As southern Sudan votes on secession from the north, oil in the south could trigger conflict – but the picture is complex

Next January the people of southern Sudan will vote in a referendum to decide [whether or not to separate from the north](http://www.guardian.co.uk/world/2010/nov/15/south-sudan-independence-referendum). An independent southern Sudan would leave the Khartoum government without its main bread earner: almost 500,000 barrels of crude oil daily. Since most of Sudan's oil lies in the south, this raises the question of how the north would survive without the billions of dollars of annual revenue that oil brings in.

The Obama administration fears the government [could move militarily](http://www.state.gov/secretary/rm/2010/11/151001.htm) to maintain control over the oilfields – possibly reigniting the civil war that ended in 2005. The reality, however, is more complicated. Oil could well lead to war, but two questionable assumptions underpin the idea of a straightforward confrontation: that southern Sudan will be blessed with huge oil wealth, and that the north is nothing without petro-dollars.

If southern Sudan does decide to go its own way, the oil party after independence may be short-lived. Although the oil minister, Lual Deng, is hoping that [production will increase](http://www.businessweek.com/news/2010-08-18/sudan-targets-35-increase-in-oil-output-next-year.html) to 650,000 barrels per day next year, such ambitious forecasts have a long record of failure in Sudan.

The oil ministry's own reserve estimates give Sudan a mere decade of commercial production, and the IMF thinks output levels will decline from 2012-13 onwards. The Swedish Lundin company and OVL of India pulled out of a once highly prospective southern block after drilling several dry wells. Unless the French firm Total strikes it big in its massive oil concession, prospects remain low that southern Sudan is resting on an ocean of oil.

This could have a huge impact on the viability of an independent south. With 98% of government revenues coming from oil and reserves that will soon be running dangerously low, the economic future of landlocked and infrastructureless southern Sudan is bleak. Thus it is Khartoum that may have the last laugh if the south separates.

When the Islamists grabbed power in 1989, Sudan was on its knees economically. There were food and fuel shortages even in the capital. A ruthless recovery programme broke the back of powerful trade unions, but also stabilised inflation and prevented a Somalia-like meltdown.

The combination of unorthodox economic policies and oil exports led to dramatic improvements. The World Bank found that Sudan's economy [grew fivefold from 1999 to 2008](http://web.worldbank.org/external/default/main?pagePK=51187349&piPK=51189435&theSitePK=375422&menuPK=64187510&searchMenuPK=375451&theSitePK=375422&entityID=000334955_20100527064142&searchMenuPK=375451&theSitePK=375422): oil enabled a massive expansion of physical and social infrastructure, including a doubling of Sudan's road network, electricity generation, and a sharp increase in primary school enrolment. These are remarkable results, especially in the face of long-standing US sanctions and a huge debt mountain; they allowed the ruling National Congress party (NCP) to build extensive support networks in the northern Sudanese heartlands.

Sudan's economic growth has been deeply unequal, and many regions remain scandalously poor, deprived of even the most basic government services. But it needs to be recognised that substantial constituencies in the north have never had it so good. They have grown strongly loyal to the regime. Oil has been crucial to this success, but Khartoum knows it will eventually run out and has been preparing a post-oil future. The regime has poured billions of dollars into a highly ambitious but controversial [dam programme](http://www.diu.gov.sd/en/index.php) (the $3bn Merowe dam alone took up almost 40% of total public investment between 2005 and 2008) and an associated strategy of reviving the agricultural sector.

Khartoum is hoping to attract more than $1bn in [foreign direct investment](http://www.sudantribune.com/spip.php?article36899) in the coming year for agricultural projects around the Nile. Kuwait, Saudi Arabia and Jordan, driven by worries about global food prices, are pouring money into northern Sudan. China is also set to play a big role in the country's agricultural future, with its companies vying for acreage.

These are key components of an attempted recalibration of Sudan's political economy that should help withstand a possible separation between north and south. The northern Islamists are falling back on the core areas of their territory where investment, service delivery and irrigated agriculture are concentrated. Leading NCP members co-direct the companies that dominate Sudan's non-oil economy and are integral to the regime's hydro-agricultural push. Close partnerships with China, Gulf Arab investors and globalised entrepreneurial elites are helping to entrench the NCP's political hegemony.

The role of oil is not what it seems. Khartoum loves the dollars and will feel a foreign-exchange crunch as oil revenues dissipate. This has important implications for international interventions to keep the peace in Sudan.

Whereas it is critical that the south's right to self-determination is respected, it is equally critical that the international community adopts a long-term view of development and governance in Sudan. In the short term, it should support the continued sharing of oil revenues between Khartoum, Juba and oil-producing regions. Regardless of the referendum's outcome, sharing the oil would help to keep tensions in check and give the NCP and the [SPLA/M](http://en.wikipedia.org/wiki/Sudan_People%27s_Liberation_Army/Movement) a stake in continued dialogue and compromise.

For the long term, the challenge consists of helping to build a post-oil future. In the south a massive sustainable-development and good-governance push is needed to help prevent resource-curse dynamics *à la* Nigeria. In the north this implies supporting efforts to revive agriculture but ensuring the growth is shared more equally and not disempowering local communities.

Sudan's oil resources are indeed important and could trigger more conflict. But they are also finite, and could also be made to work for peace.