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Export Promotion Policies in the Sudan for the period \((1990-2005)\)

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Dissertation submitted in partial fulfillment of the requirements for M.Sc degree in Economics.

2008
Dedication

To my family and friends with love and appreciation
Acknowledgement

My thanks extended to the staff of the faculty of economic and social studies for their academic assistance. My deep thanks are also extended to my father who financed this M.Sc. program from the beginning until the end.

I would like to express my gratitude and sincere appreciation to all those who made it possible for me to complete this research.

Deep thanks and gratitude to Dr. Layla Elawad Simsaa for the time she spent with me and for her support and continuous encouragement from the beginning up to the end of the research.
**List of abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFA</td>
<td>French colonies of Africa</td>
</tr>
<tr>
<td>EP</td>
<td>Export promotion</td>
</tr>
<tr>
<td>NICs</td>
<td>Newly Industrialized Countries</td>
</tr>
<tr>
<td>ED</td>
<td>Export development</td>
</tr>
<tr>
<td>TPO</td>
<td>Trade Promotion Organization</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>EFIC</td>
<td>Export Finance and Insurance Corporation</td>
</tr>
<tr>
<td>Ex- ImBank</td>
<td>Export Import Bank</td>
</tr>
<tr>
<td>ET</td>
<td>General Excise Tax</td>
</tr>
<tr>
<td>EEP</td>
<td>Export Enhancement Programme</td>
</tr>
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<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>DEIP</td>
<td>Diary Export Incentive Programme</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>NEER</td>
<td>Nominal Effective Exchange Rate</td>
</tr>
<tr>
<td>WAER</td>
<td>Weighted Average Exchange Rate</td>
</tr>
<tr>
<td>HBOR</td>
<td>Hrvatska Banka 2a Obnovui Razvitak (Croatian language which means Croatian Bank for Reconstruction and Development)</td>
</tr>
</tbody>
</table>
List of Table

Table (1) Data about excise tax, export tax, export credit, official exchange rate and exports value for the period 1990-2005 by millions SDD.
# Table of Contents

Dedication I  
Acknowledgement II  
List of abbreviations III  
List of tables IV  
English abstract VIII-IX  
Arabic abstract X-XI  

## Chapter One

### Introduction

1-1 Introduction  
1-2 Research Problem  
1-3 Objectives of the Research  
1-4 The Importance of the Research  
1-5 The Research Hypotheses  
1-6 Methodology and Sources of Data  

## Chapter Two

### Literature Review of Export Promotion Policies

2-1 Introduction  
2.2 Some basic concepts  
2-2-1 Definition of export  
2-2-2 The Difference between export development and export promotion  
2-3 Policies of export promotion in some countries  
2-3-1 Monetary and Credit policy  
2-3-1-1 Monetary policy  
2-3-1-1-1 Definition of monetary policy  
2-3-1-1-2 Management of exchange rate  
2-3-1-1-2-1 Definition of exchange rate  
2-3-1-1-2-2 Generalized Devaluation  
2-3-1-1-2-2-1 Experience of some countries with devaluation  
2-3-1-2 Credit policy  
2-3-1-2-1 Definition of credit policy  
2-3-1-2-2 Export credit  
2-3-2 Fiscal policy  
2-3-2-1 Definition of Fiscal policy  

2-3-2-2 Export taxes
2-3-2-3 Excise tax
2-3-2-4 Export tax rebate policy
2-3-2-5 Export subsidies
2-3-1-6 Custom duty cut on inputs
2-3-3 Investment policy
2-3-3-1 Open door policy and foreign direct investment

| Chapter Three |
| Export Promotion Policies in the Sudan |
| 3-1 The Economic Structure of the Sudan |
| 3-1-1 Agriculture, forestry and fishing | 35 |
| 3-1-2 Industry and manufacturing | 37 |
| 3-1-3 Foreign trade sector | 37 |
| 3-1-3-1 Imports | 37 |
| 3-1-3-2 Exports | 38 |
| 3-1-3-2-1 Problems of Sudanese exports | 40 |
| 3-1-4 Labor market, unemployment and mining | 43 |
| 3-2 Policies of export promotion in the Sudan | 44 |
| 3-2-1 Previous studies about polices of export promotion in the Sudan | 44 |
| 3-2-2 Monetary and credit policy | 46 |
| 3-2-2-1 Monetary policy | 46 |
| 3-2-2-1-1 Some empirical studies concerning Sudanese currency devaluation | 46 |
| 3-2-2-1-2 Policy of exchange rate devaluation in the Sudan | 47 |
| 3-2-2-1-3 Other monetary policies for export encouragement | 51 |
| 3-2-2-1-3-1 Retention policy | 51 |
| 3-2-2-1-3-2 Specialization policy | 52 |
| 3-2-2-2 Credit policy | 53 |
| 3.2.2.3 policies of foreign currency administration | 60 |
| 3-2-3 Some selected fiscal policies targeting export encouragement for the period 1990 -2005. | 61 |
| 3-2-3-1 Fiscal policy under the third economic Salvation Programme (1990/1991-1993) | 61 |
| 3-2-3-3 Fiscal policy during the period 2000-2005. | 64 |
### Chapter Four
The Empirical Model: Results and their Analysis

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-1 Export value export policies</td>
<td>73</td>
</tr>
<tr>
<td>4-1-1 Data description</td>
<td></td>
</tr>
<tr>
<td>4-2 Model formulation and Results of estimated model</td>
<td>76</td>
</tr>
<tr>
<td>4-2-1 Model formulation</td>
<td>76</td>
</tr>
<tr>
<td>4-2-2 Results of estimated model</td>
<td>77</td>
</tr>
<tr>
<td>4-2-2-1 Analysis of the results</td>
<td>77</td>
</tr>
<tr>
<td>4-2-2-1-1 Excise tax result's analysis</td>
<td>77</td>
</tr>
<tr>
<td>4-2-2-1-2 Export tax result's analysis</td>
<td>78</td>
</tr>
<tr>
<td>4-2-2-1-3 Export credit result's analysis</td>
<td>78</td>
</tr>
<tr>
<td>4-2-21-4 Official exchange rate result's analysis</td>
<td>78</td>
</tr>
</tbody>
</table>

### Chapter Five
Conclusion and Policy Recommendations

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-1 Conclusion</td>
<td>81</td>
</tr>
<tr>
<td>5-2 Recommendations</td>
<td>82</td>
</tr>
<tr>
<td>List of References</td>
<td>83</td>
</tr>
</tbody>
</table>
Abstract

This research attempts to investigate and assess the policies of export promotion in the Sudan for the period 1990-2005. In other words, the aim of this research is to know the efficiency of these policies in encouraging Sudanese export. However, before this investigation the research shows theoretically the effects of policies examined and review some empirical studies. Also, the research gives a detailed account of the experience of the Sudan in the field of export polices.

The research has applied least squares approach to estimate a multi-regression model in order to know the effect of a set of independent variables such as: excise tax, export tax, export credit and official exchange rate on the dependent variable; exports value. The data was collected from the Bank of Sudan and Ministry of Finance and National Economy.

According, to the research findings, the set of the independent variables (except the export credit) have insignificant effect at 5% level of significance. The signs of the parameters of the model (except the parameter associated with the export tax) coincide with the economic theory. The research recommendations include the following:

(1) To guarantee the flow of the Sudanese export to the world markets, the financial institutes must provide sufficient amount of credit to exporters in order to enable them to face their commitment.

(2) In order to insure the effectiveness of the devaluation policy of exchange rate, Sudan's must rehabilitate their infrastructure, produce high quality commodities and engage in the field of processed raw materials for the purpose of exportation so as to gain value added and compete in the world market.
(3) Although, the export tax has no impact on total exports value but it may have some effect on single exported commodities. Therefore, the elimination of it is very important in the future in order to avoid it is negative effects and enable these exported goods to compete internationally.

(4) In spite of the finding that excise tax has no impact on total exports, but we propose a reduction of this tax in the future in order to motivate the producers to produce commodities for the purpose of exportation and to enhance the competitiveness of exported goods in the world markets.
التقرير


ذكر أن النظرة السياسية هذه الأثر تتبعت أيضا البحث هذه لسودان مما تمارس عليه دقيقة التفاصيل أعطي كذلك الدراسات خلال السياسات.

بينما تتابع أيضا البحث هذه المتعدد الاتجاهات والمعلمات للتقدير الصغير المربعة هجج الاستنتاج، ضريرة، الصادرة ضريرة مثل المستقلة التغييرات تؤثر مديا đenار وذالك الرسمية الصفرة وسعر الصادرة إلاشارة كذلك المقدرين النظريات مع متطابقة المستقلة التغييرات المتبعة التصويب في أكثر الاستنتاج، استنتاج، الصادرة

ضريبة في المستقلة التغييرات جموع أن وجد النتائج ووفقا الرسمية الصفرة وسعر الإنتاج رسوما الصادرة، على الصادرة على معنى أثر لها لامع.

أشارت كذلك المقدرين النظريات مع متطابقة الغير الصادرة ضريرة في اللغة، الاستنتاج، الصادرة ضريرة مثل المستقلة التغييرات المتبعة التصويب في أكثر الاستنتاج، استنتاج، الصادرة

١ ( ):

ـ لنفس الأحزاب العالمية للأسواق السودانية أتدفق على، أيضا، ضرائب كافية الموارد تخصص أن.

ـ تخفيف سياسته الفعالة، تضمن، على الصادرة على الإشراف، سعر، وانجاز، جودة عالية سلم، الإنتاج تحتية، البنية في مداخلات، صالح، في المعالجة والميلاد، الخصبة في رئيس، الأسواق، فيه السودان.

ـ ( ) باستثناء إذا، الصادرة جميع أنواع بالرغم إذا، الصادرة جملة من الصادرة، ليس الصادرة ضريرة الصادرة، الصادرة، الصادرة

ـ لنفس الأحزاب العالمية للأسواق السودانية، كن، على الصادرة على المضافة لقيمة على، بشكل، الصادرة، الصادرة
لم يُذكر في الإصدارات démarche التأثير على النتائج، بالرغم من أن هذه السياسة تهدف إلى تحسين المنتجات، النشاط في المدارس، تحسين ثقة العملاء، وكذلك تدفق المنتجات لكسب القوة في المنافسة، ورفع مبيتهم عالميًا.
Chapter One
Introduction

1-1 Introduction

Sudan's exportation policy is mainly based on the exportation of production surpluses of different agricultural and industrial products in order to finance its imports and to meet its external commitments for its economic development. Due to significance of export sector, more attention should be given to the policies which promote it. These policies include monetary policy, credit policy, fiscal policy, trade policy and investment policy. Since 1990 up to 2005, there are many policies of export promotion that have been adopted. For example, adoption of devaluation of exchange rate to increase the ability of Sudanese exports to compete in the international market, elimination or decreasing the rate of tax on exported goods, reduction of excise taxes on some commodities produced for exportation, providing enough export credit to Sudanese exporters, subsidization of export sector, adoption of retention and specialization policies by the bank of Sudan and facilitation of investment laws to attract some projects to produce commodities and services for the purpose of exportation.

1-2 Research Problems:

The significance of the export polices in affecting the size of export earnings, makes it necessary to examine these polices and to see

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the positive and negative effect especially in an economy which suffers from deterioration in exports value and prices such as the Sudan economy.

1-3 Objectives of the Research:
1. To review some available export policies in the Sudan and outside the Sudan.
2. To examine the main factors those affect the Sudanese exports.

1-4 The Importance of the Research:
The importance of the research stems from the importance of export policies and also because of the insufficient studies in this area in the recent years. Also, the research findings and implications can help the policy makers in developing export policies.

1-5 The Research Hypotheses:
(1) The devaluation of domestic currency may not lead to increase or improvement in the competitiveness of the Sudanese export.

1-6 Methodology and Sources of Data:
The research used the quantitative techniques to test a set of hypotheses by using a multi-variables regression model and statistical data on time series basis (secondary data) which collected from the Central Bank of Sudan, Ministry of Finance and National Economy. In other word the model examines the factors which affect export value for the period (1990-2005) taken the following specification:
\[ X = f(ET, XT, XC, OER) \] .......... (1)

Where

* \( \log(X) = \) value of exports
* \( \log(ET) = \) excise tax value
* \( \log(XT) = \) export tax value
* \( \log(XC) = \) export credit value
* \( \log(OER) = \) official exchange rate (diner against dollar)

ET, E*T, EC, OER are independent variables

X is dependent variable

From the total specification function \( f(ET, E*T, EC, OER) \) the relevant equation to be estimated takes the following form:

\[ \log(x_1) = B_0 - B_1 \log(ET) - B_2 \log(XT) + B_3 \log(XC) + B_4 \log(OER) + \mu \] .......... (2).

The signs of the variables in equation (2) according to the economic theory.

Where \( \mu \) is an error term which follows normal distribution \((0, \sigma^2)\).

The main body of the research is divided into five chapters.

* **Chapter one**: Layout of the research containing an introduction to the research problem, research objectives, research hypotheses, methodology of the research and sources of data.

* **Chapter two**: A literature review about policies of export promotion.

* **Chapter three**: The policies of export promotion in the Sudan for the period (1990-2005).

* **Chapter four**: The Empirical Model: Results and their analysis.

* **Chapter five**: Conclusion and Recommendations.
Chapter Two

Literature Review
Chapter Two

Literature Review

2.1 Introduction:

To encourage growth of exports, governments can step in and provide business communities with needed support in various forms. Governments have many different policies, programs and activities to help develop a competitive products and increase export sales. Governments can assist business in the private sector with a wide range of services, from simply providing information about current opportunities in the international market to giving specialized assistance to design and implement marketing programs and sales campaigns abroad. These activities may be described by the words “exports promotion” or “exports development”.

The export promoting activities are usually carried out by a Trade Promotion Organization (TPO). In most countries, TPO concentrates most of their efforts on export promotion; that is a set of actions and policies (such as trade policy, fiscal policy and monetary policy) aimed at promoting export of the country's existing production. The basic objective of export promotion activities is to encourage expansion of sales of products that are currently available for export. All promotional
efforts are based on existing production and aim at increasing the value of foreign sales.

In recent years, some governments (China, India, Australia, and Croatia) have focused on programs of export development. Governments were responding to greater liberalization of foreign trade regulation and increased competition from abroad. Export development is different from export promotion, because export development aims at producing new export products and/or penetrating new markets that were not accessible before. Later on we can know more differences about these two concepts. Most developing countries make export promotion and development a priority in order to achieve economic development goals. Governments expect that sustained export promotion and development efforts will help earn additional foreign exchange needed to cover the cost of imports, solve balance of payments problems, help reduce the burden of increased foreign indebtedness and create additional employment for people. Export development is not only desirable, but also absolutely necessary in some countries in order to widen a narrow export base. Foreign exchange earnings from a very limited number of export products often can not generate enough additional foreign exchange, especially when there has been a decline in the international prices for some traditional export products of developing countries.

In many developing countries, the business community of private exporters may need assistance to make appropriate contacts, after they
have done market research and gathered information. This actually involves a number of complicated actions and considerations that should be examined in greater details. Exporters that have not consolidated their presence in foreign markets do not usually have the resources to carry out export promotion and development activities, which are generally expensive. Gaps between resources needed and resources available are common in many developing countries. As a result, governments must fill these gaps, especially the financial gap. There are many general actions that need to be taken. Such basic export development activities must be provided as a public service, at least until individual exporters can cover the costs themselves. (1)

2.2 Some basic concepts

2.2.1 Definition of export:

By export of goods and or services is meant selling these goods and services outside (usually outside the country). Exported goods and services are those goods and services which are produced in one country and sold and consumed in other country. (2)

2.2.2 The difference between export development and export promotion:

Export development (ED) is defined as the establishment of those parts of the economic process and infrastructure which embolden the

(2) Eldawi, A, I, "the government policies towards export and the role of export products development" (Masc unpublished Thesis.), Institutes of Environmental Studies, University of Khartoum, 1998.
production of various products suitable for export and for promotion. Export development is more basic process and can be expected to precede export promotion. Export development is a wide-ranging process and includes the maintenance and establishment of those infrastructural services necessary for effective exporting such as transport, communications systems, the development of managerial manpower, finance, etc. In practice there is a considerable overlap between export development and export promotion.

Export promotion involves activities that support and assist the exporting of existing products. Commonly these activities include the organization of selling missions and buying missions, participation in international fairs and exhibition, the preparation of public relation and advertising material for national export products in world markets and the management of incentive schemes within the producing country.(1)

2.3 policies of export promotion in some countries:

2.3.1 Monetary and credit policy:

2.3.1.1 Monetary policy:

2.3.1.1.1 Definition of monetary policy:

Monetary policy is the process by which the government, the central bank or monetary authority manages the money supply to achieve specific goals – such as constraining inflation, maintaining a

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(1) report on project for export trade development and promotion, by participation of Sudanese ministry of foreign trade and Irish institution called – Coras Trachtala Irish export board, published by Irish Export Board, 1979.
real exchange rate, achieving full employment or economic growth (usually the goal of monetary policy is to accommodate economic growth in an environment of stable prices). Monetary policy can involve changing certain interest rates, either directly or indirectly through open market operations, setting reserve requirements, acting as a last resort lender (i.e. discount window lending), or trading in foreign exchange markets.

Monetary policy is generally referred to as either being an expansionary, or a contractionary policy, where an expansionary policy increase the total supply of money in the economy, and contractionary policy decreases the total money supply. Expansionary policy is used to combat unemployment in a recession by lowering interest rates, while contractionary policy has the goal of raising interest rates to combat inflation in the economy.\(^1\)

**2.3.1.1.2 Management of exchange rate:**

**2.3.1.1.2.1 Definition of exchange rate:**

The rate at which you can buy deterministic currency with another one is called exchange rate. When you buy a currency with other one, you are purchasing foreign exchange. Foreign exchange is merely the action on some foreign currency, and the rate of exchange is

\(^{(1)}\) WWW.en.wikipedia.org, (encyclopedia)
the number of units of deterministic currency it takes to purchase one unit of another currency. (2)

2.3.1.1.2.2 Generalized devaluation:

Generalized currency devaluation has become such a common practice in developing counties that it deserves separate treatment. Devaluation is an adjustment measure that is usually adopted under any foreign exchange regime for the purpose of eliminating balance of payments disequilibrium.

A country devalues by reducing the external parity of its national currency thus lowering its value in terms of foreign exchange. This implies lowering its export prices in foreign currency and increasing the prices of its imports in local currency, so that its exports become relatively cheaper while imports become more expensive. This is supposed to increase the foreign receipt while at the same time reduces the local demand for imports; thereby decreasing foreign payment and thus improving the state of trade balance and therefore the balance of payments. The main advantages of this system are the elimination of currency overvaluation and the enhancement of the international competitiveness of traded goods of the developing country. This is supposed to come about through shifting of resources to import competing and export industries in order to match the induced switch in expenditure from tradable goods to local commodities and services. But these benefits of devaluation are often not realized in practice,

particularly in African counties for various reasons. First, there is extreme scarcity of hard currency in these countries whose demand for imported commodities and services is highly inelastic. Second, the structural rigidities in these countries involving shortcoming of technical and supply difficulties, as well as constrain response to price incentives provided by the devaluation system and unassured input supply, lead to the failure of domestic production to respond to new opportunities in export and domestic markets. The disadvantage and reverse effects of devaluation in African countries typically outweigh their alleged advantages. There is a growing concern that exchange rate devaluation system, has led Africa into a period of excessively high rate of inflation in the 1980s. For countries facing given world prices of traded commodities, the domestic prices of such goods are their world prices adjusted for changes in the local currency value to foreign exchange. Hence, this system of exchange rate policy has the influence of causing or fuelling inflation. Beside its inflationary effect, the theoretical condition for devaluation to improve the trade balance and hence the balance of payments is typically not satisfied in African countries. More precisely, the classical Marshal – Lerner elasticity condition that requires the sum of the import and export elasticities of demand exceed unity is not satisfied because of strong (inelastic) demand for imported necessities and inelastic foreign demand for Africa exports. Thus with inelastic demand for exports and imports, devaluation has little or no effect in changing these variable in the context of African courtiers. Even in conditions where export demand
is not constrained by foreign protectionism and synthetic substitution, the long run gestation period for increasing export production makes their export supply relatively inelastic and unable to benefit from devaluation, at least in the short – run period. Agricultural exports are particularly prone to this supply rigidity.

Generalized devaluation also increase the local cost of produced goods and thereby declines the competitiveness of local services and commodities. The rising cost of domestic inputs also leads to capacity under utilization. The changes in relative prices that is presumed to switch demand from foreign to local commodities after devaluation is also inhibited in African countries because of rigidities in production structures that don’t permit much substitution of domestic for foreign inputs, and because of social trait that restrains the change in demand for foreign goods. The assumption that devaluation regime can change the relationships between wages and prices also disregard distributional equity which is influenced by complex socio-economic factors. Moreover, the system of devaluation reduces the real value of nominal wages. For agricultural products also, even where devaluation raises nominal producer's price in domestic currency, these increases could be more than offset by the higher rate of inflation unleashed by the change in the relative prices of tradable to non- tradable goods. Such increase in the local prices level also reduce the real value of private sector liquidity unless it is offset by commensurate changes in the domestic
money supply which itself mitigates the positive effects of devaluation. (1)

2.3.1.2.2.1 Experiences of some countries with devaluation:

According to statistics compiled by the Mexican stock exchange and some private economic analysts, most industrial, manufacturing, and retailing companies in Mexico report sharp declines in net profit during the first quarter of 1995 because of peso devaluation. A survey of major companies conducted by the brokerage company Casa de Bolsa vector contained some predictable data related to companies' earnings which showed that most companies' earnings were eroded by high financing costs related to a surge in interest rates and the depreciation of the Peso. The high costs of financing led to a sharp decline in the exported commodities and therefore, affected the competitiveness of Mexican exports. (1)

Another study investigated the impact of devaluation of the Iraqi Diner on the country’s trade balance for the period 1970-1990. The empirical results indicate that devaluation does not improve the trade balance, since the sum of demand elasticities for imports and export is less than unity (point estimate). However, at 95 percent and 80 percent and for lower confidence intervals, the results cannot reject the hypothesis that devaluation does improve the trade balance. Only at

(1) WWW.findarticles.com
some even lower confidence interval is the sum of the price elasticities unambiguously less than unity, resulting in the conclusion that devaluation dose not improve the trade balance.\(^1\)

However, the export sectors and overall economies of the 14 CFA (French Colonies of Africa) zone member countries have benefited from the devaluation of the CFA Franc in early 1994 and the international assistance that accompanied this operation. The devaluation contributed to a strong expansion of export earnings and a reduction of external deficits. This provided a welcome respite to stressed economies, although it is recognized that much remains to be done to consolidate competitiveness and current account balancing. Agricultural exports benefited significantly from devaluation, which coincided with a period notable for world market price increases for several of their main commodity exports. For instance, Cotedlvoire, which has been suffering economic recession since the mid-1980s, increased its economic activity by close to 2 percent in 1994. Cocoa exports were the main source of incremental gain, but other commodities also contributed significantly to the overall improvement. Other countries export sectors showed mixed degrees of success. After an initial surge, Burkina Faso’s agricultural sales; with the exception of cotton lost dynamism.\(^2\)

China also followed this system to improve the competitiveness of Chinese goods in world markets through a series of devaluation of

\(^2\) Food Agriculture Organization,The State of Food and Agriculture for the year 1995.
the Yuan. The devaluation of the Yuan has significantly increased the cost advantage for Chinese producers, enabling them to utilize the vast supply of inexpensive labor (in term of dollars) and to expand the production and export of labor-intensive manufactured goods. In 1989, for instance, the earnings of Chinese workers were estimated to be only about one-fifth of that of workers in the manufactured sectors of the East Asian NICs and only one-twentieth of the wage of comparable U.S. workers. This improved cost and price competitiveness has been successfully combined with a series of policy changes in the foreign trade sector in boosting China’s exports (1).

2.3.1.2 Credit policy:

2.3.1.2.1 Definition of Credit Policy:

Credit policy can be defined as specification, direction and efficiency of finance. This policy would be executed by both public and private sector through financing by banking and financial institutes. This policy participates directly on realizing the objectives of monetary policy and minimizing its negative effects on strategic and productive sectors. Thus, it is considered as a tool of macro-economic policy.

The important procedures which are included in credit policy are the following:

1. Determination of qualitative and quantitative aspects of finance sector ally, so as to insure the flow of finance to priority sectors.

(1) Park, Jong H. "Impact of China's open –door policy on Pacific Rim Trade and Investment". (International Perspective), Business Economics (Journal), 101111993.
2. Control and regulations which concern prohibition or restriction of finance to non-priority sectors.

3. Determination of the finance control which guarantee safeness and uses of resources efficiently\(^{(1)}\).

2.3.1.2.2 **Export credit:**

**Definition of export credit:**

**An export credit can be defined as:**

(1) A loan to the buyer of an export, extended by the exporting firm when shipping the good prior to payment, or by a facility of the exporting country’s government. In the latter case, by setting a low interest rate on such loans, a country can indirectly subsidize exports.

(2) A credit opened by an importer with a bank in an exporter’s country to finance an export operation\(^{(2)}\).

The main advantage of export credit is that it will help the exporters to achieve their pledges with foreign importers. The process of export finance helps directly in export promotion thereby, leading to an increase in the volume and earnings of exports. In addition, the export credit will help the small exporters to expand their business through the increase of their export amount. Also the export finance

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\(^{(1)}\) Central Bank of Sudan, "development of credit and monetary policy for the period 1990-2004", 2005

\(^{(2)}\) WWW. Google.com.
will help in increasing the production of goods particularly those viable to export.

Many countries over the world have followed the operation of export finance. For example in Australia there is an institute called the Export Finance and Insurance Corporation (EFIC). The main objective of EFIC is to support Australian exports and overseas investment. According to the annual report of 2005, the outcome of EFIC is as follows:

2. Supported export contracts of $215 million
3. Embarked on a pilot project to assess the viability of a new product to assist small- to - medium exporters.
4. Introduced a new political risk insurance policy to cover commodity hiding. According to the qualitative client satisfaction survey clients were very satisfied with the service and support of EFIC. (1)

In the United States of America there is an institution for this purpose called (Export – Import bank). The main duties of this bank to supporting small exporters by providing many financing tools targeted to small business, such as working capital guarantee and export credit insurance. It also guarantees repayment of loans or makes loans to foreign purchasers of U.S. goods and services and offers U.S exporters

credit insurance to protect against nonpayment by foreign buyers. Since 1934, the Ex–Im bank has helped finance overseas sales of more than $300 billion of U.S. goods and services. With a working capital entering new markets, expanding their borrowing base, and offering buyers financing while carrying less risk. Often small exporters do not have adequate cash flow or cannot get a loan to fulfill an export sales order. The Export-Import bank working capital guarantee assumes a percent of the lender's risk so exporters can access the necessary funds to purchase raw materials or supplies to fulfill an export order. To be eligible for Export-Import bank's programs, U.S. exporters must simply meet the definition of a small business that has export credit sales of less than $5 million. In addition, your product or service must have at least 50 percent U.S. content. The bank will finance the export of all types of goods or service except for most military-related products. (1)

Also in Croatia there a specialized bank in the field of export finance called Hruatska bankaza Obnovui Razvitak (HBOR), according to Croatian language, means Croatian Bank for Reconstruction and Development. HBOR implements the national export credit insurance scheme by providing cover for Croatian goods and services for and on behalf of the Republic of Croatia with the objective of supporting Croatian exporters and increasing their competitiveness in foreign markets. According to the available data there are some achievements fulfilled by (HBOR) such as:

(1). www.Entrepreneur.com
1. The total volume of trade in commodities between Croatia and Bosnia and Herzegovina reached $923 millions in the first nine-month period of 2003, which represent an increase of 28% in comparison with the same period in the previous year. This figure can be broken down to exports into Bosnia and Herzegovina (Bosna and Hirsic) $739 million and imports of $184 million. Bosnia and Herzegovina is the second largest export partner of Croatia.

2. The HBOR signed agreement with Komercijalna Banka Beograd with total amount of EUR 4 million, the lowest a mount of individual transaction that can be financed is EUR 50.000. This is the first agreement that HBOR concluded with a commercial bank from Serbia and Montenegro. Strengthening of economic co-operation between the two countries and increasing number of concluded business contracts between Croatia exporters and buyers from Serbia and Montenegro encouraged HBRO to open this credit line. According to the data of the Croatia chamber of economy, Croatian exports to Serbia and Montenegro in 2004 reached the amount of $294 million, and imports the amount of $140 million, i.e. Serbia and Montenegro are the only countries with which Croatia has a positive balance of foreign trade.

3. Also the HBOR signed agreement with Alfa Banka of Russia was of a loan amount of EUR 20 million, the highest limit with foreign banks contracted so far, whereas an individual export
transaction that may be financed through a loan can be EUR 100,000. According to the data of the Croatian chamber of economy, the Russian Federation became one of the most important markets for Croatian exports goods and services. During 2004, the value of exported goods from Russia to Croatia was more that $ 1.2 million, whereas Croatia's export to Russia amounted to $115 million.\(^{(1)}\)

2.3.2 Fiscal Policy:

2.3.2.1 Definition of fiscal policy:

Fiscal policy is the economic term that defines the set of principles and decisions of a government in setting the level of public expenditure and how that expenditure is funded. Fiscal policy and monetary policy are the macro economic tools that governments have at their disposal to manage the economy. Fiscal policy is the deliberate change in government spending, government borrowing or taxes to stimulate or slow down the economy. Fiscal policies include direct and indirect taxes such as excise tax, export tax, subsidies, and etc.\(^{(2)}\).

2.3.2.2 Export taxes:

An export tax is a tax collected on exported goods. As with tariffs, export taxes can be on a specific or an advalorem basis. In the United States of America, export taxes are unconstitutional since the US

\(^{(1)}\) Croatian Bank for Reconstruction and Development, Annual report, 2004
\(^{(2)}\) WWW. en.wikipedia.org. (encyclopedia website)
constitution contains a clause prohibiting their use. This was imposed due to the concerns of Southern cotton producers who exported much of their product to England and France.

However, many other countries employ export taxes. For example, Indonesia imposes taxes on palm oil exports; Madagascar impose tax on vanilla, coffee, pepper and cloves; Russia uses export taxes on petroleum, while Brazil imposed a 40% export tax on sugar in 1996. In December 1995 the European Union imposed a $32 per ton export tax on wheat(1).

One popular policy has been the use of an export tax on a raw product, the rationale for which has several dimensions. First, export tax may be used to reserve a larger quantity of that product for internal use to produce government revenue. At the same time, the export tax lowers the internal price of that product for domestic processors, which induces production of processed goods, thereby increasing the value – added captured. If increases in exports of the processed goods can be generated, more foreign exchange can be earned. The primary objective of export tax is to induce growth in the processing sector by lowering input costs. For example the government of Pakistan utilized an export tax on raw cotton fiber from 1988 to 1995. The policy had several direct impacts. First, the export tax held the internal market price for cotton below international market prices over the 1993 – 1998 periods. Export of cotton decreased significantly after the implementation of the

export tax in 1988. Although cotton production continued to increase, it became more erratic after 1988 and decreased by 1995. Also this policy transferred income that could be used to generate economic growth from cotton producers to yarn spinners. However, this study also found a large transfer of income out of the yarn sector. Under this policy also, the area devoted to cotton production increased by an average 40.980 hectares per year. Average real profit, however, was deceasing (-834 million rupees per year). Some of this loss in real profit is attributable to high inflation. Also, input prices increased substantially during the later part of the study period due to the decrease in government input subsidies. Real total output increased, on average, over the period (about 1.8 billion rupees per year).\(^{(1)}\)

Other empirical studies on the effect of export taxes have been conducted by Akiyama (1992), Bruce and Perez- Garcia (1992); Warr (1997); and Marks, Larson, and Pomeroy (1998). Akiyama (1992) examined the effect of an optimal tax on perennial crops (Cocoa) in a large country case. In particular, his research focused on an optimal export tax and its implications on producer surplus and government reserves. His results showed that export tax has significantly affected the distribution of national welfare between farmers and the government, and also significantly affected the long-run production of Cocoa. Bruce and Perez –Garcia (1992) examined the economic impact of U.S export tax on forest products using a competitive global trade

\(^{(1)}\) Hudson, Darren and Ethridge, Dan “The implication of an export tax on sectoral growth: A case in Pakistan”, Mississippi State University, 1998.
model. Their results showed a loss of consumer welfare in the U.S. and a large transfer of wealth from timber growers to processors. War (1997) conducted a similar study on Thailand’s rice export tax and calculated economic gains and losses. Finally, Marks, Larson, and Pomeroy (1998) analyzed the effect of an export tax for palm oil on the distribution of income in Indonesia using a static model. They found that an export tax reduced the price of palm oil product, ceteris paribus, thus, benefiting consumers. In addition, they found that the tax lowered profits earned by palm oil producers, and that processors lost slightly as well. The government gained revenue from the export tax, but lost more revenue in the government’s role as owners of palm estates. Thus, the net result was that the government lost with an export tax on palm oil. (1)

In general, the imposition of tax on export has the following impact: increases the prices of taxed goods, make direct restriction on production of the taxed commodity, cheapens the prices of non-taxed commodities, lower the money incomes of some people in the community whose resources are used in the taxed industry and similar resources in other firms, minimize the demand for the taxed commodities in the major world market if the demand for these goods is elastic. Therefore, due to these negative impacts of export taxes, we find that some industrial countries such as France, Germany, and

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United Kingdom usually try to encourage exports rather than to restrict them by imposition of taxation.(1)

2.3.2.3 **Excise Tax:**

Excise taxes are considered an indirect form of taxation because the government does not directly apply the tax. An intermediary, either the producer or merchant, is charged and then must pay the tax to the government. These taxes can be categorized in two ways:

- **Advalorem:** A fixed percentage on a particular good.
- **Specific:** A fixed dollar amount dependent upon the quantity purchased is charged.

Excise taxes are governmental levies on specific goods produced and consumed inside a country. They differ from sales taxes, which typically apply to all commodities other than those specifically exempted, and from tariffs, which usually apply only to foreign–made goods. In their modern form, excise taxes were first developed by Holland in the 17th century and established by law in England in 1643. Introduced into the Dutch colonies in America, the system spread to other colonies. Such taxes were first used by the federal government of US in 1791 and aroused great opposition. They were repealed (1802) in Thomas Jefferson’s administration. During the war of 1812 comprehensive excise taxes were levied again but were repealed in 1817. The taxes imposed during the civil war included an excise tax on

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all manufactured goods. Most of those were gradually repealed, and by 1883 only Liquor and Tobacco were taxed. The Spanish–American war saw a temporary expansion of excise taxes. In both World wars II such taxes were greatly increased; in World War II they were levied on fur’s, jewelry, and leather as well as on liquor, tobacco, and amusements. Nearly all the states and many municipalities levy excise taxes. The internal revenue service collects federal excise taxes in the United States.

An unusual example of an excise tax is found in the state of Hawaii. In lieu of sales tax, the state of Hawaii imposes a general excise tax or (GET) on all business activity in the state. The GET is charged at a rate of 4% for most business and 0.5% for wholesalers. The tax is imposed on all business entities, so in essence, the tax is collected at every level of production (material supplier to manufacturer to wholesaler to retailer) producing a “cascade effect” effectively adding 16-18% to the price of consumables purchased at retail. The GET is also charged on all business services activity such as real estate agent commission, lawyer fees and the like. With Hawaii’s industry heavily dependant on tourism and tourist spending, the state regularly raises nearly half its government revenues through the imposition of the general excise tax.

Excise duties usually have one of two purposes: to raise revenue or to discourage particular behavior. Taxes as those on sales of fuel, alcohol and tobacco are often justified on both grounds. Some economists
suggest that the optimal revenue raising taxes should be levied on sales of items having an inelastic demand, while behavior altering taxes should be levied where demand is elastic. Moreover, these taxes are usually waived or refunded on goods being exported, so as to encourage exports, though they are often re-imposed by the importing country. \(^{(1)}\)

The imposition of excise tax on intermediate inputs (such as petrol and diesel) distorts the allocation of resources. Also excise tax increases the cost of petrol and diesel that businesses use as intermediate inputs particularly in industries that use these fuels relatively intensively. This increases the output prices of such industries relative to the prices of other industries. This in turn, lowers demand for the output of the industries that use fuel relatively intensively, causing resources to leave them. Taxes on intermediate inputs fail the efficiency criterion because they distort consumption and production of commodities that are viable for export. The ability of businesses to pass on excise on inputs as higher prices depends on factors such as the level of competition. Excise tax can, for example, reduce exports (and potential exports) by feeding directly and indirectly into exporters cost structures. This is perhaps most obvious in the case of mining and agriculture exports, whose prices are set on world markets (price taker). Thus any increases of excise taxes among various inputs or among final processing goods that are viable for export will raise the cost of these commodities internationally and hence will

\(^{(1)}\) [WWW.answers.com](http://WWW.answers.com) (encyclopedia website).
reduce the competitiveness and earnings of exports. Therefore, some countries followed the process of excise tax reduction on inputs or in final processing goods. For example; the government of Australia during 2001-2002 reduced the excise on petrol and diesel and substituted it by the goods and services tax system (GSTS). This system reduced the taxation of intermediate inputs and shifted the incidence of tax on to final consumption, that is, the goods and services that consumers buy.\(^{(1)}\)

Also in India, the minister of finance in his budget 2006-2007 has proposed a cut in excise duty on locally produced small cars from 24 percent to 16 percent in order to encourage the production and export of small cars. These small cars here have been defined as petrol cars with an engine capacity not exceeding 1.200cc and not exceeding 4.000mm in length, and diesel cars of engine capacity not exceeding 1500cc and not exceeding 4000mm in length. Cars that would fall under the proposed definition include the Maruti 800, Wagon R, Zen, Alto, and Hyundai Santro. Maruti,s proposed swift diesel, which will come with a 1.3 liter diesel engine later this year is also likely to fall under this category. India is not he only country that now has a separate policy for small cars. Japan, Brazil, and Korea have similar policies so as to encourage the domestic automotive industry and exports. Also in India, for encouraging the production and agricultural exports, the farming inputs such as fertilizers and seeds are completely exempted from paying excise duty. According to the budget for 2006-2007, the

\(^{(1)}\) WWW. Aph.au (website of Australian parliament house)
government of India proposed a reduction of excise duty on pesticides from 16% to 8% so as to bring down costs of farming inputs.\(^{(1)}\)

**2.4.2.4 Export Tax Rebate Policy:**

Export tax rebate refers to the money the tax authority returns to exporting enterprises for the indirect tax they pay in the production and distribution processes. It is commonly practiced in international trade. This policy will help increase the amount of export. Some countries have adopted this type of policy i.e. China. At the same time, however, this rebate scheme has become a heavy fiscal burden on the central government. The main purpose of the export tax rebate policy is to avoid double taxation on exported goods and to enhance a country’s competitiveness in foreign markets. As far as WTO (World Trade Organization) is concerned, the practice is not illegal. In fact, under both the general agreement on tariffs and trade (GATT) and the WTO, the export tax rebate is not considered a “subsidy” so long as the tax rebate does not exceed the amount of tax paid to domestic tax authorities. Some countries have adopted this types of policy e.g. China as a part of various policies, making China the fifth largest export country in the world.\(^{(2)}\)

**2.3.2.5 Export Subsidies:**

Export subsidies are payments made by the government to encourage the export of specified products. As with taxes, subsidies can

\(^{(1)}\) [WWW.blonnet.com](http://WWW.blonnet.com)

be levied on a specific or advalorem basis. The most common product groups where exports subsidies are applied are agricultural and dairy products. One of the main export subsidy programs in the US is called the Export Enhancement Program (EEP). Its stated purpose is to help US farmers to compete with farm products from other subsidizing countries especially the European Union (EU), in targeted countries. The EEP’s major objectives are to challenge unfair trade practices, to expand US agricultural exports. Commodities eligible under EEP initiative are wheat, wheat flour, semolina, rice, frozen pork, frozen poultry, malt, vegetable oil, and table eggs.\(^{(1)}\)

As a result of European subsidy program, the EU became the largest sugar best producer and exporter in the world, with annual production at 17 million metric tons.\(^{(2)}\)

Furthermore, subsidy has direct impact on export, as it leads to increase the volume of production and exports.

**2.3.2.6 Custom Duty cut on Inputs:**

Custom duty is a tax on foreign goods upon importation. When a ship arrives in port a custom officer inspects the contents and charges a tax according to the tariff formula. Since the goods can not be landed until the tax is paid it is the easiest tax to collect, and the cost of collection is small. Smugglers of course seek to evade the tariff. This duty can be in form of ad valorem or specific tariff.\(^{(3)}\)

\(^{(1)}\) Suranovic, Steven, (2003), Ipid, pp 5-10  
\(^{(2)}\) WWW.en.wikipedia.org (encyclopedia)  
\(^{(3)}\) WWW.en.wikipedia.org (encyclopedia)
Custom duty reduction on imported inputs such raw material, intermediate inputs and capital goods for the purpose of producing export commodities in field of industry and agriculture will increase the productivity and production. Thus, will result in more earning for exported goods. Also the process of input duty reduction will induce exporters to establish new exportable firms in the economy. In addition, the cut of custom duty on inputs will increase the competitiveness of exported commodities in the world markets because this process will minimize the cost of domestic production. Moreover, the rise in the volume of exportable goods will encourage exporters to increase their export and looking for a new abroad markets in order to market their products. Also the availability of inputs for the agricultural and industrial sectors will help these sectors to avoid the problem of full exploitation of productive capacity.

For solving the problem of high cost of input supply, we find that many countries followed the process of custom duty reduction on inputs. This policy encourages producers and exporters to produce more and increase the competitiveness opportunities for their export internationally. In India, according to the budget 2003 announced at end of February 2003, there are some cuts and exemption on custom duties on inputs of hardware industry in order to encourage the production and export of this sector. These reforms on customs duty are as follows:
(1) Customs Duty on specified raw material /inputs used for manufacture of electronic components or optical fibers /cables reduced from 15 percent /5 percent to /Nil.

(2) Customs Duty on specified capital goods used for manufacture of electronic goods reduced from 15 percent /10 percent to /Nil.

(3) Specified infrastructure equipment for basic /cellular/ internet, radio paging and parts of such equipment exempted from basic custom duty.

(4) Laptops brought as part of baggage exempted from customs duty.\(^{(1)}\)

Also the customs duty on synthetic stones reduced from 12.5 percent to 5 percent, in un-worked corals from 30 percent to 10 percent and in polished diamonds from 5 percent to 3 percent that is in order to promote the industry and export of gem and Jewelry. With regards to Dubai and European countries, there is zero import duty on mentioned inputs in field of gem and jewelry industry.\(^{(2)}\)

Also with regards to Pakistan, according to the trade policy for the year 1999-2000, there were some reforms on custom duty. For encouraging the export, all direct and indirect exporters were provided the facility to import inputs through no duty no drawback, manufacturing in bond and other temporary import schemes without payment of customs duty. Also all exporters who are manufacturer can

\(^{(1)}\) WWW.expresscomputeronline.com
\(^{(2)}\) WWW.blommen.com
import their raw material requirements under certain temporary import schemes without payment of duties. (1)

2.3.3 Investment Policy:

2.3.3.1 Open –Door Policy and Foreign Direct Investment:

Liberalizing the rules governing Foreign Direct Investment (FDI) has been one of the most important reforms that helped develop china’s thriving export sector. Chinese firms were allowed to assemble and export goods made from imported parts and components, and the inflow of foreign capital and technology has enabled china’s manufacturing sector to expand production for export. Between 1979 and 1990 the cumulative total FDI into China was estimated at $20 billion. The bulk of this inflow took place following the significant liberalization of the rules governing FDI in 1984. As of 1990, more than 25,000 foreign – owned firm were reported to have contracted to invest in operation in china, and about 12,000 were in operation, all engaged in the assembly of imported parts and components for exports. These foreign – owned firms have undoubtedly contributed significantly to the growth of china’s export in recent years. For example, in 1985 foreign – owned firms accounted for only about 1percent of china’s total export, but their share rose dramatically to 17 percent by 1990. In 1990 alone, their exports accounted for almost three – quarters of the growth in china’s export.2

(2) Park, Jong, (1993), Ipid.
Chapter Three

Export Promotion Policies in the Sudan

(in the period 1990-2005)
Chapter Three

Policies of Export Promotion in the Sudan

3.1 The Economic Structure of the Sudan:

Sudan, one of the poorest economies in Africa, is basically an agricultural economy. However, the development of the oil-exporting industry (since 2000) has made substantial shift in its economic structure. The data for 2003 indicated that the services sector is the leading contributing sector of GDP. The contributions of the services, the agricultural and industrial sector were 41%, 38.7%, and 20.3% respectively. (1)

The data for 2004 indicated that the agricultural sector was the leading sector. The contributions of the agriculture, services and industry were 39.2%, 32.8 and 28.0% respectively. In 2005 also the recoded figures showed that the agricultural sector was the leading contributing sector of the GDP. The contributions of the agriculture, services and industry were 36.6%, 32.8% and 27.8% respectively. (2)

With more than half of the state budget devoted to the war effort, economic development has been going slowly, due to severe shortage of foreign exchange, inadequate infrastructure and exorbitant debt. Sudan’s GDP grew by 6% in 1999 and inflation dropped sharply to

(1) WWW.ioso.co.za

16% after peaking at 166% in 1996. The inflation rate fell down to 8.8% in (2000) and the GDP real growth rate for 2004 was 5.9%. The GDP growth was attributed to oil, whose share in exports has been increasing sharply since 1999. Oil exports constituted more than 80% of export earnings. GDP growth, driven by development in the oil sector, was expected to remain strong in the next few years.

3.1.1 Agriculture, forestry and fishing:

The agricultural sector is the most important sector of the economy, employing 80% of the workforce in 1998 and contributing about 40% to GDP in 2003. Pastoralism and small-scale farming exist, beside the rain-fed mechanized schemes and the huge irrigation schemes. Al Gezira scheme is the country largest irrigation scheme and the most important historically and economically. More than 10-15 farmers and their families operate the scheme in partnership with government. An estimated 5% of potential arable land is cultivated and less than 1% is irrigated. The traditional farming areas are semi-arid. The main food crops are sorghum (Dura), groundnuts, sugar-cane, dates, cassava, wheat and beans. Cotton was traditionally the main cash crop especially in the 1970s. In the mid-1990s it was replaced by sesame which earned around 21% of export earnings. Gum Arabic is one of the important exports, but its earnings have been declining since the mid-1990s. Livestock has been constituting an important part of the agricultural economy, particularly in the traditional sector. Goats are important assets owned by the poor rural household in western Sudan.
Sudan has a significant hide and skin sector. Sudan owns substantial fresh water and marine fishing potential, but the Nile fisheries are barely exploited.

3.1.2 Industry and Manufacturing:

The industrial sector contributed 20.3% to GDP in 2003 and employed 7% of the total work force by 1998. In 1999, the industrial sector share in GDP was 15% and in 2000 rose sharply to 20.6%, due to the entry of petroleum revenues, the rate decreased to 20.3% by 2003. The activity centered on the processing of agricultural products, particularly, textile, sugar, flour, oilseeds and footwear. But the main challenges facing the industrial sector are the shortage of imported inputs, power cuts and lack of skilled manpower.

3.1.3 Foreign Trade Sector:

3.1.3.1 Imports:

Sudan's main import commodities are manufactured goods, foodstuff, medicines, chemicals, wheat, refinery and transport equipments. Principal source of imports are China, United Kingdom and Saudi Arabia. (1)

(1) WWW.isso.com.za
Exports:

Like many developing countries Sudan exports are mainly raw materials and primary products. These products are: cotton and cotton seeds, gum Arabic, sesame, hides and skins, cattle and sheep, dura, groundnuts, oil and its derivatives, minerals (especially gold) and others.\(^{(1)}\)

Over the period 1970s cotton was the country’s main export. According to the available data in the year 1973 the share of cotton and cotton seeds was 55.8% of the total exports earning. But in the 1990s the position of cotton sharply deteriorated. Most efforts were directed towards production of foodstuff commodities, strategic industries and oil production.\(^{(2)}\)

With regards to the period 1971-1977 we found that the combined share (ranked in order of importance) of cotton, groundnuts, sesame, Gum Arabic, livestock and sorghum accounted for 88 percent of total exports. Cotton was by far the dominant export crop during that period with an average share of about 53 percent of total exports followed by groundnuts with an average share of 14 percent. Over the period 1978-1984 the commodity composition of Sudanese have an average share of 89 percent of total exports. In terms of relative importance, cotton crop maintained its dominating position as the

\(^{(1)}\) Elhassan, Moh, Ali,1996
leading export crop, albeit at a reduced share of 45 percent. A significant reordering, however, occurred in the position of other crops. Sorghum came to rank second with an average share of 10 percent of total exports followed by groundnuts and sesame with 9 percent each. Over the period 1985-1989 the average combined share (ranked in order of importance) of cotton, gum Arabic, sesame, livestock, sorghum and groundnuts accounted for about 81 percent of total exports. During this period cotton continued to be the dominant export crop with an average share of 41% percent of total exports followed by Gum Arabic with an average 13 percent, Sesame with a share of 10%, livestock 9%, sorghum 6% and groundnuts 3%. Over the period of 1990-1998 the commodity composition of exports remained unchanged. The above mentioned major six export crops average on contributed 77% of total export. During this period, cotton lost its dominating position as the leading export crop, with reduced share of 25% of total exports. A significant reordering of the other crop also occurred. Livestock and Sesame became the second most important export commodities each with an average share of about 16% of total exports.\(^{(1)}\)

Over the period 1999-2005 the average share of major Sudanese exports e.g. Gum Arabic, livestock, Sesame, Cotton and Groundnuts were 1.88%, 5.9%, 6.13%, 3.23% and 0.13% respectively. The total contribution of these agricultural crops during this period was only

17% of total export earnings. The average decline of participation of these crops in total exports is 60%.\(^{(1)}\) Oil export has recently become one important source of Sudanese export. In August 1999 Sudan exported its first oil shipment. The advent of oil will have important impact on the composition of exports and Sudan’s production structure. According to IMF, the total yearly production of oil amounted to about 52.8 million barrels of which total cost of production amounted to 22.18 million barrels (i.e. 42% of total production). The total gross revenues generated by the government from oil in 2000 amounted to about US$ 360 million. Net government revenue from oil, after deducting oil related loan repayments, amounted to US$ 292 million. The share of the oil sector in GDP will increase from about 4% in 2000 to 6.4% in 2005 and that the value of crude oil exports increased from about US$813 million in 2000 to about US$1.1 billion in 2005. The share of oil exports in total exports has already started to dominate the exports composition where it reached 35.4% in 1999.\(^{(2)}\).

3.1.3.2.1 Problems of Sudanese Exports:

There are some problems facing the Sudanese exports, especially the agricultural exports. These mainly include the following:

The shortage in the amount of rain fall, disencouraging of economic and trade policies (especially in the fields of licenses and pricing restrictions on profits margins, unrealistic exchange rates, restrictions on exports earnings transfers), intervention of government in the affairs of irrigated agriculture, e.g. determination of irrigated lands in the agricultural schemes, specification of types of crops have to be grown, direct intervention in the contracts which concern the cleaning of channels, agricultural operations, input procurement and the dependence on public sector institutions to fulfill the majority of agricultural operations. These procedures played a negative role in the field of production, exports and performance of irrigated schemes. In other words, the dealing of some crops such as Cotton and Gum Arabic by unrealistic exchange rate for the local currency caused sharp decline in the amount of earnings to the producers which led to decrease in the volume of exports. So the average growth rate of total exports over the period 1976-1989 was -.3%. In addition, the shortage and high cost of agricultural inputs have direct effects on the amount of production. As well the insufficient finance of agricultural operations has negative impact on the volume of production and exported crops. Also the decline in the specialized area for cotton and increase in the available area for nutritive crops led to a decline in the amount of cotton exported. Moreover, the problems; which are related to the crops production is the deterioration of basic infrastructure in the field of irrigated agriculture (especially in the field of irrigated system and agricultural mechanisms) due to the lack of hard currency and shortage
of foreign finance loans. All these problems mentioned above led to more decline in the volume of production in the irrigated schemes and hence led to much deterioration in the amount and value of exports. Furthermore, with regard to internal marketing policies we find that these policies are not in favor of the producers. The marketing of the main export commodities such as Cotton and Gum Arabic are monopolized by deterministic public companies which are suffering from weak performance. The operation of those inefficient public institutes caused more loses for the main producers of these commodities. With regard to the condition of world markets, the marketing of Sudanese exports are restricted to limited markets. For example in the year 1995, 53% percent of Sudan’s exports were directed to only four markets namely, Saudi Arabia about (20%), United Kingdom (14%), China (11%), and Italy (8%). But with regards to Cotton, the amount exported to China constituted 45% of total exported cotton, and Thailand bought about (16%) of total export of cotton. In 1996 the volume of Cotton exported to China declined due to the increase in the amount of Cotton production in China. Also with regard to export of Gum Arabic, the amount exported to United States of America and France accounted for 45% of the total exported Gum Arabic. The amount of sesame exported to Saudi Arabia and Egypt constituted 33% percent of total exported Sesame. Another problem facing the Sudanese exports is the instability of production of some of the main Sudan’s export crops. Vulnerability and risks associated with
the production most of the Sudan's exports led to lose of customers the international markets.\(^{(1)}\)

In addition the Sudan’s exports have faced others problems e.g. absence of integrated exportation policies, the dependence on the export of surpluses, insufficient export finance, absence of trained cadres in the field of export, broadening of smuggling for some export crops under phenomenon of multi taxes and fees.\(^{(1)}\)

3.1.4 Labor market, unemployment and Mining:

In 1999 the labor force totaled 9.7 million and the female participation rate 56%. There is a lack of skilled labor in almost all economic activity. Unemployment was estimated at 18.7%in 2002.

Sudan has very large mineral deposits, but exploration and extraction has been made difficult by political instability. Whole Chromites are extracted from Ingessana Hills, near the Ethiopian border; gold and gypsum are mined in the Red Sea Hills. Other mineral deposits few of which are found in sufficient quantities to warrant extraction include lead, zinc, cooper, nickel, talc and tin.\(^{(2)}\)

\(^{(1)}\) Musa.S.O A, 2000), Ipid.
\(^{(1)}\) Ministry of Foreign Trade, "Suggestions for Development of the Major Exports Commodities", 20002
\(^{(2)}\) WWW.isso.com.za
3.2 Export Promotion Policies in the Sudan:

3.2.1 Literature Review on Export Promotion Policies in the Sudan

Some empirical studies on the effect of export promotion policies in Sudan on exports volume and earnings have been conducted by various researchers.

Abdalla (1998) examined the effect of exchange rate devaluation and export taxes on export earnings using analytical and experimental approaches. His results showed that in spite of consequent devaluation in exchange rate of the Sudanese currency, the response of export is very weak. The Sudanese exports still are affected negatively by many imposed taxes governmental at various levels such as state level, federal level and local level resulting in rising lost of production and reducing the competitiveness of Sudanese exports.\(^{(1)}\)

The ministry of commerce in collaboration with the Irish export board (1979) conducted a report on the main threats to Sudanese exports. The report showed that the main obstacles to Sudanese export development are the following:

(i) Absence of a single, competently prepared comprehensive plan for export development.

(ii) Absence of a single organization with identified responsibility for export development and promotion.

(iii) Inadequate infra-structural facility.

(iv) Lack of efficient and skilled and competent managerial and supervisory people in most sectors of the economy.

(v) Smallness of the volume of production of exports in the.

(vi) Some products are threatened by diseases such as Oflotoxin on Sudan's groundnuts and the increasing incidence of stickiness caused by white–fly infestation of Sudan cotton.⁽¹⁾

Eldawi (1998) conducted a study to know the effect of government policies on export proceeds using analytical and experimental approach.

The study found that:

1. The export promotion council in the Sudan does not serve the interests of small exporters, because the prices of export commodities are set by the large exporters who often suggest prices based on their own interest.

2. The cost of finance has been very high because banks rate of profits on lending were very high reaching 7% per month in 1997. The high cost of borrowing increase the cost of production, reduce the competitiveness of exports and low producer's profits level.

3. The difference between the official exchange rate (banking selling rate for exporters) and market exchange rate in the year 1995 was 50% which helped to discourage the flow of export.⁽¹⁾

⁽¹⁾ Irish export board (1979), "Report on project for export trade development and promotion", published by Irish Export Board, pp20-21
⁽²⁾ Eldawi, Abbas Issam, Op cit, p 43, 45, 46.
3.2.2 Monetary and Credit Policy

3.2.2.1 Monetary Policy:

Sudan adopted many monetary policies in order to encourage its export.

3.2.2.1.1 Some Empirical Studies Concerning Sudanese Currency Devaluation:

In the year (1980) Nashashibi conducted the major Sudanese a sectoral study to help the policy –makers in designing exchange rate policy, trade, and investment policies that will improve the competitiveness of some Sudanese exports. He concluded that the devaluation of Sudanese currency will improve the competitiveness of exports and as well strengthen the position of balance of payments. In the year 1982, Ali Abdelgadir Ali used Nashashibi model and found that the devaluation can not improve the profitability and competitiveness of exports. In the year 1984, Mohammed Noraldeen Hassin applied the export competitiveness approach for the Sudan and reported that devaluation of exchange rate by 1% would cause a decline of exports earnings by 1.02%. And therefore, the policy of devaluation would not encourage the Sudanese exports. Successively, in the year 1985, Haj Diab estimated Taylor model which was based on national income account in the Sudan. The study confirmed that the
modification of prices according to alteration of exchange rate will not improve Sudanese exports. (1).

3.2.2.1.2 Policy of exchange rate devaluation in the Sudan:

In October 1984, the free exchange rate was 0.47 dollars per Sudanese pound, but the official rate was 0.76 dollars per Sudanese pound. On 7 February 1985, the exchanges companies had been closed down and the free exchange rate was devaluated to equal 0.33 dollars per Sudanese pound. On 19 February 1985 the official rate has been amended to become 0.4 dollars per Sudanese pound. Many amendments have been carried out in the free exchange rate during the year 1985 to become in the range between 0.29-0.33 dollars per Sudanese pound. In 1986 the free exchange became 0.4 dollar per Sudanese pound (buying price) and 0.23 dollar per Sudanese pound (selling price) but the official rate was equal to 0.4 dollar per pound. October, 1987, the free and official exchange rate had been unified to become 0.22 dollars per Sudanese pound from the minister of finance. On 19 April 1988, the private dollar counting exchange rate associated with Egypt had been changed from 0.3 counting – dollar per pound to 0.24 counting – dollar per pound. In October, 1988 the free exchange rate became 0.08 dollar per Sudanese pound. It was determined by a committee dealing with free market recourses based on daily regulation according to the demand and supply forces, but the official rate remained as it was 0.22 dollar per pound. Due to the amendment in

(1) Abdalilha, M, M, (1998), Ipid
In 1988, the commercial banks brought 70% of their earnings to the Bank of Sudan at the official rate, while the remaining 30% came through the free market rate. In the early nineties, many efforts were made to overcome the economic crises. The 'Economic Salvation Program (90/91-92/93)' was introduced in October 1989. This program aimed to liberalize the economy by reducing or eliminating barriers to market forces, such as exchange rate and resource allocation. In 1991, the official rate was devalued to 0.7 dollars per pound, and the free rate was set at 0.3 dollars per pound. In February 1992, the announcement about the liberalization policies completed the Sudanese economy. This resulted in the gap between the official and free market exchange rates closing, and a unified free market rate announced to deal with foreign currency.

In October 1993, the unified free market was closed, and two windows were opened to deal with foreign currency. These are the Central Bank of Sudan window, where the exchange rate is determined by the Ministry of Finance and the Bank of Sudan, and the commercial banks' exchanges window, decided by the Union of Exchanges. The exchange rate determined by the Central Bank window was 0.004 dollars per pound, and that of the commercial banks' exchanges window was 0.0033 dollars per pound. By the end of 1993, the Central Bank window...
rate become as it was (0.004 dollar per pound) but the banks exchange rate devaluated to 0.0030 dollar per pound. In July, 1994, according to the economic liberalization policies, the two windows system is closed and allowed the commercial banks to buy and sell the foreign currency according to the demand and supply factors away from speculation, the central bank will determine the weighted average of exchange rate according to the realistic rates announced by the commercial banks. In 1995, going on with the liberalization policies, and reaching to the unification and the stability of exchange rate, the exchanges companies have been established. Then the exchange rate weighted average for the bank of Sudan was determined from the daily rates of commercial banks and exchanges companies. During the 1995 the exchange rate was devaluated by 57% it reached to 0.0013 dollar per pound. In February 1997, the regime of creeping exchange rate was announced, which successed in the stability of exchange rate and narrowing the gap between the exchange rates in parallel market and free market. The gap was decreased to 6.9% by the end of December 1997 compared with 22% before February 1997. By March 1998, the exchange rate determination committee was stopped and the banks and the exchanges companies become having an absolute freedom to determine the buying and selling prices of exchange rates. The Bank of Sudan determines the weighted moving average of exchange rate and announces the official rate of the Bank of Sudan. In October 1998, the official and parallel exchange rates have been unified.\(^{(1)}\)

\(^{(1)}\) Mohammed, E, M, (2005), The new changes in economic and developmental system in Suda
During the years, 1999, 2000, 2001, 2002, 2003, 2004, 2005, the average exchange rate as follows respectively (pound per dollar) 2525.5, 2572.1, 2584, 2633.9, 2610, 2578, 2451. (1)

Despite the continuous devaluation in exchange rate, the response of exports was very weak due to the following reasons:

(1) Most of Sudan’s exports are traditional commodities. The international markets of these commodities grow slowly compared to the manufactured commodities. Usually these commodities face condition of trade exchange that is not in favor of them. So focusing on traditional commodities can cause instability in exports earnings due to unstable prices in the world market. Regarding the imports, it is observed that the majority of Sudanese imports are basic commodities and rising in their prices via the way of exchange rate devaluation will not lead to a decrease in their importing. Most imports represent essential commodities like raw metrical 27%, food stuff 15%, manufactured commodities 20% and machines 15% and other commodities whether used for local consumption or as inputs for production. (2). Devaluation of exchange rate put a lot of pressures on the budget of the country because it leads to an increase in government’s import, this raises government expenditures which in its turn lead to increase in the size of governmental financing deficit. This also resulted in inflation rate and the increase of the prices of commodities that can be exchanged commercially. This

(1) The National Center for Media Production, (2005), Achievement of Ministry of Foreign Trade- Khartoum, p, 76
minimized the profit and competitiveness of the exports. (3) Most of the Sudanese export depends on imported inputs such as petroleum derivatives, spare parts, chemical, insect's killers, tools, fertilizers, agricultural tools and equipments. So any devaluation in exchange rate leads to increase in costs of productions and reduces the competitiveness of the exports in the international market. We can say that the opinion which says that devaluation in the exchange rate encourages the export and reduces the imports dose not apply for the case of Sudan.(1).

3.2.2.1.3 Other Monetary Policies for Export Encouragement:

3.2.2.1.3.1 Retention Policy:

Retention policy is to give average earnings of exports to exporters in foreign currencies in order to encourage them by realistic prices also so as to help them to finance their imports for the purposes of production. The retention policy has been applied in two periods:

The first period: June 1990 to the February 1992:

The law dealing with foreign currency was amended in June 1990 to include the retention policy in accordance to specified basis; the most important of which was that exporter deserves the rate of retention in a separate account in one of the commercial banks to import the commodities decided by the bank of Sudan. Two retained commodities were identified (basic commodities and other commodities). The

retention policy during this period contributed to importing many agricultural and industrial inputs.

**The second period: May 1995 to December 1997:**

Bank of Sudan issued a circular to the department of foreign exchange, dated 17 May 1995. In this circular it was decided to retain 50% of the exports earning of some exported commodities: cattle’s and meats, rain fall cotton, sunflower seeds, vegetable and fruits and all manufactured commodities. The exporters have absolute freedom to use the earning of retained commodities in importing provided that it will be brought completely to the Sudan. We can say that retention policy has encouraged the production of manufactured commodities for export, because the retained average helps to import production inputs and also sale from account to account gives good profit to the exporter \(^{(1)}\).

**3.2.2.1.3.2 Specialization policy:**

Specialization policy means giving all earnings of exports to exporters or commercial banks to import certain commodities such as wheat. In June 1994 the policy of specialization was implemented, it aims at increasing the share of commercial bank from foreign resources currency, 70% from total earnings of exports was given for non-cotton and Gum Arabic, 55% from irrigated cotton. The situation gradually continued by giving a portion of 100% from exports earning to private sector to reduce the dependency on bank of Sudan for

importing the strategic commodities. In 1999 $21 million was specialized for importing petrol. This rate represents 68% from the total approved in specialization policy and also covering 7% from total imported petrol ($305 million). Also $24 million was specialized to import wheat to cover the food gap that resulted due to concentration on cotton cultivation. This amount represents 81% from total imported wheat ($29.7 million). Also this policy contributed to import empty sacks which represent 19% from total imported sacks. (1)

3.2.2.2 Credit policy:

Credit policy is one policy adopted in the Sudan in order to encourage export. Below are the salient policies adopted to encourage export during the period 1983-2005:

1983:

Commercial Banks were directed by the Central Bank to finance exports. Special attention should be given to some peripheried commodities (1)* and apply preferential interest rate for these commodities. (2)

1984:

Again Banks were directed to give priority to export finance. (3)

(1)* (1) cake and meal(2) vegetables(3)fruits(4)molasses(5)hides of creeping animals(6)folkloric and hand made goods(7)manufactured forage(8)textiles made from cotton(9)raw iron, mica and other scrap metals
(2) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Administration of research and statistics, p, 201
(3) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p, 19
1985:

(1) Beside giving maximum concern to export finance, banks should try to create conducive climate when they intend to determine profit-margin in case of murabaha mode of finance (2) Banks also should extend their credit to finance purchasing and storage of sesame and groundnuts for the purpose of exportation (3) Exportation should take place under open letters of credit not viable for cancellation. (\(^1\))

1986:

(1) Each bank should allocate a percentage not less than 30% of the total banking finance to export sector (2) banks are allowed to extend credit to finance purchasing and storage of sesame, Gum Arabic and groundnuts under the condition that finance should flow directly to the Sudan company for oil seeds CO. LTD or to the traders of crops who have contracts with this company. (\(^2\))

1987:

(1) Banks should observe that percentage rate of credit extended to priority sectors should not be less than 80% of the total credit allocation for each bank. We mean by priority sectors the following sectors:

(i) Export sector (ii) operational capital for industry (iii) operational capital for agriculture (iv) craftsmen (v) developmental finance; medium and long term finance.

\(^1\) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p, 27-28
\(^2\) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p, 33-34, 41
(2) Financing of sesame export should flow directly through company of oil seeds or through traders who have contract with this company. (1)

1988:

(1) Banks should apply preferential mode of finance to encourage export (2) banks are permitted to allocate credit to finance any of the following crops: (i) to finance the operation of purchasing sorghum for the purpose of exportation (ii) to finance traders to buy groundnuts and sesame for the above purpose.

(3) In the field of export regulation, the completion of export finance process should be under open letter of credit and the exported commodities should be under direct bank supervision. (2)

1989:

(1) Banks are allowed to offer credit only to the Sudan company for oil seeds or to the their agents to purchase sesame for exportation purpose

(2) Export credit should take place under open letters of credit not viable for cancellation and the exported goods should be under the control of the banks. But there is an exemption for Sudan Company for oil seeds from this condition. (3)

1990:

(1) Banks are permitted to extend their credit to finance purchasing of sesame for the purpose of export to the following:

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(1) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p,49-50
(2) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p,58
(3) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p,66
(i) Sudan Company for oil seeds CO.LTD.
(ii) Gezera Company for commerce and services.
(iii) Coptrade Company CO.LTD.
(iv) Cooperative and commercial institute.
(v) National cooperative union.

(2) Banks should closely follow up export processes, storage and transport of goods subject to finance that all these should take place under their direct supervision and in their names. But in case of the nature of the commodity subject to financing, and or its location does not permit banks direct supervision, then the banks should obtain sufficient securities.

In this year there is some change in the set of priority sectors; that is the transport and storage sector were replaced by the sector of development.(1)

1991-1992:

The economic liberalization policy was declared. According to this policy barriers for finance should be removed.

1991:

(1)Export financing is only confined to musharaka, murabaha and restricted mudaraba modes on the condition that export finance under restricted mudaraba mode will be approved after opening a letter of credit in favor of the speculator.

(1)Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p, 76-77
In addition to the previous priority sectors we have the following sectors:

(1) Mining sector  (2) small producers and professionals  (3) housing sector. (1).

1993:

Banks should observe that percentage rate of credit extended to priority sectors should not be less than 90% of the total credit allocation in each bank. In addition to the previous priority sectors we have the following sector:

(1) Financing the import of medicines and related raw materials. (2)

1994:

The same above policy was adopted. (3)

1995:

(1) Export credit confined only under murabaha, musharaka and restricted mudaraba by the following conditions:

(i) In case of finance through restricted mudaraba, credit should be approved after opening a letter of credit not viable for cancellation
(ii) Banks should monitor the process of exportation (iii) The share of agent in total amount of finance should not exceed 25% under musharaka mode of finance. (4)

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(1) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, Ipid, p, 83, 87
(2) Bank of Sudan, circular of credit policy for the period 1993/1994, p, 3
(3) Bank of Sudan, circular of credit policy for the period, 1994/1995, p, 3-4
(4) Bank of Sudan, circular of credit policy for the transitional year July- December, 1995, p, 5-8
1996:

(1) Export finance regulation was typical to the one mentioned before, but there is some addition, that the credit should not be extended to negligent exporters except upon prior approval from the Bank of Sudan (2) Banks should observe that the share of agent under musharaka mode should not be less than 20% from the total of finance (3) In case of murabaha mode, the profit–margin should not be less than 30%.( ¹)

1997:

(1) In case of export finance, the share of client should not be less than 40% under musharaka mode, and under murabaha mode, the profit-margin should not be less than 40% .( ²)

(2) The mudaraba profit-margin has been modified to be 45% from the total of finance in case of export credit.(³)

1998:

(1) Export finance regulation was not different from the one adopted before (2) The percentage share of agent should not be less than 36% of total amount of finance allocation in each bank under musharaka mode.(⁴)

1999:

(¹) Bank of Sudan, circular of credit policy for the year,1996, p, 4-6
(⁴) Bank of Sudan, The Credit Policy for the year 1998, p, 4-6
(1) To realize the best possible utilization of resources, banks should observe that the percentage rate of credit extended to priority sectors should not be less than 95% of the total credit allocation in each bank. Finance to small producers, craftsmen and productive families should not be less than 5% of the total financing. (2) Application of 20% minimum murabaha profit-margin in case of export sector. Also the commercial banks are permitted to determine the musharaka percentage, management remuneration margins in case of musharaka contracts and the share of speculator in mudaraba contracts for all sectors including export sector. (3) In addition to the above modes of export finance banks are allowed to use murabaha contract in case where the bank is not able to purchase the commodity by itself or by its agent. (1)

2000:

(1) Banks should observe that the percentage rate of credit extended to priority sectors should not be less than 90% of the total credit allocation in each bank. (2) Export finance regulation was the same one adopted before. (2)

2001-2004:

Banks are permitted to finance all sectors and activities except those prohibited by the bank of Sudan such as: purchasing of foreign currencies, purchasing of bonds and loans to exchanges companies.

(1) Bank of Sudan, The circular of monetary and credit policy for the year 1999, p, 2-3
(2) Bank of Sudan, The circular of monetary and credit policy for the year 2000- pp,2,4
Also banks are allowed to offer credit by any mode of Islamic finance except absolute mudaraba mode. (1)

2005:

The same above credit policy have been adopted. (2)

3.2.2.3 Policies of Foreign Currency Administration:

There are some policies issued by the foreign currency administration so as to encourage the movement of export which are as follows:

1. Adoption of export guarantee system so as to encourage non-petroleum exports by improving their ability to compete in the world market, to ease their finance and minimize the risk of export failure.

2. Establishment of national Agency for insurance and finance of non-petroleum export. This agency is established by the effort of the central bank of Sudan besides other governmental units.

3. Continuation in using others foreign currencies beside American dollar in external dealings, in order to support the ability of competitiveness of Sudanese exports in the international market and minimize the risk of exchange rate fluctuations. (3)

3.2.3 Some Selected Fiscal Policies targeting Export Encouragement for the period 1990-2005:

Sudan has adopted various fiscal polices in order to promote and increase its exports volume as shown bellow:

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(1) Bank of Sudan, (2005), The monetary and credit policy for the period 1983-2004, pp, 183,189,193,197
(2) Bank of Sudan, The circular of monetary and credit policy for the year, 2005, p, 2
(3) Bank of Sudan, The policies of the bank for the year 2005.
3.2.3.1 Fiscal Policy under the Third Economic Salvation Program:

According to the Third Economic Salvation Program (1990/91-1993), some amendments were announced in order to induce the farmers to produce more so as to export more. Taxes and fees in agricultural sector were reduced as follow:

(i) Reduction of export tax from 8% to 5% with exemption of cotton.

(ii) Reduction of excise tax from 5% to 2%.

(iii) Reduction and abolition of the majority of fees in the field of export, production and marketing.

(iv) Reduction of production inputs duties.

(v) Reduction of "ashur" from 16% to 8%.

Also some steps were taken in the field of tax system such as; raising tax exemption levels for small producers with the objective of encouraging production in order to increase the volume of export, reducing the maximum rate applied on business profit tax so as to encourage the activities of businessmen in various sectors including export sector.

A review of excise duties is called for in case of the introduction of general sales tax on domestically produced goods to avoid double
taxation, and to induce manufacturer to increase their products for the local consumption and export of the surpluses. (1)

Despite all these reforms, still the reality is that exports are suffering more from the imposition of fees and taxes on different levels, national level, states level, and local level. This has negatively affected the profit and operations in the field of export sector. (2)

3.2.3.2 Fiscal Policy under Comprehensive National Strategy (1992-2002):

According to the comprehensive national strategy 1992-2002, the fiscal strategy which aims to push up export was spelled out as follows:

1. Liberalizing markets and prices in order to exchange commodities freely.

2. Relying more on direct taxes and less on indirect taxes.

   This means that, there is an intention for reducing export tax, excise duties and custom duties.

3. Reviewing taxes rates in order to induce foreign and local investment as well as private savings and small and medium – sized entrepreneurs and producers. This policy aims to raise the performance of all sectors in the economy including export sector.

(1) Some reflection on economic liberalization in Sudan, discussion paper no, 32, page, 20-22, IssacBior, Bremen university- Germany, 200
4. Reviewing the rates of excise duties on regular basis so as to be in conformity with changing conditions.

The policy targeted this duty because it has a strong relation with production.

5. Protecting the local industries by raising tax rates on imports.

6. Strengthening the units which combat smuggling, because the full combating of smuggling will help in regulation of export flow.

7. The states should give priority to spending on states, provincial and local development in order to strengthen infrastructure for development.

8. Continuous consultations and full coordination between the states and central government and between the states themselves on issues of taxes and excise duties, of which the two are strongly related to the production process and exports, have full correlation with production surplus.

9. In addition to the above policies, the following policies are implemented to promote trade and encourage exports:

(I) in 1999 export ban on raw skins and hides was eliminated.

(II)In the year 2000 the export tax on cotton was eliminated.\(^{(1)}\)

\(^{(1)}\) Some reflection on economic Liberalization in Sudan, Ibid, page 78. discussion paper no, 32, Bior, Deng, Bior, Issac, Bremen university- Germany, 200
10. Some amendments were also made in September 1996 which included the following:
   (I) minimizing the size of fees and taxes of states
   (II) abolition of transport fees
   (III) reduction of profit taxes in agricultural sector form 40% to 35%.

3.2.3.3 The Fiscal Policy during the period 2000-2005:

During this period the following fiscal measures were introduced to increase productivity, reduce costs, and therefore improve competitiveness of exports in the world market:

1. Encourage domestic and foreign investment in the export sector particularly in supporting services such as storage, transport, sifting, packing, sorting, marketing and sea port services, and ensure quality standards of exports.

2. Direct macro-economic and sectoral policies towards increasing productivity of agricultural, industrial and energy sectors with emphasis on livestock and horticultural products.

3. Continue abolishing of duties on exports.

4. Exempting capital goods from custom duties while maintaining close collaboration with relevant executing government agencies.

5. Adjusting the excise duties on sugar to become 14%.

6. Reducing the excise duties on saloon cars from 40% to 10%

7. Exempting cargo vehicles from the excise duties.

8. Reducing the excise duty on cement from 40% to 20%.

9. Exempting gasoline from excise duties (SD 838 per ton).
10. Exempting benzene from the excise duties (SD 2000 per ton).\(^{(1)}\)

11. Abolishing of taxes on agricultural sector and reducing it on industrial sector in order to encourage production process.

12. Continuing on subsidizing fuel and electricity and reviewing it in favor of production and development.

13. Reviewing the framework of direct taxes.

14. Continuing abolishment of taxes on non-petroleum exports.

15. Reducing of taxes on public participating companies including export companies by 15%.

16. Using the foreign reserve to finance the import of capital commodities, steel and cement, that push up the movement of economic activities especially exports.

17. Removal of bottleneck on infrastructures.

18. Promoting cooperation with regional and international organizations and foreign banks in order to attract more financial resources to finance export.

19. Encouraging the investment on services which help in promoting export commodities.

20. Encouraging the establishment of specialized public companies in the field of export.

21. Benefiting from the experiences of international and regional institutes in the field of insurance and finance of export.

22. Encouraging the agricultural and animal production and subsidizing the expenditures of marketing and promoting services.

23. Modernizing and developing the national payment system to match with international payment system.

24. Increasing the amount of subsidy which will be offered by the Ministry of Finance to the states which cease to collect fees and taxes on agricultural goods and their exports.

25. Establishment of industrial development bank in order to help manufacturers to increase industrial goods for the purpose of export and rehabilitate the damaged industrial capacities.

26. Transferring more resources to states in order to increase their own resources and managerial abilities.

27. Granting more fund to agricultural sector.\(^{(1)}\)

3.4.4 Trade Policies:

The trade reforms which were introduced in the early 1990s, as part of overall program of economic reforms aimed mainly at remedying the decline in exports earnings. In the external sector (export + import) the ultimate aim was to narrow the balance of payments gap to an acceptable level.

\(^{(1)}\) Ministry of Finance and National Economy, Performance of the Sudanese Economy for the period 2000-2005
The National Economic Salvation Program 1990-1993 set out the reforms in the external sector as follows:

1. Strengthening of steps taken to increase exports, especially export of cattle and sheep, non-traditional exports and new exports like corn.

2. Abolition of market monopolies for all agricultural goods, starting with oil seeds at the beginning of the new season.

3. Abolition of export license system and limiting the procedure to a simple recording system for statistical purposes and the monitoring of repatriation of proceeds.

4. Maintaining the restriction on barter trade, self-financing system and nil –value.

5. Expanding of the facilities of the Duty Free Shops Corporation to cover main commodities.

6. Strengthening of the existing procedures and laws against for smuggling and control and organization of border trade.

The comprehensive National Strategy 1992-2002 reaffirmed the following export promotion policies:

1. Liberalization of internal trade and activities

2. Abolition and/or reduction of export duties.

3. Increasing value –added by encouraging agro-industries and processing of agricultural products.
4. Simplifying export procedures by reducing the number of agencies dealing with different aspects of exportation and by creating more awareness of laws and regulation on exports.

5. Satisfying the requirement of packing and quality control,

6. Opening new markets abroad by intensifying trade promotion activities, making maximum use of international and regional organizations, and by establishing more honorary consulates and economic attaches.

7. Establishing a livestock export chamber,

8. Involving the private sector in the formulation of trade laws and polices and in delegations traveling abroad,


10. Intensifying oil and mineral exploration in order to diversify the exports commodities.

11. Continuing with the on-going policy of promoting the cultivation of cotton in the rain fed sector.

12. Expediting the establishment of National Export Council. (1)

Moreover, some efforts have been exerted during the period 2000-2003 to promote non-petroleum export such as:

1. Activating the relationship between National Export Council and Sudan Trade point and establishment of a new regional trade points;

2. Broadening the trade base in Africa especially with COMESA countries;

3. Promoting activities such as fairs and delegations traveling abroad;

4. Giving maximum care to international quality control and intensifying practical studies in regional and world markets to strengthen competitiveness of Sudanese exports internationally.

5. Honoring of the Sudan's commitments towards regional and international trade agreements for instance COMESA, Greater Arabian Free Zone and trying to join WTO;

6. Maximization of benefit from regional commercial arrangements and donated privileges for developing and less developing countries regionally and internationally, such as European Union and USA initiative. This initiative aims to broaden the opportunities for these countries to compete in international markets.\(^{(1)}\)

3.3 An overall assessment of exportation policies.

The implementation of export policies achieved some successes.

\(^{(1)}\) Ministry of Finance and National Economy, "Performance of the Sudanese Economy for the period 2000-2005", pp. 8-9
The value of exports amounted on average about $500 million per year during the period 1990-1995 and rose to $620 million in 1996. From 1992 to 1996, the value of exports increased by 77%. The annual rate of increase was as follows: 1993 = 6%, 1994 = 26%, 1995 = 13%, 1996 = 12%. Among the factors which contributed to this rise are: (i) the increase in the number of exported commodities from 27 in 1994 to 63 in 1996/97. (ii) The diversification of exports to include in addition to cotton and Gum Arabic (the traditional exports) a number of non-traditional ones such as: Sesame, groundnuts, gold, livestock, wildlife products, meat, drugs, fish, textiles and charcoal.

The number of importing countries rose from 27 in 1994 to 62 in 1996/97. The new markets which were penetrated include: Mexico, South Africa, Ukraine, Vietnam, the Philippines, North Korea, Belarus, United Kingdom, Saudi Arabia, Italy and Germany. These improvements resulted partly from flexible polices on payment arrangement and trade promotion activities. But despite this recovery in the export performance, the volume of imports has increased at faster rate since 1994/95. This itself is the result of liberalization of imports. After this obvious improvement, total exports declined in 1997 and remained the same in 1998. This was mainly due to the sharp fall in prices of exports in the international markets and the adverse impact of floods on the output of irrigated schemes. (1)

(1) "Some reflection on economic liberalization in Sudan". Ibid, page 47-48, discussion paper no, 32, Bior, Deng, Bior, Issac, Bremen university- Germany, 200
Chapter Four

Empirical model: Results and their Analysis
4.1 Export value and export policies:

Data description:

Before discussing the regression model which tests the relationship between export value (\(^1\)) (the dependent variable) and the independent variables (excise tax, export tax, export credit and official exchange rate), this section analyses the trend values of these variables (the dependent and independent variables).

**Table (4.1)**

Export value (X), Excise Tax Revenue (ET), Export Tax Revenue (XT), Export Credit (XC) and Official Exchange Rate (OER) (in million SD)

<table>
<thead>
<tr>
<th>Years</th>
<th>Export value (X)</th>
<th>Excise Tax(ET)</th>
<th>Export Tax(XT)</th>
<th>Export Credit(XC)</th>
<th>Official exchange (OER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>16834.5</td>
<td>278.4</td>
<td>141.0</td>
<td>184.3</td>
<td>0.5</td>
</tr>
<tr>
<td>1991</td>
<td>457.5</td>
<td>668.9</td>
<td>7.9</td>
<td>251.5</td>
<td>1.5</td>
</tr>
<tr>
<td>1992</td>
<td>319.0</td>
<td>11128.2</td>
<td>277.0</td>
<td>473.2</td>
<td>10.0</td>
</tr>
<tr>
<td>1993</td>
<td>8971.2</td>
<td>2497.7</td>
<td>387.1</td>
<td>1153.9</td>
<td>21.5</td>
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<td>1994</td>
<td>16502.9</td>
<td>5096037.0</td>
<td>658.1</td>
<td>2257.3</td>
<td>31.5</td>
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<td>1995</td>
<td>46234.2</td>
<td>3483.9</td>
<td>401.6</td>
<td>3946.6</td>
<td>83.2</td>
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<td>90547.2</td>
<td>12766.0</td>
<td>2102.0</td>
<td>1246.3</td>
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<td>1997</td>
<td>101724.0</td>
<td>15866.0</td>
<td>3252.0</td>
<td>1146.2</td>
<td>171.2</td>
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<td>1998</td>
<td>141190.6</td>
<td>24100.0</td>
<td>1200.0</td>
<td>8113.0</td>
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<td>34700.0</td>
<td>1500.0</td>
<td>14453.0</td>
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<td>900.0</td>
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<td>300.0</td>
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<td>27800.0</td>
<td>300.0</td>
<td>34308.0</td>
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<td>41100.0</td>
<td>300.0</td>
<td>34033.0</td>
<td>260.2</td>
</tr>
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<td>2004</td>
<td>973907.6</td>
<td>113900.0</td>
<td>100.0</td>
<td>45734.0</td>
<td>257.8</td>
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<tr>
<td>2005</td>
<td>1182431.0</td>
<td>94900.0</td>
<td>600.0</td>
<td>33949.0</td>
<td>245.1</td>
</tr>
</tbody>
</table>

\(^1\)* The data of export value (X) in table (4-1) was transferred from dollars to Sudanese dinars.
Sources : (1) Bank of Sudan annual reports. (2) Ministry of Finance and National Economy

* The above data was calculated by constant prices.

(1) Excise tax (ET):

During the period 1990-2005 the highest value of excise tax was 5096037.0 million Dinar in 1994 and the lowest value was about 278.4 million Dinar. During 1995-1999 the highest value of excise tax was about 34700.0 million Sudanese Dinar in the year 1999 and the lowest one was about 3483.9 million Dinar in 1995. During that period there was continuous increase in excise tax which means that the government was dependant on excise tax as one of the main source of revenue. During the period 2000-2005, the highest value of excise tax was about 113900.0 million Dinar in 2004 and the lowest one was 27800.0 million Dinar in 2002. During that period there were some fluctuations in the trend of the excise tax, also there was a clear decrease in excise tax; from 2000 up to 2002 and that was consistent with the announced fiscal policy of decreasing the excise taxes in order to encourage the production of agricultural products and therefore, the export of these products.

(2) Export Tax (XT):

The period 1990-1994 witnessed an increase trend of export tax. This because, the government depended on export tax as a source of revenue. The highest recorded value of the tax was about 658. million Dinar in 1994 and the lowest value was about 7.9 million Diner in
The period 1990-1999 also witnessed an increasing trend of the tax, i.e. from 1995-1997 then after that there was some decline. The highest recorded value was 3252.0 million Dinar in 1997 and the lowest one was 401.6 million Dinar in 1996. The period 2000-2005 witnessed a declining trend of the tax because during the period the government announced some polices targeting cuts and elimination of export tax on some animal and agricultural export.

(3) Export Credit (XC):

During the period 1990-1994 there was an increasing trend of export credit. The highest recorded value of this variable was about 2257.3 million Dinar in 1994 and the lowest one was about 184.3 million Dinar in 1990. During the period 1995-1999 there was some decline in the trend of the export credit up to 1997 then after that it increased. The highest recorded value of export credit during the period was about 14453.0 million Dinar in 1999 and the lower one is about 1146.2 million Dinar in 1990. During the period 2000-2005 there was some fluctuations in the trend of this variable which may be partly due to the reluctance of Sudanese banks to finance the export sector.

(4) Official Exchange Rate (OER)

The period 1990-1994 witnessed a continuous devaluation. The highest one was 31.5 Dinars against one dollar in 1994 and the lowest one was 0.5 in 1990. During the period 1995-1999 also there was continuous devaluation in exchange rate. The highest one was 258.0 Dinars per dollar in 1999 and the lowest one was 83.2 Dinar per dollar.
in 1995. All the devaluations aimed to increase the volume of Sudanese exports. During the period 2000-2005 there was an appreciation of the Sudanese dinar starting from 2003 up to 2005.

(5) Export Value (X):

During the period 1990-1994 the trend of export value was not stable. The highest recorded value of export was about 16834.5 million Dinar in 1990 and the lowest value was about 319.0 million Dinar in 1992. The fluctuation largely stemmed from the instability of agricultural production. During the period 1995-1999 there was continuous increase in the value of exports. This was due to the implementation of export promotion policies announced during that period. The highest recorded value during the above mentioned period was about 201255.0 million Dinar in 1999 and the lowest one was about 46234.2 million Dinar in 1995. During the period 2000-2005 there was some fluctuation in the trend of export value from 2000 up to 2002, then after that there was an increasing trend; from 2003 up to 2005. The increase during the period 2003-2005 was due to oil export.

4.2 Model Formulation and Results of the estimated model:

4.2.1 Model formulation:

\[
\begin{align*}
\log(X) &= B_0 + B_1 \log(ET) + B_2 \log(XT) + B_3 \log(XC) + B_4 \log(OER) \\
\end{align*}
\]

Where \(X\) = Export value (dependent variable).

The independent variables are given by:
ET= Excise Tax, XT= Export Tax, XC= Export Credit, OER= Official Exchange Rate.

### 4.2.2 Results of the estimated model

\[
\log (X) = -3.054-0.295\log (ET) + 0.695\log (XT) + 1.784\log (XC) - 0.438\log (OER)
\]

\[
(-1.183) \quad (1.347) \quad (2.981) \quad (-0.638)
\]

The values between two brackets are calculated T- values.

\[
R^2 = 0.769, \quad \text{adjusted } R = 0.685, \quad F = 9.118, \quad D = 1.870
\]

### 4.2.2.1 Analysis of the results:

#### 4.2.2.1.1 Excise tax result's analysis:

According to the result, the excise tax variable is insignificant at 5% level of significance. This means that it has no effect on export value. We can deduce from this result that the major raw commodities of Sudanese export are not subject to excise tax. Also that only the manufactured Sudanese goods destined for local consumption are subject to excise tax. In addition to the fact that the majority of processed goods in Sudan are not viable to export and therefore the imposed excise tax on these processed commodities has no impact on export. With regards to the relationship between export value and excise tax it is negative according to the model results and this coincides with the assumption of economic theory.
4.2.2.1.2 Export tax result's analysis:

The export tax variable is insignificant at 5% level of significance. This means that it has no impact on export's value. This can be justified because the imposed export tax is very small and therefore it has no affect on the movement of the Sudanese exports. The export tax sign violates the assumption of economic theory which said that there is a negative relationship between export tax and export value, i.e. any increase in export tax will decrease export value and any decrease in export tax will increase export value. This result may be due to the probability that the Sudanese exporters insist on exporting in spite of the high cost of export (due to export tax) because they get benefits from export earnings through importing some commodities and selling them in the domestic markets to generate profits.

4.2.2.1.3 Export credit result's analysis:

The export credit in our model is significant at 5% level of significance. As well as the sign of the variable coincides with the assumption of economic theory; there is a positive relationship between export credit and export value. Thus according to our result any one % unit change in export credit lead to a change by 1.78% in export value.

4.2.2.1.4 Official Exchange rate result's analysis:

The official exchange rate is insignificant in our model at 5% level of significance. This result means that the theoretical condition for devaluation to improve the flow of export and therefore the trade
balance are typically not satisfied in the case of Sudan economy; because of the very strong (inelastic) demand for imported necessities and inelastic foreign demand for Sudanese exports. Thus, with relatively inelastic demand for exports and imports devaluation has little or no effect in improving the balance of payment situation.

The results show that the explanatory power of the model is 76% which is suitable. This means that the sets of independent variables are affecting the dependent variable by 76% or 76% of the change in the dependent variable is explained by the independent variables.
Chapter Five

Conclusion and Recommendations
Chapter Five

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5.1 Conclusion:

This research attempts to investigate and assess the policies of export promotion in the Sudan for the period 1990-2005. In other words, the aim of this research is to examine the efficiency of these policies in encouraging Sudanese export. However, before this investigation the research shows theoretically the effects of policies examined and review some empirical studies. Also, the research gives a detailed account of experience of the Sudan in field of export polices.

The research has applied least squares approach to estimate a multi-regression model in order to know the effect of a set of independent variables such as: excise tax, export tax, export credit and official exchange rate on the dependent variable; exports value. The data was collected from the Bank of Sudan and Ministry of Finance and National Economy.

According, to the research findings, the set of the independent variables (except the export credit) have insignificant effect at 5% level of significance. The signs of the parameters of the model (except the parameter associated with the export tax) coincide with the economic theory.
5.2 Recommendations:

From the results obtained we propose the following:

1. To guarantee the flow of the Sudanese export to the world markets, the financial institutions must provide sufficient amount of credit to exporters in order to enable them to face their commitments.

2. In order to insure the effectiveness of the devaluation policy of the exchange rate, Sudan must rehabilitate their infrastructure in the field of export sector, produce high quality commodities and engage in the field of processed raw materials for the purpose of exportation so as to gain value added and compete in the world market.

3. Although the export tax has no impact on total exports value but it may have some effect on single exported commodities. Therefore, the elimination of it is very important in the future in order to avoid its negative effects and enable these exported goods to compete internationally.

4. In spite of the finding that excise tax has no impact on total exports, but we propose a reduction of this tax in the future in order to motivate the producers to produce commodities for the purpose of exportation and to enhance the competitiveness of exported goods in the world markets.
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