have become the backbone of communities, taking care of homes and families, the sick and the wounded, and managing agriculture and food production, because many men are in the armed forces or have been killed.¹³⁶

In armed conflicts majority of women and girls are intolerably affected by abuses committed against them. Men and women both suffer during armed conflict but its impact affects them differently. Both men and women suffered physical, sexual and psychological violence during the conflicts in South Sudan, but women and girls were severely abused and their rights violated. Women dealt with sexual exploitation, rape, forced marriage, forced pregnancy and forced abortion. Sexual and gender-based violence remains at crisis levels (41%) and needs to be urgently addressed, with the rate for females at 44% and for males at 36%. Shortcomings within both the formal and customary justice systems prevent the resolution of gender violence, which is deeply anchored in cultural beliefs. Sexual and gender-based violence manifests in households, within and between communities. Alcoholism, cultural practices, poverty and conflict are the leading causes of violence against women and girls in South Sudan.¹³⁷

Diverse interventions are needed to address violence among men and women in South Sudan.¹³⁸ The South Sudan National Action Plan (2015-2020) on UNSCR 1325 on Women, Peace and Security and Related Resolutions is expected to help address issues of women's security. UNMISS is playing a key role in protecting people in its wing, especially those threatened by physical violence, particularly when the government is not providing such security. UNDP through its Community Security and Small Arms Control Program creates community awareness about women's security and mitigates tensions within communities. Efforts by the government and

¹³⁶ Hale, Sondra. *Gender politics in Sudan: Islamism, socialism, and the state*. Routledge, 2018.

¹³⁷ Burr, J. Millard. *Requiem for the Sudan: war, drought, and disaster relief on the Nile*. Routledge, 2018. 21-23

¹³⁸ Mozersky, David, and Daniel M. "South Sudan's Renewable Energy Potential." *The Struggle for South Sudan: Challenges of Security and State Formation* (2018): 243.

UNMISS to protect civilians are undermined by the easy accessibility of small arms. As of 2012, about 327.0 small arms were in circulation among the communities in South Sudan. The Bank and other development partners can consider partnering with UNMISS, UNDP the Regional Center on Small Arms in the Great Lakes Region, GIZ and IGAD on the control of these weapons.¹³⁹

Refugees comprise two-thirds of the population and are living in IDP camps or PoC sites under UNMISS. About 1.9 million South Sudanese are internally displaced, 2.03 million are refugees and nearly 210,000 IDPs live in PoC sites. The fighting in some areas could increase this in neighbouring countries. An estimated 50,000 people lost their lives in the recent conflict. About 4.8 million of the country's 12 million people were severely food insecure as at December 2017. South Sudan is among the African countries with the highest risk of food insecurity.

It is the home of the largest spill over humanitarian crisis in the world with the potential to destabilize the East African region. South Sudanese refugees continue to move to neighbouring countries. The numbers of refugees to each country, excluding the Central African Republic, rose in 2016/2017: about 1 million in Uganda, about 415,000 in Sudan, 380,000 in Ethiopia, 105,000 in Kenya, 80,000 in Democratic Republic of Congo, and 2000 in Central African Republic.¹⁴⁰ In June 2017, Uganda faced an unprecedented refugee crisis, exacerbated by high numbers of arrivals from South Sudan, who represent 69% of its refugees.¹⁴¹ That month, the refugee population more than doubled to about 1.2 million, making it the country with the fastest growing refugee population, the largest refugee hosting country in Africa, and the third largest refugee hosting country in the world. Ethiopia, Kenya, and Uganda are among the world's top 10 refugee-hosting countries, making displacement one of the most complex and pressing regional challenges to

¹³⁹ Vhumbunu, Clayton H. "The National Dialogue Initiative in South Sudan." *Conflict Trends* (2018):65

¹⁴⁰ Aitken, Brian J., and Ann E. "Do domestic firms benefit from direct foreign investment? Evidence from Venezuela." *American economic review* 89, no. 3 (2018): 605-618.

¹⁴¹ Duursma, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 0022343318800522

reduce poverty and achieve sustainable development with peace and security. The challenges of refugee integration and resettlement are immense.¹⁴²

Development partners are shifting their focus to humanitarian assistance. The continued conflict has pushed development partners to refocus attention on humanitarian services instead of a combination of humanitarian, development and peace building assistance. Although development and humanitarian support are not independent, the increase in aid to support populations affected by conflict is significant.¹⁴³ IDPs are strewn countrywide and would-be conflict-free states are equally strained. Displacement shattered the social fabric holding families and communities together. Conflicts and violence at multiple levels worsen poverty, unemployment and the conditions for the growing informal economy, and reduce resilience to climate change. Humanitarian agencies and NGOs, whose relationship with government agencies usually is not cordial, therefore shoulder responses to humanitarian challenges.¹⁴⁴

2.11 Chapter Summary

It was noted that ethnic conflicts have a myriad of impacts to the communities in warfare. South Sudan's economy has struggled recently due to civil unrest and ongoing disagreements with the government of Sudan over oil rights, as well as other disruptions to economic activity. Foreign Direct Investment (FDI) has been a subject of interest for decades. Inflation in South Sudan has been erratic due to the economic uncertainty that has plagued the country since independence. Starting at 45% in 2012, the inflation rate peaked at almost 80% in mid-2012 due to rising fuel prices and exchange rate pressure. The inflation rate then plunged to just slightly negative in 2013 before rising to an estimated 11% in 2014. There are overwhelming political and development

¹⁴² Duursma, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 0022343318800522.

¹⁴³ Borgatti, Stephen P., Martin G. Everett, and Jeffrey C. Johnson. *Analysing social networks*. Sage, 2018.45-46

¹⁴⁴ Straubhaar, Thomas, and Florin P. Vâdean. "International migrant remittances and their role in development." (2018): 13-37.

challenges with complex and slowly implemented strategies which hampers progress in resolving persistent conflicts in South Sudan. The challenges of nation, state and peace building have persisted and escalated since the civil war of 2013, reflecting the complex and multifaceted nature of the situation. Government budget emphasizes security spending Security expenditure has been increasing to support a huge army. In 2012, SPLA had 230,000 troops plus 80,000 others in the police, prisons and wildlife security departments. Over 600 were generals, among the highest number in the world. The government set aside US\$ 2 million to train and arm village militia. The disarmament, demobilization and reintegration (DDR) program that was intended to downsize the forces by 78,000 men by the end of 2013 demobilized no more than 10,000 female, underage, disabled or ageing fighters. Expenditures on security in the 2017/18 budget were projected to be 21% of the total, a decline compared with the actual security. The December 2013 conflict affected income opportunities. Some outcomes of the conflict include loss of assets and livelihood, and hunger, which are exacerbated by the stringent private sector loan conditions attributed to weak economic activities and uncertainty.

Chapter Three

South Sudan's Civil War and Kenya's Economy

3.1 Introduction

This chapter investigates South Sudan's civil war and Kenya's Economic Development. It has been discussed under the following subtopics: Kenya's interests in South Sudan; ethnic conflicts, Kenya investments in South Sudan; Kenyan banking and business interests in South Sudan; trade between Kenya and South Sudan; ethnic conflicts and infrastructure projects; ethnic conflicts, refugees from South Sudan and ethnic conflicts, South Sudan membership of the EAC.

3.2 Kenya's Interests in South Sudan

Kenya's strong business ties to South Sudan, particularly in the banking sector, appear to have influenced calculations over the potential cost of punitive measures and targeted sanctions on South Sudanese elites. Kenyan banks form the backbone of the South Sudanese economy and facilitate the bulk of financial transactions in the region. Kenya's national focus on development and the long-standing ties between business and political elites in Kenya and South Sudan are similar in nature at some levels to those of Uganda many South Sudanese officials maintain their homes, families, and assets in Nairobi.

Kenya's economic strength in the region and stake in large-scale transnational infrastructure development projects has also affected its calculations on enforcing sanctions against a neighbour. Like the Ugandan government, Kenya's government has prioritized economic growth and investment in regional infrastructure development projects, including the Northern corridor and LAPSSET, which could potentially include Lamu and Mombasa port access for South Sudan.¹⁴⁵

¹⁴⁵ Zeleza, P. T. *The roots of African conflicts: The causes & costs*. Addis Ababa: Ossrea, in association with. Ohio: Ohio University Press. (2008). 211-253.

The focus on economic diversification and Kenya's position as the hub for banking and commercial activity in East Africa have collectively shaped Kenya's stance towards targeted sanctions. Nevertheless, there are opportunities to build domestic support for the enforcement of targeted sanctions through national legislation and high-level U.S. diplomatic engagement. Kenya has partnered with the U.S. to counter money laundering and counter terrorist financing in the region, and Kenya has improved banking and financial regulations to attract foreign investment. These efforts should be expanded to prioritize the legal, regulatory, and technical reforms necessary to improve sanctions enforcement.¹⁴⁶

3.3 Ethnic Conflicts, Kenyan Investments in South Sudan

The economic relationship between Kenya and South Sudan includes not only elite business ties but also cross-border trade and remittances from Kenyan workers in South Sudan. In terms of cross-border South Sudan private sector investments, Kenyans are prominent not only in the banking industry but also investing in the insurance, aviation, construction, hospitality, telecommunications, transportation, and trade sectors as well. Some of Kenya's most prominent business and political leaders have invested in South Sudan in recent years. For example, Brookside Dairies, the largest dairy company in Kenya, is partially owned by President Kenyatta and his family and has expanded its operations inside South Sudan.¹⁴⁷

Other Kenyan business sectors such as aviation, had been thriving in South Sudan prior to the outbreak of conflict. While the growth of regional businesses is a positive step for the regional economy, the intermingling of business and political interests at the highest level may be at odds with efforts to strengthen legal and regulatory reforms in South Sudan, where investors routinely

¹⁴⁶ Thies, Cameron G. "State building, interstate and intrastate rivalry: A study of post-colonial developing country extractive efforts, 1975–2000." *International Studies Quarterly* 48, no. 1 (2014): 53-72.

¹⁴⁷ Michalopoulos, Stelios, and Elias P. "The long-run effects of the scramble for Africa." *American Economic Review* 106, no. 7 (2016): 1802-48.

rely on government officials and military officers to informally secure their investments in the absence of formal legal and regulatory frameworks. Many South Sudanese elites maintain their homes, families, and assets in Kenya. The SPLM leaders, including the former detainees, currently reside in Nairobi as well and they form an influential third bloc in consultations with regional heads of state.¹⁴⁸

Despite these ties, there are tensions between Kenya and South Sudan in the mining and gold sectors that are related to a border dispute over the Ilemi Triangle. Ilemi is a hub for artisanal mining which primarily benefits gold traders in Kenya. There are also long-standing tensions over the presence of Kenyan workers in South Sudan on which local business and non-governmental organizations (NGOs) rely for skilled labour. While official figures for remittances from South Sudan to Kenya are not available, the total amount is likely significant given the estimated 13,000 or more Kenyan workers in South Sudan.¹⁴⁹

Many Kenyans fled South Sudan after the initial wave of violence, including taxi drivers, shop owners, and traders. Other high costs of conflict include more than 45,200 refugees from South Sudan that Kenya is currently hosting as a result of the violence.¹⁵⁰ Other significant economic losses include Kenya's diminished trade with and investment in South Sudan. These damaged economic interests have so far failed to galvanize sufficient domestic support for Kenyan sanctions enforcement, but the losses could be used to protest opaque business transactions and impunity for South Sudanese elites currently residing in Kenya.¹⁵¹

¹⁴⁸ Michalopoulos, Stelios, and Elias P. "The long-run effects of the scramble for Africa." *American Economic Review* 106, no. 7 (2016): 48.

¹⁴⁹ Verhoeven, Harry. "Climate change, conflict and development in Sudan: global neo-Malthusian narratives and local power struggles." *Development and Change* 42, no. 3 (2011): 679-707.

¹⁵⁰ Rowhani, Pedram, Olivier D, Debarati G, and Eric F. L. "Malnutrition and Conflict in Eastern Africa: Impacts of Resource Variability on Human Security." In *Climate Change, Human Security and Violent Conflict*, pp. 559-571. Springer, Berlin, Heidelberg, 2012.

¹⁵¹ McFerson, Hazel M. "Extractive industries and African democracy: can the "resource curse" be exorcised?" *International Studies Perspectives* 11, no. 4 (2010): 335-353.

Since the escalation of the conflict, a number of Kenyan businesses, especially those outside Juba have remained closed or have scaled down operations, while others have been looted by the warring factions. In addition, a number of Kenyans working in the country have since been forced to return home with the huge loss in employment opportunities. Kenyan workers were providing substantial human resources to the country before the conflict started.

3.3.1 Kenyan Banking and Business Interests in South Sudan

Kenyan banks form the backbone of the South Sudanese economy, and Kenya's banking interests in South Sudan have so far undermined domestic support for targeted sanctions against South Sudanese elites due to the potential implications on banking interests in South Sudan. Kenya Commercial Bank (KCB), which is a publicly traded company partially owned by the government of Kenya, has had more than 20 branches in South Sudan including in the state capitals of Bentiu, Bor, and Malakal despite these three branches being looted and destroyed early on in the fighting.

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In the first nine months of 2013, South Sudan accounted for around nine percent of the banking group's total pre-tax profit. Kenya's Equity Bank, also a publicly traded company, has five branches in South Sudan and is one of Kenya's leading personal lenders. Co-operative Bank of Kenya and CFC Stanbic bank also have operations inside South Sudan. The National Bank of Kenya reportedly have plans to expand its operations into South Sudan.¹⁵³

Kenyan banks provide the vast majority of market liquidity and financial services in South Sudan and allow for easy cash transfers between South Sudan and the region, including remittances from Kenyan workers. While most transactions between South Sudan and the region are still done with cash, Kenyan banks and foreign exchange bureaus are increasingly used for these transactions

¹⁵² Duursma, Allard. "Obstruction and intimidation of peacekeepers: How armed actors undermine civilian protection efforts." *Journal of Peace Research* (2018): 0022343318800522.

¹⁵³ Miguel, Edward, Shanker S, and Ernest S. "Economic shocks and civil conflict: An instrumental variables approach." *Journal of political Economy* 112, no. 4 (2004): 725-753.

as well. Misinformation on how sanctions are enforced and a lack of technical know-how and capacity have undermined support for sanctions in the business and banking sectors.¹⁵⁴

In order to ensure banks and foreign exchange bureaus have good, credible information on the criteria for sanctions designations and parameters for sanctions enforcement, such information should be widely circulated through official government channels and outreach with civil society groups. These efforts would reassure banks and citizens that the majority of transactions between South Sudan and Kenya would be unaffected. The objective of targeted asset freezes and investigations into the financing of the conflict is not to paralyze the nascent banking and financial services industry in South Sudan but to support the diplomatic process and ensure that individuals who finance conflict, commit atrocity crimes, and obstruct the peace process face consequences for their actions.¹⁵⁵

Unless peace is restored to South Sudan, there is little opportunity for growth in the financial services sector in South Sudan and for Kenyan business and geopolitical interests, as the South Sudanese economy continues to collapse due to massive military spending and falling oil prices and production.¹⁵⁶ The most striking example of regulatory misinformation circulated in Kenya on the potential implications of targeted sanctions on the banking sector in South Sudan was the September 5, 2014 Kenyan Central Bank circular released in response to the threat of sanctions against South Sudan's warring elites.¹⁵⁷

The circular, co-authored by financial industry regulators, including the Capital Markets Authority, Insurance Regulatory Authority, Retirement Benefits Authority, and the Saccos Societies Regulatory Authority, according to multiple sources, stated that sanctions on South

¹⁵⁴ McFerson, Hazel M. "Extractive industries and African democracy: can the "resource curse" be exorcised?" *International Studies Perspectives* 11, no. 4 (2010): 335-353.

¹⁵⁵ Themné, Lotta, and Peter W. "Armed Conflicts, 1946–2011." *Journal of peace research* 49, no. 4 (2012): 565-575.

¹⁵⁶ Rolandsen, Øystein H., and Nicki K. "South Sudan: A Political Economy Analysis." (2017). 335-353.

¹⁵⁷ Dagne, Ted. *Sudan: The Crisis in Darfur and Status of the North-South Peace Agreement*. Diane Publishing, 2010. 35-35

Sudan would negatively impact Kenyan banking interests in South Sudan. The circular has since been removed from the Central Bank's website, but its earlier posting is indicative of the kind of internal regulatory resistance to the enforcement of sanctions designations that exists within the Kenyan banking sector. Regional analysts suggest the circular was politically motivated to undermine Kenyan support for targeted sanctions on South Sudanese elites. The circular indicates the kind of undue influence South Sudanese elites have in Kenya through their relationships in the private and public sectors. What is clear is that the Central Bank has little regulatory desire or popular mandate to make such determinations on sanctions enforcement and would be obligated to implement policy decisions made by either the Office of the President or Parliament.¹⁵⁸

Furthermore, in the case of global sanctions regime, the Kenyan Central Bank would also be obligated to take steps to come into compliance with designations made by the U.N. Security Council. One way to overcome such misinformation is for international regulatory agencies to outline the obligations and implications of targeted sanctions for Kenyan banks.¹⁵⁹ Credible information on the limited scope of targeted sanctions might reassure Kenyan banking authorities and clients that their assets and transactions will not be affected in either Kenya or South Sudan, so long as they do not have direct ties to funding and fuelling the war.¹⁶⁰

3.4 Trade between Kenya and South Sudan

Trade between Kenya and South Sudan has been in existence for a while now. Upon the split between Sudan and South Sudan in 2011, most Kenyan firms (mainly financial institutions) moved to the newly formed state and established business. The two governments were also keen on trade ties given that the Kenyan government through a loan from the World Bank is putting up a road that will link Lamu with South Sudan thus enabling faster and more convenient movement of

¹⁵⁸ Abdulsamed F. *Somali investment in Kenya*. Chatham House, 2011.34-35

¹⁵⁹ Wanyama, Leonard. "The Economic Diplomacy of Kenya's Regional Interests." (2013). 33-35.

¹⁶⁰ Maglad, Nour E A. *Scoping study on Chinese relations with Sudan*. AERC Scoping Studies on China-Africa Economic Relations, 2008.56

goods. The Kenyan Government held talks with South Sudan on lending them Ksh.6 billion as a humanitarian and economic aid. This is to further enhance the trade and economic relations between the two countries. Upon the outbreak of the civil war, Kenya was instrumental in the signing of the Machakos protocol which aided in peace restoration in South Sudan. ¹⁶¹

Both Kenya and South Sudan have cultural similarities as many people from South Sudan lived in Kenya before independence. Kenya is said to have played a leading role in South Sudan's independence. The Machakos Protocol signed in Kenya in 2002 saw a ceasefire signed between Sudan and the Southern Sudanese. It was the first of many agreements that led to the creation of Southern Sudan autonomous region which later on led to the independence of South Sudan in 2011. During the independence movement leaders of the freedom movement lived in Kenya. At the peak of the second Sudanese civil war Kenya hosted about 100,000 South Sudanese people. Kenya had also on numerous times been accused of supplying arms to freedom fighters in South Sudan.¹⁶²

Kenya and South Sudan have agreed in areas of cooperation which aims to build up the ability of the South Sudanese to run a government. Notably Kenya Foreign Service has been training South Sudanese officials in diplomatic and other related affairs. Kenya's support to South Sudan included addressing issues related to peace, insecurity, and post conflict reconstruction among others. The support given to South Sudan by Kenya is even reflected in how the South Sudanese government decided to adopt a flag similar to that of Kenya's.

South Sudan has become an important export destination for Kenya. For example, in 2012, Kenyan exports to South Sudan accounted for 10.2 percent of total exports to Common Market for East and Southern Africa (COMESA).¹⁶³ This puts South Sudan as the fourth-largest export

¹⁶¹ Meagher, Kate. "The hidden economy: informal and parallel trade in North-western Uganda." *Review of African Political Economy* 17, no. 47 (2010): 64-83.

¹⁶² Walraet, Anne. "Governance, violence and the struggle for economic regulation in South Sudan: the case of Budi County (Eastern Equatoria)." *Afrika Focus* 21, no. 2 (2018). p.28

¹⁶³ Kenya Bureau of Statistics, Economic Survey 2013

destination for Kenya out of the 18 other members of COMESA. Exports to the COMESA region constitute 34 percent of total Kenyan exports to the world. In addition, since most of the Kenyan exports to the country are through the road network, increased security concerns will also negatively impact the flow of goods to the country.¹⁶⁴

The conflict and associated disruption led to trade flows retreat in 2014.¹⁶⁵; although the two sides signed a ceasefire agreement on January 23rd, 2013 it is not guaranteed that fighters from either side will lay down their arms or obey the terms of the deal. Kenyan banks, including Kenya Commercial Bank (KCB), Equity Bank, Co-operative Bank and CFC Stanbic Bank, made about 47% of their non-domestic profits from the South Sudanese market in 2012, but are currently reviewing their operations. None is currently repatriating deposits (denominated in South Sudanese pounds) and the KCB, for example, has closed three of its 22 branches (in the trouble spots of Bor, Bentiu and Malakal).¹⁶⁶

Reports suggest that about 20,000 Kenyans (out of 27,000 in total) have returned home, including numerous small traders, with many claiming to have lost assets and stocks. South Sudan accounted for about 12% of transit traffic at Mombasa port in 2012, but the conflict means that cargo bound for the country is not being shifted, thereby exacerbating congestion. Kenya's total losses are not of a sufficient magnitude to affect domestic macroeconomic variables but are unlikely to be recoverable.

In addition, even before the current conflict, Kenyan traders preferred to cross into South Sudan from Uganda rather than Kenya owing to security concerns in South Sudan's Eastern Equatorial state; a 2013 African Development Bank study estimated that just 12% of inbound trucks to

¹⁶⁴ Zafar, Ali. "The growing relationship between China and Sub-Saharan Africa: Macroeconomic, trade, investment, and aid links." *The World Bank Research Observer* 22, no. 1 (2007): 103-130.

¹⁶⁵ Schmitt-Grohé, Stephanie, and Martín U. "How Important are Terms-Of-Trade Shocks?" *International Economic Review* 59, no. 1 (2018): 85-111.

¹⁶⁶ Woodward, Peter. "Politics and oil in Sudan." In *Extractive Economies and Conflicts in the Global South*, pp. 125-136. Routledge, 2017.

South Sudan went through the Kenyan border post of Nadapal. The extra expense this causes traders is prohibitive: The World Bank's Doing Business 2014 report found that it cost South Sudan US\$5,335 to export and US\$9,285 to import a standardized container, which is significantly higher than regional averages. The signing of the ceasefire on January 23rd offers some hope of a return to normality, but losses to date and a wide range of uncertainties mean that trade and investment will remain subdued.¹⁶⁷

3.5 The Linkage between Ethnicity and Economic Development in South Sudan and Kenya

This section discusses the Linkage between Ethnicity and Economic Development in South Sudan and Kenya. Ethnic conflicts have a myriad of impacts to the communities in warfare. There is a direct linkage between ethnic conflicts and its impacts including economic growth and development of a country. Any economic, social or political development requires an environment of stability and peace. More specifically, activities of economic growth and development require the players to be in a non-conflict situation.¹⁶⁸ Besides this, ethnic conflict also destroys a lot of what has been developed during the time of stability. It breaks structures created for economic development. Businesses are brought down; infrastructure is destroyed and lives of people who drive development activities are lost. Countries like Nigeria, Congo, Rwanda, Syria, and parts of Kenya have had instances of underdevelopment precipitated by ethnic conflicts. While it is true that ethnic conflict affects the economy, economic interests of a country or community may play a big role in ethnic conflict and hence lead to even more destruction into the economy. It ends up being a never-ending vicious cycle.¹⁶⁹

¹⁶⁷ Strange, Austin M., Axel D, Andreas F, Bradley P, and Michael J. "Tracking underreported financial flows: China's development finance and the aid-conflict nexus revisited." *Journal of Conflict Resolution* 61, no. 5 (2017): 935-963.

¹⁶⁸ Miguel, Edward, Shanker S, and Ernest S. "Economic shocks and civil conflict: An instrumental variables approach." *Journal of political Economy* 112, no. 4 (2004): 725-753.

¹⁶⁹ Harbom, Lotta, Stina H, and Peter W. "Armed conflict and peace agreements." *Journal of Peace Research* 43, no. 5 (2006): 617-631.

The situation of ethnic conflict has been considered to be the greatest contributor to the slow pace of development in Africa. Many decades after independence, ethnic conflicts are still in the news today from central Africa to Nigeria.¹⁷⁰ The effects of these conflicts have been on income, growth and economic policies. By this it means that in the situation of warfare in countries of African, and even globally, there can never be any meaningful economic growth. The warring communities divert their resources and energies to fighting with each other and hence lose out on developing their communities and nation in terms of engaging themselves in meaningful economic activities. Where there is a slow pace of growth and of developing structures and system that are meant to improve the living standards of people, it is considered to be underdevelopment.

3.5.1 Ethnic Conflicts and Infrastructure Projects

Due to ethnic conflicts work on mega infrastructure projects that impact on the regions (and especially Kenya's) socio-economic development such as the Lamu Port-South-Sudan-Ethiopia (LAPSSET) corridor and standard gauge railway will experience delays. The development of this crucial infrastructure is important for trade in the region. The LAPSSET corridor, jointly launched in March 2012 by Kenya, South Sudan and Ethiopia, involves the construction of a new transport corridor from the new Port of Lamu through the Kenyan towns of Garissa and Isiolo with one part of the corridor connecting Kenya and Ethiopia.¹⁷¹

The other part of the corridor will connect Kenya and South Sudan through Isiolo and border town of Nakodok. The LAPSSET project comprises a new road network, a railway line, an oil refinery at Lamu, an oil pipeline, airports in Lamu and Isiolo, and resort cities in Isiolo and at the shores of Lake Turkana. Not only is this major project envisaged to foster transport linkages between Kenya and its two neighbours, it is expected to promote trade along the corridor,

¹⁷⁰ Dagne, Ted. *Sudan: The Crisis in Darfur and Status of the North-South Peace Agreement*. Diane Publishing, 2010.p.9

¹⁷¹ Alley, Roderic. *Internal conflict and the international community: wars without end?* Routledge, 2017. 335-353.

especially opening up northern Kenya for faster development. South Sudan's instability threatens the construction of this important project.¹⁷²

The conflict may also affect the US\$20bn Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor project, which includes a new port at Lamu and an oil pipeline from South Sudan.¹⁷³ LAPSSET, a centre piece of Kenya's long-term Vision 2030 strategy, aims to provide both South Sudan and Ethiopia with an alternative route to the sea, but without the participation of South Sudan, the project's economic viability would be questionable; Kenya expected South Sudan to generate about 46% of freight volumes on the corridor. Lamu port is likely to go ahead regardless, but the oil pipeline may not be viable without South Sudanese crude. Kenya's reserve base in the Turkana region, which continues to be assessed, would therefore need to be commensurately larger to justify the investment.¹⁷⁴

The fighting has already delayed the planned signing of an intergovernmental agreement on the oil pipeline, which was scheduled to take place in December. Given that the bulk of financing for LAPSSET has still to be sourced, the conflict and instability in South Sudan will cause inevitable delays and may lead to a wider reassessment of the project.¹⁷⁵

3.5.2 Ethnic Conflicts, Refugees from South Sudan

Kenya is quite rich with refugees' history which is recorded as early as 1963. Kenya has hosted refugees from most of neighbouring countries except Tanzania which hasn't experienced civil wars, political turbulence. They include Sudan, Ethiopia, DRC, Burundi, Somalia, Rwanda and

¹⁷² Wakiaga, P., Why we need to strengthen trade ties in the EAC, Fifth Estate (2017), p.49

¹⁷³ Gichana, A., South Sudan officially joins East African Community the Star Newspaper. (2016), 335-353.

¹⁷⁴ Scharrer, Tabea. "Ambiguous citizens": Kenyan Somalis and the question of belonging." *Journal of Eastern African Studies* 12, no. 3 (2018): 494-513.

¹⁷⁵ Walker, Sarah, and Anne B. "Agency in Child Labor Decisions: Evidence from Kenya." (2018).56-67

Central African Republic. By August 2012, Kenya was hosting about 630, 000 refugees where about 55,000 refugees and asylum-seekers are concentrated in Nairobi. ¹⁷⁶

Kenya is a signatory to the 1951 UN Refugee Convention and its 1967 Protocol, as well as the 1969 OAU Refugee Convention. She has equally ratified or domesticated some other treaties and protocols on refugees and their rights. On the domestic front, however, Kenya lacked any national refugee legislation until 2007, when the Refugee Act came into force. ¹⁷⁷

Notwithstanding the relatively recent introduction of national refugee legislation, Kenya in general and Turkana in particular have a long history of hosting refugees from neighbouring and nearby countries. Until the end of the 1980s, when Kenya began receiving thousands of refugees especially from South Sudan and Somalia, refugees and asylum seekers were able to reside in any place of their choice. In the early 1990s, following massive refugee arrivals from Ethiopia, Somalia and Sudan, refugee camps were set up in the border areas of Kenya. ¹⁷⁸

The influx of refugees from South Sudan into the Kenya is likely to worsen. According to United Nations High Commission for Refugees, by February 2014, an estimated 170,000 South Sudanese had crossed into neighbouring countries of Kenya, Uganda, Ethiopia and Sudan. Of these refugees, 20,000 had entered Kenya alone, creating pressure on security and service delivery systems. This influx of refugees will not only strain resources in host countries, but also compromise national and regional security as it will exacerbate proliferation of illegal small arms and light weapons.

The influx of 500 refugees a day arriving at Kakuma refugee camp in Kenya's Turkana county will impose an additional financial burden, although the numbers remain small in comparison with

¹⁷⁶Sonn, Christopher. "Mobilising decolonial approaches for community-engaged research for racial justice." *Australian Community Psychologist* 29, no. 1 (2018). 35-38.

¹⁷⁷ Tariku, Ayele. "Inter-group conflicts in the horn of Africa: The case of Diz and Suri people, Ethiopia." *Human Affairs* 28, no. 2 (2018): 130-140.

¹⁷⁸ Gordillo-Tobar, Amparo, Meaghen Q, and Samuel L. "Maternal and Child Health." (2017).90

the 500,000 Somali refugees housed in camps in Kenya's north-east.¹⁷⁹ The conflict and the proliferation of small arms in the region also risk fuelling instability in northern Kenya, which is already prone to banditry and inter-ethnic clashes, including over land rights.¹⁸⁰

3.5.3 Ethnic Conflicts, South Sudan Membership of the EAC

Since independence in 2011, South Sudan has deepened bilateral ties with Kenya and other regional states. As a result, South Sudan today is a member of IGAD, COMESA, the International Conference on the Great Lakes Region (ICGLR) and the African Union. The country has also applied for membership in the East African Community (EAC). Kenya has stood out as one of the most ardent supporters of South Sudan's quest to join the EAC.¹⁸¹

As South Sudan is a key market for Kenyan goods, her entry in EAC will mean fewer restrictions on the movement of goods and investment. In addition, the entry of South Sudan into the EAC will not only deepen economic relations between the two countries, but will also consolidate cooperation on security issues. However, the admission of South Sudan into the regional bloc expected in April 2014 may suffer a major blow if peace will not have returned in the country, as this is one of the key conditions of the EAC treaty for countries seeking membership.¹⁸²

The conflict dents South Sudan's prospects of being invited to join the EAC in 2014. Kenya has been a keen advocate of South Sudan joining the bloc, and negotiations started in November, but even in the absence of the recent conflict South Sudan would have struggled to meet the conditions, especially with regard to having functioning institutions. Kenya views South Sudan, along with

¹⁷⁹ Benedikter, Roland, and Katja S. "Global systemic shift Redux: the state of the art." *New Global Studies* 9, no. 2 (2015): 167-198.

¹⁸⁰ Dunne, J. Paul, and Nan T. "Conflict spill overs and growth in Africa." *Peace Economics, Peace Science and Public Policy* 20, no. 4 (2014): 539-549.

¹⁸¹ Achuka V. Work starts on Kenya-South Sudan road The Daily Nation, (2015),

¹⁸² Benedikter, Roland, and Katja S. "Global systemic shift Redux: the state of the art." *New Global Studies* 9, no. 2 (2015): 167-198.

Uganda and Rwanda, as part of the "coalition of the willing", as they are prepared to integrate more rapidly than the other EAC members, Tanzania and Burundi. The conflict has eroded South Sudan's already slim chance of admission to the EAC in 2014, although provided the ceasefire holds and a durable agreement is put in place, the country may be allowed to join in 2015.¹⁸³

Despite Kenya's desire for a quick resolution to the conflict in South Sudan, it has not followed Uganda in sending troops to the country, preferring to play a leadership role in peace talks held in Addis Ababa, the Ethiopian capital, under the auspices of the Intergovernmental Authority on Development; Kenya provided one of the three chief mediators. Kenya is, not surprisingly, reluctant to get involved militarily, especially given its experience in Somalia, where intervention has led to retaliatory strikes (including a terrorist attack on the Westgate shopping mall in Nairobi, the Kenyan capital).¹⁸⁴

However, Kenya is also reluctant to alienate Mr Kiir, who seems likely to remain in power, as this could affect trade and investment relations and the prospects for LAPSSET. Kenya will therefore remain deeply involved in South Sudan, but the conflict represents a significant setback for regional integration and development and, despite the ceasefire agreement, a durable peace could remain elusive.¹⁸⁵

3.6 Chapter summary

Most contemporary wars are intra-state conflicts which often have far-reaching regional as well as international dimensions and ramifications. Such conflicts not only rupture a country's development; they are often the consequence of the failure of a country's developmental efforts.

¹⁸³ Tariku, Ayele. "Inter-group conflicts in the horn of Africa: The case of Diz and Suri people, Ethiopia." *Human Affairs* 28, no. 2 (2018): 130-140.

¹⁸⁴ Tariku, Ayele. "Inter-group conflicts in the horn of Africa: The case of Diz and Suri people, Ethiopia." *Human Affairs* 28, no. 2 (2018): 130-140.

¹⁸⁵ Gichana, A., South Sudan officially joins East African Community the Star Newspaper. (2016), 5-8

The nexus between development and security is an important one, but it is only beginning to be understood and addressed by the international community.¹⁸⁶

There is a nexus between conflict and economic development in any state. Violent conflicts in the post-Cold War era ravage many societies, leading to death and destruction, the crumbling of weak states, local and international insecurity, and a vicious cycle of underdevelopment, instability and aggression. South Sudan's "man-made crisis" has created a humanitarian disaster. "The South Sudanese people are bearing the brunt of the failure to stop the fighting."¹⁸⁷ They are living in squalor, their livelihoods have been lost and they are plagued by hunger, disease and insecurity. About 100,000 civilians have sought shelter at UN bases around the country.¹⁸⁸

The conflict has also put at risk the ongoing regional integration efforts and joint infrastructural projects in the region. Before the current crisis, it was clear South Sudan had not achieved the minimum requirements needed to join the EAC such as building democratic institutions. Civil society groups in South Sudan have asked the EAC not to admit South Sudan to the regional body until the country becomes stable and democratic.¹⁸⁹

Economic integration in East Africa, as in other regions of the continent, is still minimal. The crisis in South Sudan will likely derail its plans with Kenya to build an oil pipeline to Kenya's Indian Ocean port of Lamu. Before the war, South Sudan was earning an estimated \$7 billion a year from oil revenue. Continued fighting will not only delay the pipeline along with other infrastructure projects, but may also increase the flow of refugees to South Sudan's neighbours.

Though news on the conflict in South Sudan has begun to be overshadowed, negotiations and reports of violence still continue in this small country. Importantly, the crisis in South Sudan has

¹⁸⁶ Montalvo, José G., and Marta R. "Ethnic polarization, potential conflict, and civil wars." *American economic review* 95, no. 3 (2005): 796-816.

¹⁸⁷ Cooke, J. G. 'Sudan's oil sector' (background paper, *Centre for Strategic and International Studies*. (2012).27-29

¹⁸⁸ Natsios, A. S. *Sudan, South Sudan, and Darfur: What everyone needs to know?* Oxford: Oxford University Press. (2012).49-50

¹⁸⁹ Medani, Khalid M. "Strife and secession in Sudan." *Journal of Democracy* 22, no. 3 (2011): 135-149.

a regional bend: Regional states, especially Kenya, are concerned that the repercussions from the prolonged conflict could compromise regional security, peace and stability, thus undermining their economic, political and security interests.¹⁹⁰ Being a close neighbour on the northern frontier, a protracted conflict in South Sudan will affect Kenya in terms of trade and investment, infrastructure projects and influx of refugees.¹⁹¹

Kenya on the other hand has been affected considerably given that South Sudan has been a destination to Kenyan citizens and banks for employment, investment and business.¹⁹² A crisis in South Sudan has risked all these economic benefits that Kenya enjoys from South Sudan. In addition, violence in South Sudan also disrupted Kenya's plan to provide an alternative trade route to South Sudan to transport its oil via the port of Lamu.

¹⁹⁰ Natsios. K., *Sudan, South Sudan and Darfur: what everyone needs to know?* Oxford: Oxford University Press, (2012), 79.

¹⁹¹ *Ibid* pp.90-91

¹⁹² Höhne, M. V. *Borders & borderlands as resources in the Horn of Africa*. Woodbridge, Suffolk: James Currey. (2010). 55-57

Chapter Four

Analysis and Presentation of Data

4.1 Introduction

This chapter presents the findings and discussions based on the primary data. The chapter heavily relies on the primary data with an intention of corroborating it with the secondary data. The results were presented in tables. The analysed data was specifically aimed at providing answers to the research objectives.

4.2 Demographic Information

The study established the demographic information of the respondents in terms of Gender, highest level of education attained, period of service and age bracket.

	Options	Percentage
Gender	Male	58.89
	Female	41.11
Age	18-30yrs	27.8%
	31 -50yrs	50%
	Above 50yrs	22.2%
Education	Primary	27.8%
	Secondary	55.6%
	Tertiary	16.7%

Most of the respondents were male with 58.89%. This represented more than half of the respondents. The females were only 41.11 % of the respondents from the sample size. The respondents were fairly distributed in terms of gender. Findings revealed that 50 % of the respondents were aged between 31 and 50 which also happened to be the largest. 27.8 % were

aged between 18 and 30 years while 22.2% were aged above 50 years. This is an indication that most of the workers in exporting/manufacturing are middle aged. The study in addition established that a great percentage (55.6%) had attained secondary education while 27.8% had primary education with 16.7% having tertiary education. The study findings indicated that at least all the respondents had attained some level of education which would enable them answer the questionnaire effectively.

4.3 Ethnic Conflicts impact on Households

The study investigated the extent to which the armed conflicts affected households. Respondents were asked to indicate whether the armed conflicts affected households. The study identified the following as some of the ways that affected households during armed conflicts in South Sudan: Reduced household income; reduced household access to education; reduced household access to agricultural land; reduced access to health; reduced access to water and sanitation; and any other possible ways the respondents might think deem necessary.

Table 4.3.1 Effect of Armed Conflicts on Households

	Percentage
Household Income	90.2
Household Access to Education	95.0
Household Access to Agricultural Land	96.7
Reduced Access to Health	90.7
Access to Water and Sanitation	97.5

Affected household during hard and difficult times of armed conflicts, 90.2 % of the respondents categorically stated that armed conflicts reduced household income, 95 % said armed conflict reduced household access to education, 96.7 % stated that all affect household except

reduced household income, another 90.7 % stated all affect household except water and sanitation, and 97.5 % confirmed that all affect household except reduced access to agricultural land.

In essence, all the five ways identified and listed above adversely affect households. For instance, if the household has limited access to agricultural land, its food production capacity will be reduce hence exposing the household to low food production that leads to: hunger, malnutrition, diseases, and poverty, and on the other hand if children are not allowed to go to school as a result of armed conflict, illiteracy rate will increase and this will exacerbate poverty, and hence promotes ignorance, and backwardness. Should there be no war, 92 percent of the respondents said that household would have adequate access to education, water and sanitation, agricultural land, which resulted to the increase in household income.

Findings further indicate that human development has been profoundly affected by years of conflict, but especially by the most recent conflict. In the aftermath of the Crisis of 2013, formal employment opportunities dropped owing to a drop in foreign investment and especially a reduction in oil production. What's more, fears for personal safety have resulted in a reduction in smaller scale livelihoods activities such as petty trading. A 2014 report by Frontier Economics on the cost of war in South Sudan outlines the many ways in which the conflict could impact on human development and ultimately on indirectly conflict-related deaths.

4.4 Effects of South Sudan Civic Wars on Economic Development

Based on the findings the South Sudanese economy is highly oil-dependent: oil production represents 99% of exports and 95% of government revenue and accounted for around 50% of gross domestic product (GDP) in 2013/2014.¹⁹³ Since the start of the current conflict, oil revenues have plummeted by over 50% compared to the end of 2013. Together with the decline in crude oil prices

¹⁹³ IMF, 2014

and the fixed costs of using Sudanese oil pipelines, this has had significant financial and economic repercussions.

Foreign reserves reached an all-time low in mid-2014, and government expenditure on basic services and development has been severely curtailed; any remaining expenditure is heavily skewed towards security and the war budget and paying government salaries.¹⁹⁴ Spending is largely financed through external borrowing on future oil revenues, putting the future economic health of the country in serious jeopardy.¹⁹⁵ The fiscal deficit has led to limited availability of foreign currency and a depreciating parallel exchange rate. In 2011 the Central Bank of South Sudan fixed the currency at an inflated level against the US dollar and limited foreign exchange in what the IMF has termed as ‘a hidden transfer of resources from the government to those with privileged access to foreign exchange at the official rate’.

Since the start of the current crisis, the gap between the official and unofficial exchange rates has widened significantly. As a large amount of informal cross-border trade is financed at the black-market rate. It is increasingly difficult for all but a few traders with good connections to bring goods into the country. The conflict and the widening gap between the two exchange rates have meant that the group receiving privileged access has changed and the profits that can be made on currency differentials has grown, further discouraging commodity trade and favouring exchange rate trade. However, declining oil revenue and the increasing shortage of currency reserves are threatening the continuity of these patronage networks.

4.4.1 Impact of Ethnic Conflict on Oil and Aid Sectors

As per the findings, 90.9% of the respondents agreed that ethnic conflict had affected oil and aid sectors.

¹⁹⁴ UNDP, 2015

¹⁹⁵ Frontier Economics, 2015

Based on the findings in 2016, inflation ran to 300% while the currency slumped by 90%.¹⁹⁶ A global fall in oil prices coincided with a 35% drop in oil production owing to the conflict, a devastating blow in a country where 90% of government revenue at independence came from oil. External debt rose from an estimated 3.2% to 38.7% of GDP in 2016. Consequently, international aid was suspended pending economic reform and implementation of the August 2015 peace agreement.¹⁹⁷

Against this backdrop, food prices soared and in February 2017, famine was declared in South Sudan. The famine is widely recognized as a result of catastrophic political failures. At independence, it was apparent that South Sudan was oil dependent, and therefore vulnerable to risks typified by the concept of the resource curse, including corruption, a lack of long-term planning, and strong political grievances from numerous constituencies. Even in peace time, there were few linkages between the oil sector and the wider economy. Instead, most new economic activity centred around the cities of Juba and Wau, servicing the needs of international oil and development aid professionals with hotels, private transport and construction services, largely staffed by business people from other East African countries.

4.5 Kenya's main exports to South Sudan

The study sought to investigate the Kenya's main exports to South Sudan. The findings were as shown on the table below

Table 4.2: Kenya's main exports to South Sudan

	Percent
Construction	13
Financial services	11
Information and Communication	9

¹⁹⁶ Africa Research Bulletin, 2016

¹⁹⁷ August 2015 peace agreement

Manufacturing	10
Real Estate	19
Cost of Transport Cost of Input (Raw Materials) and storage	15
Agriculture	23
Total	100

Source: Research Data (2019)

Table 4.2 shows that the products majorly exported from Kenya to South Sudan are in seven sectors. These are construction (13%), financial services (11%), information and communication (9%), real estate (19%), transport and storage (15%), manufacturing (10%) and agriculture (23%).

In the financial services sector, it was established that many financial institutions have opened up branches in South Sudan. It was pointed out that the Kenya Commercial Bank South Sudan is the largest financial services provider with over 21 branches. Other Kenyan owned commercial banks operating outlets in South Sudan are 35 Cooperative Bank of Kenya and the Equity Bank. From the findings, it is not only the Kenyan commercial banks operating outlets in South Sudan.

The study noted that in the agricultural sector, most exports from Kenya to South Sudan are maize and maize flour, tea, beans, wheat and wheat flour, rice and sorghum flour. In the manufacturing sector, it was established that most products exported include pharmaceutical products, food, edible oils, electronic and electrical appliances, garments of various kinds, perfumes, cosmetics, pornographic literature, habit-forming drugs and armaments. It was pointed out that Kenyan traders have built warehouses in South Sudan where the Kenyan manufacturers can indeed repackage and break down their bulk goods into smaller sizes for eventual sale in the local market.

Analysis of findings indicates that a majority of the formal businesses in South Sudan are the small and medium-sized enterprises (SMEs) owned and operated by Kenyan citizens operating enterprises in the construction, hotel and restaurant as well as other business-related enterprises. As espoused by the African Development Bank (2011) there is other over 8,000 small firms with

Kenyan roots operating similar ventures to those by the small and medium-sized enterprises in South Sudan with another 10,000 involved in sole entrepreneurship's petty trade. Apart from the SMEs, analysis of findings indicated that nearly all the large firms in South Sudan are foreign-owned dealing with telecommunications, banking, beverage manufacturing, aviation, insurance, construction, Information and Communication Technology (ICT) and transportation as well as hospitality, wholesale and retail as quite a number of South Sudanese nationals do not have the financial muscles and skills at the moment to start and operate large enterprises.

4.6 The Impact of Ethnic Conflict on Kenya's economy

The respondents were further asked to indicate whether the following factors were affected by ethnic conflicts.

Table 4.3: The Impact of Ethnic Conflict on Kenya's economy

	Percentage
Currency and exchange rates	89.4%
Demand	92.1%
Market composition	91.4%
Prices	94.6%
Trade flows	88.9%

4.6.1 Impact of Ethnic Conflict on Currency and Exchange Rates

According to the results 89.4% agreed that currency and exchange rates were affected by the crisis. The crisis has had a significant impact on traders' ability to access dollars and has fuelled a huge increase in the dollar-SSP exchange rate on the black market. With the conflict, only a few individuals close to the government are able to access dollars at the preferential governmental rate; everyone else has to rely on the black market. Given that South Sudan is predominantly an import market, and the South Sudanese currency is not traded or accepted across East Africa, access to foreign currency is crucial for business continuity for most traders.

As such lack of access to dollars represents the most significant obstacle to the expansion of trade. As a consequence of the conflict black market rates have exploded, rising from around 3.9 SSP/USD in April 2014 to between 5.8 and 6 SSP towards the end of the year, or around 80% higher than the official Bank of South Sudan (BOSS) rate of 2.9 (or 3.16 for the official commercial rate). This has had considerable consequences for traders who make a large part of their profit on the exchange rate rather than on the price differential between buying and selling, both in terms of how they operate and stock their goods and in terms of prices. The study also found that instead of regularly importing a set quantity of goods from Kenya, traders now wait until they have finished selling almost everything before restocking, and most reported bringing in significantly lower quantities.

4.6.2 Impact of Ethnic Conflict on Demand

According to the findings 92.1% agreed that ethnic conflicts affected demand of goods exported to South Sudan. It was found that demand in Juba has declined drastically due to population decrease and displacement within the town. Estimates suggest that Juba's population fell by as much as 50%, from around a million inhabitants prior to the conflict to around 500,000 in April 2014.¹⁹⁸ Those that remain lack purchasing power due to unpaid or fluctuating salaries, including a 10% pay cut for civil servants. Many of Juba's inhabitants are employed by the government, and salaries had not been paid. Given South Sudanese family structures and the many dependents that a government employee may support, this has important consequences for the purchasing power of wider family networks. Casual workers have also seen their resources dwindle as demand for their labour has plummeted. Women working in petty trade, selling fruits and vegetables in the market, have also been affected by lack of demand. According to the findings, while previously it was possible to buy goods on credit from traders they knew well, this was no longer possible and

¹⁹⁸ Oxfam, 2014; HPG interviews

almost all transactions were in cash. Getting loans from relatives who are still in employment or abroad is much. Findings indicated that sales by retailers have gone down by as much as 50% – 70%.

4.6.3 Impact of Ethnic Conflict on Market composition

Additionally, 91.4% of the respondents agreed that Ethnic Conflict had affected Market composition of South Sudan. It was noted that due to conflicts markets in Bentiu, Malakal and Bor were destroyed during the fighting and many traders lost everything. In Bentiu, over 1,000 Sudanese traders lost their goods.¹⁹⁹ Traders started to return to Bor in mid-2014, but staples remained limited and fear of insecurity and continued conflict persisted.

According to the findings after the initial acute period of fighting in December 2013, residents reported sporadic gunfire and insecurity for around three months, preventing them from accessing markets. Feelings of insecurity meant that people generally preferred smaller, neighbourhood markets to large markets such as Konyo Konyo and Customs, and traders in these smaller markets had raised their prices in response. With the onset of the crisis many traders especially Kenyans left, either because of insecurity or because they had lost everything and were unable to restart their business.

4.6.4 Impact of Ethnic Conflict on Prices

According to finding, 94.6% agreed that ethnic conflict affected prices. Prices in Juba fluctuated widely since the start of the crisis, both in terms of price evolution over time and variations in prices from one trader to another. Prices in Juba spiked during the first weeks of the conflict, with sorghum and maize reportedly up by 30% as imports stopped and insecurity led to the temporary closure and looting of some markets. This was followed by a fall in prices in January/February for perishable items, as traders tried to sell off their goods quickly before leaving. Prices for sorghum

¹⁹⁹ DNA, 2014

and maize stabilized in Juba, while continuing to climb in markets in conflict areas, in particular during the May–August lean season. The highest prices were recorded in Bentiu and other conflict areas.²⁰⁰ This meant that traders were, at least temporarily, adjusting to shrinking profits while waiting for the situation to improve. Increases in exchange rate differentials and continued constraints on accessing dollars meant that this precarious stability was unlikely to last, and since the research was conducted prices have risen substantially.

4.6.5 Impact of Ethnic Conflict on Trade flows

In addition, 88.9% of the respondents agreed that the conflict has had a significant impact on trade flows. The study noted that the conflict had mostly affected imports into, and trade flows within, South Sudan, reducing informal sorghum exports from Kenya. Regional exports to South Sudan slowly started to increase in the third quarter of 2014, but remained below average due to continued conflict and insecurity, low demand and the depreciation of the South Sudanese Pound. Overall cross-border imports of maize, sorghum and rice into South Sudan declined by 44%, 85% and 79% between 2013 and 2014. Local production in conflict-affected areas has also been badly hit, and insecurity and checkpoints along the roads have meant less local produce is available in markets. Trade routes in the conflict-affected states of Jonglei, Upper Nile and Unity have also been affected. Traders in other parts of the country were not directly affected by the conflict, but have suffered from the indirect effects of decreased trade, insecurity along major roads and rivers and an increase in illegal checkpoints.

Other findings indicate that Kenya has received a large number of refugees from South Sudan which greatly affect the economic development. Kenya, which has long hosted hundreds of thousands of refugees from around the region, has pioneered a new approach in response to the South Sudanese influx. With the backing of UNHCR and the World Bank, it launched the

²⁰⁰ WFP, 2015

Kalobeyei Integrated Social and Economic Development Program, establishing a settlement in Turkana County, near the border with South Sudan. With implementation planned through 2030, the program aims to improve livelihood opportunities and socioeconomic conditions for refugees and host communities, while reducing reliance on humanitarian aid over the long term. However, lack of funding has emerged as a serious limitation, aggravated by a drought that has hit Turkana's largely pastoralist economy hard.

4.7 Chapter Summary

The study established that South Sudan's poorly developed institutions and regulations make it challenging for investors to operate in the country. Constraints include limited government data, poorly enforced regulations, lack of a credit reference bureau, and minimal documentation to prove land ownership. South Sudan's government has not yet instituted regulations to provide sufficient protection for lenders, making financiers reluctant to extend loans. Not only does South Sudan have an insufficient regulatory framework to support the private sector, it is often challenging for entrepreneurs and investors to develop a full understanding of current legislation.

The findings further revealed that after decades of conflict and instability, South Sudan's education system has noticeably suffered. The country has one of the lowest literacy rates in the world, making it difficult to source qualified staff to scale. In addition, businesses' access to foreign talent is limited due to an unofficial expectation that 70-90% of positions in all companies be held by South Sudanese citizens.

The study noted that exporters and investors in South Sudan face many challenges entering the market. For example, given ongoing civil conflict and recurring disagreements with Sudan, South Sudan continues to have high insecurity and instability, limiting the ability of investors to deploy capital. Beyond the direct threat of violence and difficulty operating in an insecure environment, the significant internal displacement more than one million people have been displaced this makes

it difficult for businesses to establish reliable consumer bases and scale operations in order to be attractive for investors, whether conventional or impact.

Chapter Five

Summary, Conclusion and Recommendations

5.1 Introduction

This chapter presents the summary of findings, conclusion, recommendations, and suggested areas for further research.

5.2 Summary of findings

The study identified the following as some of the ways that affected households during armed conflicts in South Sudan: Reduced household income; reduced household access to education; reduced household access to agricultural land; reduced access to health; reduced access to water and sanitation. In addition, these armed conflicts generally resulted into general insecurity throughout the entire Southern Region of Sudan and subsequently retarded the socio- economic development of the area in question. Armed conflict caused displacement and migration of the population making them internally or externally displaced persons.

Findings further indicate that human development has been profoundly affected by years of conflict, but especially by the most recent conflict. In the aftermath of the Crisis of 2013, formal employment opportunities dropped owing to a drop in foreign investment and especially a reduction in oil production. What's more, fears for personal safety have resulted in a reduction in smaller scale livelihoods activities such as petty trading.

From the findings, the products majorly exported from Kenya to South Sudan are in seven sectors. These are construction, financial services, information and communication, real estate, transport and storage, manufacturing and agriculture. Based on the findings all had been challenged by the ongoing ethnic conflicts to a great extent.

According to the results, majority of the respondents agreed that currency and exchange rates; demand of goods exported to South Sudan; Market composition of South Sudan; Prices and trade flows had been significantly affected by ethnic conflicts.

5.3 Conclusions

The results show that conflict has adversely affected the development of South Sudan in several ways. All sides in the conflict have suffered, but the people who celebrated the birth of Africa's newest country when it separated from Sudan have suffered more. The men, women, and children of South Sudan have seen war instead of peace. The children have had to stay at home rather than go to school and life has become more difficult for everyone including combatants. Only an end to the ongoing conflict will help reverse the trend and allow South Sudanese enjoy their nationhood.

It was noted that ethnic conflicts have a myriad of impacts to the communities in warfare. South Sudan's economy has struggled recently due to civil unrest and ongoing disagreements with the government of Sudan over oil rights as well as other disruptions to economic activity. Foreign Direct Investment (FDI) has been a subject of interest for decades. Inflation in South Sudan has been erratic due to the economic uncertainty that has plagued the country since independence.

The study noted overwhelming political and development challenges with complex and slowly implemented strategies hampers progress in resolving persistent conflicts in South Sudan. The December 2013 conflict affected income opportunities. Some outcomes of the conflict include loss of assets, livelihood and hunger which are exacerbated by the stringent private sector loan conditions attributed to weak economic activities and uncertainty.

Agricultural production and productivity drastically reduced because farmers don't feel safe due to insecurity, and therefore forcing population displacement, migration, food insecurity, loss of lives and assets, poverty, deterioration of socio - economic condition, and collapse of basic

service delivery to the population. The destruction of both physical and economic infrastructures by the warring parties is a major concern. This not only affects the economy of South Sudan, but also has a serious implication on the civil population; their means of survival are either destroyed or abandoned due to insecurity in the country.

Being a close neighbour on the northern frontier, a protracted conflict in South Sudan has affected Kenya in terms of trade and investment, infrastructure projects and influx of refugees. Kenya on the other hand has been affected considerably given that South Sudan has been a destination to Kenyan citizens and banks for employment, investment and business. A crisis in South Sudan has risked all these economic benefits that Kenya enjoys from South Sudan. In addition, violence in South Sudan also disrupted Kenya's plan to provide an alternative trade route for South Sudan to transport its oil, via the port of Lamu.

5.4 Recommendations

The following recommendations serve to minimize the impact and effects of armed conflicts in Africa generally and South Sudan in particular with respect to the study being undertaken.

Authorities should not encourage armed groups to use developmental facilities such as schools and health facilities to be used by armed groups as their barracks or depots. South Sudan Demining Authorities (SSDA) should discourage contamination of fertile agricultural land and water points used by both human- beings and livestock with deadly weapons such as landmines and un-explosive ordinances (UXOs). This will undermine household food security, security and safety of the communities in question.

Competent institutions such as reputable international aid agencies and government- line departments / ministries should support households to diversify their livelihoods including both material and social resources and activities required for a means of living in order to be able to

cope with shocks and stresses as a result of natural or man- made calamities. Destitute and vulnerable segment of the population (children, women, elderly and the ethnic minorities) should receive immediate attention from the humanitarian aid agencies and government during periods of civil conflicts.

During ethnic clashes or times of armed conflict, destitute and vulnerable population should seek protection and shelter in neutral places such as: IDPs / refugees' camps in order to receive assistance from humanitarian aid agencies in terms of safety and security, food rations, health, education, water and sanitation. This follows that government and development partners should support conflict areas with more refugee camps that are well serviced with basic livelihood. Diversification of household income sources should be supported and encouraged by government and development partners because it contributes greatly in alleviating human suffering and therefore, off sets hardship in unforeseen situations.

5.4.1 Recommendations for further research:

The study recommends the need to investigate the challenges faced by civil society groups in peace building in South Sudan after signing of the Comprehensive Peace Agreement by other upcoming research projects. The study recommends to other researchers to further determine when and under what conditions civil society should take up protection functions or whether the State should be strengthened instead.

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Appendix 1: Questionnaire

Kindly respond to the questions as honestly as possible.

Tick (✓) inside the box to indicate your choice of answer

Section A: Demographic information

- 1) Gender of respondent? (-) Male (-) Female
- 2) Level of Education
- 3) Occupation

Section B: Ethnic Conflicts and Economic Development in South Sudan

- 4) In your opinion is South Sudan's affected by the ongoing ethnic conflicts? yes {-}
no {-}
- 5) Do ethnic conflicts affect South Sudan Households? Tick appropriately

	Yes	No
Access to water and sanitation		
Household access to agricultural land		
Household access to education		
Household income		
Reduced access to health		

- 6) What are economic impacts of ethnic conflicts to South Sudan economy?

Section C: The Impact of Ethnic Conflict on Kenya's economy

- 7) Has ethnic conflict affected the Kenya's main exports to South Sudan?

	Yes	No
Construction		
Financial services		
Information and Communication		
Manufacturing		
Real Estate		
Cost of Transport/Cost of Input (Raw Materials) and storage		
Agriculture		

8) Do ethnic conflicts affect the following South Sudan market aspects? Tick appropriately.

	Yes	No
Currency and exchange rates		
Demand		
Market composition		
Prices		

Trade flows		
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9) What other ways have ethnic conflicts in South Sudan affected Kenya and economic development?

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