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SENEGAL STRIVES FOR ECONOMIC STABILITY AND GROWTH

"Further work is required to streamline the trade regime and improve its transparency and predictability" - says GATT

Senegal's economic performance since independence in 1960 has been among the weakest in sub-Saharan Africa, according to the GATT secretariat's report on Senegal's trade policies and practices. Economic growth has trailed that of population, translating into high unemployment, underemployment and urban migration. Substantial annual fluctuations in GDP largely reflect the impact of changing weather conditions on a predominantly rural-based economy relying heavily on groundnut production. Though Senegal's trade dependence on this sector has declined markedly, it remains the backbone of the economy, providing employment for up to one million people. Efforts, since the early 1980s, to promote economic stabilization and structural adjustment through new agricultural and industrial policy initiatives have failed to push the economy on to a higher growth path.

With the abolition of many non-tariff barriers between 1986 and 1988, trade protection in Senegal now relies mainly on a multi-layered system of import duties and taxes. Certain tariff and tax cuts have been partly reversed for budgetary reasons; accumulated border and internal levies result in taxation levels of over 90 per cent for many consumer and "luxury" items. Administrative red tape has been reduced to some extent but, as the Secretariat report notes, "much further work is required to streamline the trade régime and improve its transparency and predictability for economic operators." Combined with the attractiveness of Senegal's currency, the CFA franc, which was until August 1993 fully convertible, these factors have encouraged rampant smuggling across the country's long and permeable borders, adding to the pressure on the formal sector. Many enterprises remain vulnerable to external competition, hampered by aging equipment, low capacity utilization and poor productivity, in particular of labour.

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Currency depreciation was long ruled out as a policy option to help align internal production costs with international conditions. The recent devaluation of the CFA franc vis-à-vis the French franc, introduced on 11 January 1994 (after the completion of the Secretariat report) is the first such change in more than four decades. It has been accompanied by a significant package of assistance from France, the IMF and the World Bank with a view to facilitating structural adjustment, preventing social unrest and reducing the country's debt burden.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Senegalese Government, will be discussed by the GATT Council on 31 January - 1 February 1994. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.
2. The two reports, together with a record of the Council's discussion and of the Chairman's summing up, will be published in early 1994 as the complete trade policy review of Senegal and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.
3. The reports cover developments in all aspects of Senegal's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary observations from the Secretariat's report. Full reports will be available for journalists from the GATT Secretariat on request.
4. Since December 1989, the following reviews have been completed:
Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), India (1993), Indonesia (1991), Japan (1990 and 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Turkey (1994), the United States (1989 and 1992), and Uruguay (1992).

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TRADE POLICY REVIEW MECHANISM

SENEGAL

Report by the Secretariat - Summary Observations

Senegal's participation in the GATT dates from 1947, as a French overseas territory. In 1958, it became an autonomous member of the French Community and gained full independence in 1960. Three years later, Senegal was admitted as a GATT contracting party, with rights and obligations applying retroactively from the date of independence.

Senegal's economic performance since independence has been generally poor, with real GDP trailing population growth. Expansion in the second half of the 1970s, driven by exceptionally favourable terms of trade, could not be sustained. GDP per capita, estimated at US\$710 in 1990, has shown substantial fluctuation as its main determinant, agricultural production, is closely correlated with weather conditions.

For more than a decade, government policies have been directed towards stabilizing the economy, encouraging economic and financial recovery and structural adjustment. The second half of the 1980s saw the introduction of a New Agricultural Policy, a New Industrial Policy and public sector reforms. These were complemented by investment incentives, initiatives to restructure the banking sector, liberalization of commercial regulations, including the lifting of price controls and attempts to streamline administrative requirements.

The New Industrial Policy sought to inject dynamism in the manufacturing sector through rebalancing a highly distorted system of incentives. With a view to reducing and harmonizing sectoral protection, Senegal's import régime was substantially liberalized between 1985 and 1988 through tariff reductions, removal of prohibitions and licensing requirements, and increases in quota levels. However, many enterprises remain vulnerable to import competition, hampered by aging equipment, low capacity utilization and low productivity, in particular of labour. The traditional pegging of Senegal's currency, the CFA franc, to the French franc has ruled out currency adjustments as a possible option to restore price competitiveness.

The primary objective of the New Agricultural Policy has been to increase food self-sufficiency. Deregulation and restructuring of the marketing channels for major crops, in particular cotton, groundnuts and rice, were designed to increase the rôle of private sector producers and distributors. The authorities have aimed to reduce the share of groundnuts as the dominant cash crop relative to cotton, sugar, rice, fruits and vegetables. Though Senegal's trade dependence on the crop has declined markedly, groundnut production remains the backbone of its rural economy, providing employment for up to 1 million people.

Rapid population growth puts the labour market under considerable strain. Of Senegal's labour force, estimated at around 3 million people, no more than 200,000 people are formally employed. Underemployment in agriculture encourages migration towards the major cities, compounding urban unemployment, in particular in the capital Dakar and surrounding areas. Policy attention appears to be shifting towards the large informal sector as a potential generator of economic expansion.

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Senegal in World Trade

With officially recorded imports worth US\$1.3 billion and exports of almost US\$900 million, Senegal accounted for 0.03 per cent of world merchandise trade in 1990. The ratio of merchandise trade to GDP has fluctuated between 30 and 35 per cent since 1980.

The European Communities is Senegal's major trading partner, accounting for just over 50 per cent of total imports and exports. Trade links are particularly close with France, mainly based on exports of traditional Senegalese products (fish, phosphates and groundnuts) in return for consumer and investment goods. Trade with Italy and Spain expanded significantly in the 1980s.

Apart from rice imports from the United States and certain Asian suppliers, some of which have in turn become important customers of phosphates and mineral fertilizers, Senegal records little imports from, and virtually no exports to, major regions such as the Americas and non-EC Europe.

Senegal's trade with other countries in sub-Saharan Africa is mostly with members of the Economic Community of West African States (ECOWAS/in French: CEDEAO) and the West African Economic Community (WAEC/CEAO). Imports comprise petroleum from Nigeria, Gabon and Angola, and coffee, cocoa and manufactured goods from Côte d'Ivoire. The usual trade surplus with CEAO partners may have disappeared altogether recently as petroleum trade with Mali has apparently ceased.

Senegal's export basket covers a relatively narrow product range. Since the mid-1980s, export revenue of the fisheries sector has exceeded groundnuts and groundnut products. Fish exports have, however, stagnated recently, reflecting resource bottlenecks and closures of processing plants. The share of phosphates, currently around 10 per cent of export value, has halved since the mid-1970s as a result of lower prices and environmental concerns in traditional markets. Phosphate is also processed into chemicals and subsequently exported, in line with government policies to encourage manufacturing based on domestic natural resources.

About half of the import value is made up of manufactures. Food deliveries, accounting for an additional 20 and 30 per cent, are mainly destined for the urban population; the diet in rural area is dominated by locally grown food crops such as millet and sorghum. The share of fuels, in particular crude oil, hovers around 15 per cent. Petroleum is processed in a large refinery near Dakar; most of the output is currently consumed in the local market.

Senegal's bilateral trade agreements with 50 countries provide mostly for m.f.n. treatment, but duty-free access may be granted under the agreements with Algeria, Morocco and Tunisia. Senegal has not signed the Agreement on the Global System of Trade Preference (GSTP) among developing countries, nor does it participate in any international commodity agreements.

Institutional Framework

The Constitution of the Republic of Senegal was promulgated in March 1963. Executive power is vested in the President. He designates the Prime Minister, who, in turn, appoints the Council of Ministers in consultation with the President. Ministers are mostly selected from the main political party (le Parti socialiste sénégalais), but the current Government also comprises members of the opposition. Prime responsibility for trade policy matters rests with the Ministry of Trade and Crafts.

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Other Ministries with trade policy involvement include the Ministries of Agriculture; Fisheries and Maritime Transport; Foreign Affairs; African Economic Integration; Energy, Mining and Industry; Public Health; and the Ministry of the Economy, Finance and Planning, which includes the customs administration.

Legislative power is vested in the unicameral National Assembly, whose 120 members are elected by popular vote for five-year terms. Legislation passed by the National Assembly is submitted to the President of the Republic for promulgation.

Some of Senegal's major trade-related regulations have been introduced by law, such as the Customs Law, the Investment Law and the Law establishing the Dakar Free Zone. An enabling law, adopted in 1989, authorized the President to modify border taxes during a period of two years, and current tax rates have accordingly been established by (Presidential) Ordinance. Other instruments, particularly with respect to licensing of imports and exports, have generally been introduced by specific Presidential Decrees. Regulations are at times supplemented by orders of the Minister responsible for the policy in question or explanatory letters/circulars by the administration.

Senegal has no independent statutory body to review or advise the Government on trade or industrial policies.

Trade Policy Features and Trends

Recent evolution

Senegal's trade régime has undergone numerous changes since the mid-1980s. Rationalization of industry protection has been an important element. With the removal of many non-tariff measures on imports, between 1986 and 1988, protection has since relied mainly on price-based instruments. However, import licences are still required for a variety of mainly agricultural products.

Deregulation in agriculture, privatization of State ownership in major enterprises and dismantling of certain trade privileges have enlarged the scope for the private sector to engage in international trade. For example, the Caisse de péréquation et de stabilisation des prix (CPSP) has ceased to regulate consumer and producer prices of important commodities (flour, tomatoes, cotton, sugar and groundnuts). However, while reforms have resulted in some curbs on administrative red tape, the overall regulatory framework remains complicated. It is generally recognized, including by government officials, that much further work is required to streamline the trade régime and improve its transparency and predictability for economic operators.

Import taxes provide a substantial share of government revenue. Pressures on the budget have induced frequent changes in fiscal measures, thus reducing the stability of the import régime. Significant tax increases and the introduction of new taxes since 1989 have not only reversed the earlier decline in the level of effective protection, but widened its dispersion among industries.

Type and incidence of trade policy instruments

Senegal's imports from GATT members are subject to a uniform 15 per cent ad valorem tariff, unless regional or bilateral trade agreements prescribe more favourable conditions. Imports from non-

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m.f.n. sources attract three times the normal m.f.n. rate. Tariff protection is complemented by various taxes and charges at varying and often considerably higher rates.

Senegal is currently renegotiating its GATT schedule of tariff bindings, originally established before independence. Senegal's suspended schedule covers approximately one-quarter of all tariff lines, with bound rates ranging from free to 25 per cent for all items, except cigarettes (75 per cent). The suspension of the relevant GATT provisions, first granted in 1990, has been extended by successive decisions until 31 December 1993. Increased bindings have been offered by Senegal in the Uruguay Round.

In addition to the single-rate tariff, there are two major import taxes, a fiscal duty and a stamp duty. Fiscal duty is levied at four rates up to 50 per cent, but one-quarter of tariff items are exempt. Though the "normal" rate is 20 per cent, product reclassifications have increased six-fold the number of items subject to a rate of 30 per cent. The stamp duty, levied at 3 per cent with no exemptions, was introduced in 1990 to raise additional revenue. The cumulated simple average of all three import taxes is 35.7 per cent.

Further charges are levied on all seaborne trade, which is subject to a 0.3 per cent maritime tax and on most imported textile fabrics, which attract a special tax of 1 per cent. Value-added tax and excise taxes are collected by customs at the time of importation. With wholesale and retail trade in principle subject to VAT, a supplementary tax (taxe d'égalisation) is applied on imports to approximate the VAT applicable on the importer's profit margin.

The combination of significant border and internal levies results in taxation levels of over 90 per cent for many consumer and "luxury" items. Tax evasion through smuggling and, possibly, underinvoicing is widespread. Estimates of illicit trade range up to CFAF 200 billion annually (two-fifths of current imports), although such figures are disputed by government officials. The authorities have responded with import tax reductions on inputs for competing domestic products, specific labelling requirements and increased border surveillance. Since mid-1992, pre-shipment inspection is mandatory for all consignments worth CFAF 1.5 million (f.o.b.) and more, barring some product-specific exceptions.

Minimum rates of fiscal duty (minima de perception) were introduced on cigarettes, lighters and matches in 1989. They have subsequently been extended to some 300 items to counter underinvoicing. In addition, the authorities have broadened the use of reference prices (valeurs mercuriales) for customs valuation. The relevant list covered 24 six-digit tariff line items in 1993, but a more extensive set of reference prices is applied to preferential imports from other CEAO members. Both the minimum fiscal duties and the reference prices have the potential of providing significant protection to local industries.

Precise information on the existence of import quotas is missing, but their range appears limited to fewer products than those subject to import licensing (sorghum, millet, broken rice, maize meal, wheat and flour, seed potatoes, onions, bananas, sugar and, from 1992, vegetable oils). Quota levels for agricultural products are established by a consultative committee which includes representatives of producers, main importers and related ministries. Quota allocations are communicated directly to the importers concerned. Seasonal restrictions are applied on farm products such as bananas, onions

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and potatoes. Second-hand clothing is subject to a prescribed annual import quota, but licences may be suspended before the ceiling is reached if the local clothing market appears saturated.

State trading activities are confined to some foodstuff categories and other basic supplies. Importation of broken rice is reserved for the Caisse de péréquation et de stabilisation des prix (CPSP) or any other public entity designated by the State. Profits on imported rice are used to pay premium prices for local rice purchased from rural development agencies. SONACOS (Société nationale de commercialisation des oléagineux du Sénégal), established in 1975, is entrusted with groundnut marketing and milling, domestic sales and exports. The Société africaine de raffinage (SAR), the only petroleum refinery in Senegal, has the sole right to import crude oil.

The public sector in Senegal purchases goods and services worth around CFAF 50 billion annually. Procurement is generally subject to competitive tendering or "adjudication" procedures, but selective or single tendering may apply in specific cases. Procurement regulations are currently being harmonized with World Bank guidelines. Senegalese suppliers of goods and services have been allowed a preferential margin of up to 10 per cent since 1982. No particular preferences apply to ECOWAS or CEAO suppliers.

Financial constraints appear to have discouraged the introduction of tax-funded support schemes. However, energy costs are reduced to "internationally competitive" levels for certain purposes, notably phosphate production which qualifies for reimbursements through an Energy Fund, and commercial fishing. Export subsidies for manufactures, introduced in the early 1980s, have been suspended since 1990 and an export finance scheme is not currently operational.

Most exports have been liberalized since 1983. Prior authorization continues, however, to be required for exports of cereals, sugar, peanut and tomato products, precious metals, and jewellery; and phosphates and phosphate-based fertilizers are subject to an export duty (droit fiscal). The duty on groundnut products is temporarily suspended, but reference prices apply.

A Free Zone in Dakar, established in 1974, was intended to attract export-oriented, labour-intensive manufacturing enterprises by offering duty and tax concessions. The original expectations have, however, not materialized; the 12 existing enterprises make no more than a marginal contribution to the Senegalese economy. An increasing share of their output is sold in Senegal, subject to the normal internal taxes and import duties on imported components.

Senegal has not acceded to any of the Tokyo Round Agreements, but has observer status in the MTN Agreements on Import Licensing, Anti-dumping and Countervailing Measures, Subsidies and Technical Barriers to Trade. It is not a signatory to the Multi-Fibre Agreement (MFA). If ratified by Senegal, the Uruguay Round will bring Senegal into the full range of trade agreements on goods and services included in the Single Undertaking.

Temporary measures

Senegal has no specific safeguard provisions or anti-dumping or countervailing duty legislation. However, the application of reference import prices (valeurs mercuriales) may serve similar purposes.

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Trade Policies and Foreign Trading Partners

Senegal has sought to use the Uruguay Round to achieve better access to major developed markets without compromising its preferential position in the EC, its dominant trading partner, under the Lomé Convention. Senegal is among the 69 developing country signatories to the Convention, under which the European Communities accords preferential benefits. Senegalese exports, however, do not qualify for additional preferences extended by the EC in the Lomé framework, e.g. under the Sugar and Banana Protocols.

Within West Africa, Senegal is among the prime initiators and participants in regional cooperation efforts. It is one of the 16 members of the Economic Community of West African States (ECOWAS), which aims to establish a customs union and free movement of industrial and agricultural goods, services, labour and capital among participants. Trade liberalization has, however, met numerous setbacks; thus, tariff cuts on selected industrial products, intended to be introduced from 1 January 1990, have apparently not yet become operational.

Trade liberalization appears to be more advanced among the seven ECOWAS members forming the West African Economic Community (WAEC/CEAO). Participants are committed to removing non-tariff barriers among each others, extending duty-free treatment on raw materials and preferential tariff treatment on specified manufactured products, and gradually introducing a common external tariff. More than 400 manufactured products have been approved for CEAO preferences and may be traded subject to a regional cooperation tax (TCR); Senegal applies this tax at rates varying between zero and over 40 per cent. Tariff exemptions apply on various raw materials and crafts in ECOWAS and CEAO trade.

Reflecting historical ties, strong economic links persist with France, in particular through financial and monetary arrangements among France and its overseas departments and territories, Monaco and 14 developing countries. The CFA franc, the currency used by Senegal and the six other members of the West African Monetary Union, has been pegged to the French franc at a fixed parity for several decades. Analysts and financial institutions have increasingly questioned whether the advantages of the current arrangement, for example reductions in transfer costs, continue to outweigh the economic costs associated with the mobility to change parities to facilitate structural adjustments in a depressed economy.

The maintenance of a fixed parity appears to be an important political symbol. Doubts also linger whether devaluation could trigger rapid real expansion, rather than merely igniting inflation and social unrest, as few, if any, industries seem ready for take-off. Moreover, failure to agree among participating States on the appropriate devaluation rate could jeopardize monetary union.

However, the competitiveness of traditional Senegalese exports has been eroded as several rival suppliers have devalued their currencies, and high costs have hampered development of new activities, such as tourism. Import pressure, fuelled by the strength of the CFA franc, has proven difficult to control even through very high taxation. The black markets in non-convertible currencies of neighbouring Mauritania and the Gambia have also encouraged considerable commodity arbitrage and smuggling in return for, until recently, the fully convertible CFA franc. Achieving increased output of traded goods must be a crucial element of Senegal's national development strategy and it is difficult to see many alternatives to lay the ground for sustainable economic expansion.

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