The World Economy

The World Economy (2009)
doi: 10.1111/j.1467-9701.2009.01250.x

The Developmental Impact of the Asian Drivers on Senegal

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1. INTRODUCTION

CHINA and India's integration into the world economy has translated into the deeper commercial and diplomatic relationships that they have built with the African continent. It can also be seen in the presence of a larger number of economic actors from China and India in Africa, and by the creation of a Chinese diaspora, whilst there have been Indian communities in Africa for a long time. Senegal does not seem to be an exception.

Senegal has enjoyed a long-lasting and stable diplomatic relationship with India, its principal commercial partner. Even though the trade relationship between the two countries has begun to diversify, as seen in the transport sector, it is still dominated by the exportation of Senegalese phosphates and phosphoric acid to India.

Relations with China, on the other hand, have been erratic, to say the least. After an eight-year break (from 1996 to 2003), much to the advantage of Chinese Taipei, Senegal officially renewed its diplomatic links with the People's Republic of China in October 2006. The Chinese economic actors in Senegal are principally interested in retailing.

Taking into account the imbalance of available resources between Senegal and the two Asian Drivers, India and China,[1] the question of whether Senegal can form a reciprocally advantageous alliance with these two superpowers is crucial. China and India's investment in African territory appears to be motivated by the hope of guaranteeing themselves access to Africa's natural resources, of conquering new markets and of forming political partnerships. In this context, it is reasonable to wonder what interest these two countries would have in forming a relationship with Senegal who, unlike other African

[1] Throughout the rest of this study 'Asian Drivers' means the People's Republic of China and India.

countries, does not possess large quantities of natural resources. Nor does it have a large consumer market, as is the case in Nigeria for example. We therefore have to look at the political benefits the two Asian superpowers could stand to gain from maintaining a good relationship with a country like Senegal, whose political influence tends to be stronger than its economic power.

After giving an overview of the main trends in trade and foreign direct investment (FDI) between Senegal and the Asian Drivers, this study will explore the geopolitical and diplomatic questions that have linked Senegal with the Asian Drivers over the past 15 years, including from the perspective of development cooperation. The final section will evaluate the different political and economic opportunities and challenges posed by a strengthened relationship between Senegal and the Asian economic giants.

2. TRADE AND INVESTMENT: THE DIFFERENT SITUATIONS OF THE ASIAN DRIVERS

The economic relations between India and Senegal are little publicised although they have existed for a long time through the *Industries Chimiques du Senegal* (ICS). On the other hand, numerous threats have been made concerning the People's Republic of China, or more specifically concerning the size of its diaspora in Dakar. Although the activities of the Chinese community in Dakar are more visible when compared to those of India, they account for only a negligible part of Senegalese trade.

Taking this into consideration, if the question of China's contribution to economic growth in Senegal is important in the long term, for the time being it seems just as important to understand the economic dynamics between New Delhi and Dakar, especially since this relatively enduring partnership is facing a difficult period due to problems in the Senegalese phosphate industry.

Senegal certainly shows willingness to take advantage of the opportunities presented by China and India to develop its economy, and of opportunities to develop more diverse relationships, especially vis-à-vis its traditional partners (such as France). Correspondingly, the Senegalese market could appear limited, and the country's production capacity restricted in regard to the needs of the two Asian Drivers. Senegal therefore appears to be a rather limited source of export opportunities for India and China.

a. Trade: India as an Outlet, China as a Supplier

India has overtaken France as the primary destination for Senegalese products. It absorbs on average 15 per cent of the total of Senegal's exportations.

At the same time India's part in Senegal's global imports has fallen from 7 per cent to 3 per cent between 1996 and 2005.

China, on the other hand, while becoming an increasingly active contributor to Senegalese trade, continues to play a smaller role. Over the past decade, China was accountable for less than 0.5 per cent of total Senegalese exportations on average, but its contribution to the total importation value continued to grow, passing from 2 per cent to 4 per cent in the period 1996–2005, showing a significant increase after 2000.

Senegal thus appears to be a peripheral commercial partner for the two countries. In 2005, India's imports from Senegal totalled US$190 million, while its global imports came to US$149.7 billion.[2] Exports of Senegalese products to China are almost non-existent (totalling US$7.8 million from a total of US$660 billion in 2005).[3]

(i) Senegalese imports from Asia: India losing ground, China gaining market shares

Diversification and growth of Senegalese imports from China. Until 2003, tea was the main Senegalese import from China, representing 17 per cent of total imports. But in 2004 imports of tea were overtaken by textiles, then by construction materials in 2005. Tea is now the third largest import from China.

The net growth in Senegalese imports from the People's Republic of China, and their diversification (construction materials, textile, tomato concentrate etc.) can be attributed to the dynamic Chinese business community in Senegal, as well as the desire of Senegalese wholesale dealers to diversify their supplies. Interestingly, this growth and diversification continued despite the disruption in diplomatic relations between the People's Republic of China and Senegal in January 1996, and despite the increasingly obvious discontent of Senegalese companies faced with growing competition from Chinese commerce (cf. *infra*).

Reduction in imports from India. Rice has always been the main Senegalese import from India. These imports, however, are beginning to decrease,[4] whilst imports of other products remain relatively marginal. Senegal also imports agricultural equipment (such as tractors, combine harvesters and cotton gins). But this equipment arrives in the context of certain bilateral cooperation mechanisms in place between the two countries. Other products, such as transport vehicles, have seen a rapid increase in trade. In 2005 they made up almost 20 per cent of Senegalese imports from India. However, they were purchased with a loan of US$18 million given in the context of cooperation with India. In

[2] Figures from UN Comtrade.
[3] Figures from UN Comtrade.
[4] This situation is due to competition from Thai and Vietnamese rice which are enjoyed and sought after by Senegalese consumers. But they also get attention from Senegalese importers who are trying to diversify their supply sources to increase their profit margin or guarantee their supply.

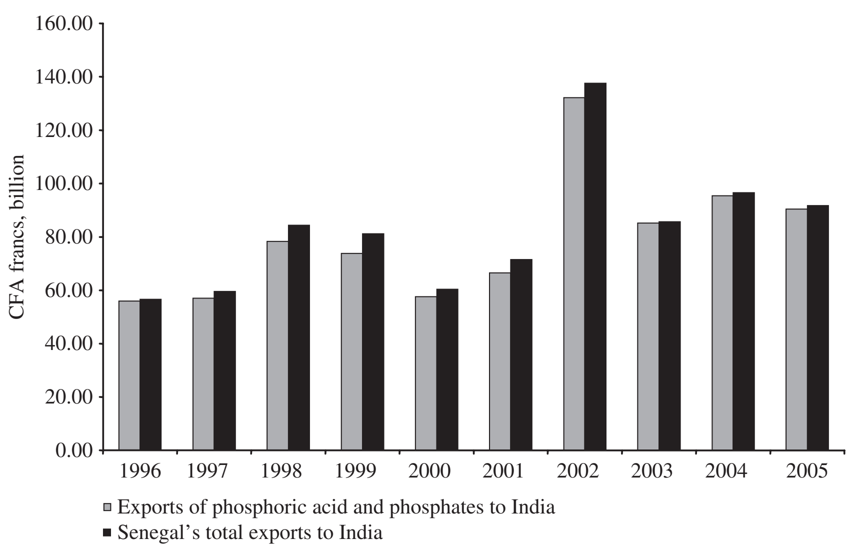
other words, these importations could be considered to be tied aid. To be properly considered as commercial imports, these products would have to fully enter the Senegalese competitive markets and sub-regional markets, which is not yet the case. Since 1996, imports from India have been unstable and, apart from a few products (vehicles, agricultural machinery, pharmaceuticals), other Indian goods (such as rice and textiles in particular), are facing competition from other suppliers, notably from China.

(ii) Senegalese non-diversified exports to the Asian Drivers

India: a key partner in Senegalese phosphate exports. India is the main destination for Senegal's exports, and accounts for 15 per cent of their total exports over the past five years. In addition, the trade balance between these two countries is tipped in Senegal's favour. However, this situation should not mask the concentration of exports in two major products: phosphoric acid and phosphates. In 2005, other products such as cashew nuts, animal skins and leather, and gum arabic contributed less than 1 per cent to the total global exports to India. Phosphoric acid and phosphates, however, accounted for over 90 per cent of all Senegalese exports to India. As shown in Figure 1, during recent years these figures have grown, due to the growth in exports of phosphates and phosphoric acid.

India's economic growth is in fact still largely based on services and agriculture. Due to the importance of its agricultural sector, India consumes large

FIGURE 1
Senegal's Exports of Phosphoric Acid and Phosphates/Total Exports to India, 1996–2005 (CFA francs, billion)



Source: *Direction de la prévision et des études économiques* (DPEE), Senegal.

TABLE 1
Growing Diversification in Exports to India (Senegalese exports to India in CFA francs)

Product	*Year*				
	2001	*2002*	*2003*	*2004*	*2005*
Cashews	3,537,367,195	2,344,300,130	73,019,279	213,445,917	604,560,825
Cotton	911,235,888	2,184,678,187	0	796,124,279	0
Scrap Metal	0	25,659,381	392,624,743	804,285,822	463,021,376

Source: *Direction de la prévision et des études économiques* (DPEE), Senegal.

amounts of fertiliser.[5] The chemical industries associated with agriculture need large amounts of phosphoric acid and phosphates, two essential elements in the manufacture of chemical agricultural fertilisers. India has imported two million tonnes of phosphoric acid per year on average over the past 10 years.

The *Industries Chimique du Sénégal* (Senegalese Chemistry Industry, ICS), the only exporters of phosphates and phosphoric acid in Senegal, have an estimated production rate of 650 tonnes per year and supply 30 per cent of the demand of India's chemical industry. Due to the intervention of the Indian agricultural cooperative IFFCO, who hold 26 per cent of the shares in ICS, it was decided in 2001 to extend their mining field. The main objective of this move was to double their production capacity so as to respond to the heavy Indian demand for their products. This allowed ICS to increase exports of phosphoric acid and phosphates, and by doing this cover 58 per cent of the demand of the agricultural cooperative IFFCO. The doubling of production capacity from 320,000 to 650,000 tonnes per year explains the record exports in 2002 (totalling 132 billion CFA francs).

In this context, despite unfavourable circumstances internationally since 1998, and the rise in prices of certain primary resources necessary to the manufacture of phosphoric acid, as well as the appreciation of the euro against the dollar, ICS's exports of phosphoric acids have continued to grow to guarantee permanent and continuous supply to their Indian partner IFFCO. Equally interestingly ICS's case is an example of commercial flows (exports of phosphates to India) and foreign direct investments in Senegal (IFFCO's investment in ICS) working together to cement enduring partnerships.

Exports to China: small in number and dominated by fish products. The Chinese market offers a new source of outlets for Senegalese exports, which tripled to China between 2000 and 2005. However, these exports still only account for 0.5 per cent of the value of Senegal's global exports.

[5] Fertilisers were key ingredients in the 'green' and 'white' revolutions. Less well known than the 'green revolution,' the 'white revolution' used agricultural resources to develop cattle breeding and a strong dairy product industry in India.

Over the past decade, sea products have been the main export to China, accounting for up to 99 per cent of all Senegal's exports to China in 2000 (63 per cent in 2005). Despite the breakdown in diplomatic relations between the People's Republic of China and Senegal, their commercial links have continued through two important commercial enterprises, *Senegal Pêche* (fisheries) and *Sénégal Armement* (ship-owners), subsidiaries of the state-run *China National Fisheries Association* (CNFC) who specialise respectively in the processing and exporting of sea products, and in ship management. *Sénégal Armement* has a fleet of around a dozen boats at its disposal, which makes it the largest of Senegal's ship-owners. Because of its geographical positioning, the port of Dakar has become a hub for processing, packaging and re-exportation of the sea products caught by the 200 boats owned by the CNFC in the region.

(iii) A cautious move to diversify exports to the two Asian Drivers

While commercial exchange between Senegal and India is dominated by two products, a small but real attempt was begun in 2000 to diversify exports, thanks to exports of cashews, animal skins and leather, gum arabic and scrap iron. Even if these products are not in great demand on the Indian market, quantities of their exports are growing, showing a diversification of Senegalese exports to India.

If there is a progressive change in commercial exchanges between Senegal and China, while India remains a key partner for exports, the Asian Drivers' contribution to foreign direct investment (FDI) in Senegal is still not really making itself felt. Any significant investments from India or China so far have tended to highlight the difficulties Senegal has in attracting FDI, at least in attracting 'greenfield' FDI investment.

b. The as yet Modest Quantities of Chinese and Indian Investment

Since 2003, Senegal has been the third biggest destination for FDI in its region (behind Côte d'Ivoire and Mali). According to the United Nations Conference on Trade and Development (UNCTAD), US$70 million of FDI went to Senegal in 2004, which translates to around 35 billion CFA francs. Yet these flows appear modest in comparison with other countries of similar levels of development (outside the African continent). The size of these figures is indicative of the country's difficulties in attracting 'greenfield' investments.

Senegal also benefits from its links with its old colonial power: the Senegalese economy is still very much affected by the presence of French business. France accounted for 80 per cent of FDI received in 2003. FDI from China and India is still rare, with the notable exception of investments in ICS. We can also see transactions taking place with the Indian groups Thappar and Tata, as well as the Chinese group *Sénégal Pêche et Armement*.

Indian operators are keen to point out that their investment, while modest, also involves a transfer of technology and skill. It is true that in certain cases these investments have resulted in a real transfer of technological skill. But it is often given in the context of tied aid, given to Senegal to purchase Indian materials and technologies, without leaving the Senegalese authorities the opportunity to explore possibilities presented by similar products proposed by other countries. In the following section we will explore the logic behind these Chinese and Indian investments.

(i) ICS: a symbol of the economic relationship between India and Senegal

As we have already mentioned, Indian economic actors invest principally in the mining sector and ICS, as dictate their interests. A shareholder of the company since its origin, ICS's main partner IFFCO has substantially increased its participation in the company's capital and has helped the latter extend its production capacity through sizeable investments. From 9 per cent at the beginning, IFFCO has increased its involvement to 24 per cent of the company shares in order to deal with the fall of the world prices for phosphate-derived products. Indian investment remains concentrated in the mining sector. Its involvement in other economic sectors, such as transport and textiles, is developing much more slowly.

(ii) TATA: a prudent implantation strategy

The current involvement of the TATA group illustrates to a certain extent the difficulties of attracting FDI to Senegal. It at least highlights the caution of foreign investors in Senegal. The Indian multinational Tata has invested in the Senegalese market through a concessional loan of US$18 million, therefore tied aid, given in the context of Senegal–India cooperation. This payment was to cover the replacement of 350 buses for the main Senegalese public transport company: Dakar *Dem Dikk* (DDD). The ensuing contract allowed the Indian firm to enter the Senegalese market and to receive other offers from Senegalese partners. Moreover, their office opened in Dakar is to cover the whole sub-region.

TATA later received an offer from the World Bank (WB) to replace the 3,000 'fast coaches' which made up Dakar's urban transport system. They were favourable to TATA's proposition, as it included an element of technological transfer. A factory was set up to manufacture these buses 80 km from Dakar, in the town of Thiès.

Nevertheless, until 2006, the TATA group's contribution to their Senegalese partners was mainly in the form of transfers of expertise and technology. Their investment mostly consisted of the provision of replacement parts and staff training by the Indian executives. Additionally, the likelihood of an extension of these investments remains dependent on several factors. Notably upon the improvement of the business environment, as discussed in the third section of this study.

(iii) The textile sector: a source of confrontation between China and India

While Senegalese textile companies are complaining of the heavy competition from the Chinese textile industry, the main Indian textile groups are making new investments. The fact that Senegal is only a nine-day boat journey from most major American ports, compared to the 24 days for China and 21 days for India, gives it a strong geographical advantage. This advantage is then reinforced by the African Growth and Opportunity Act (AGOA) which gives, in certain cases, duty-free entry on textile and apparel goods manufactured in Senegal for the American market (see Goldstein et al., 2006, for more information).

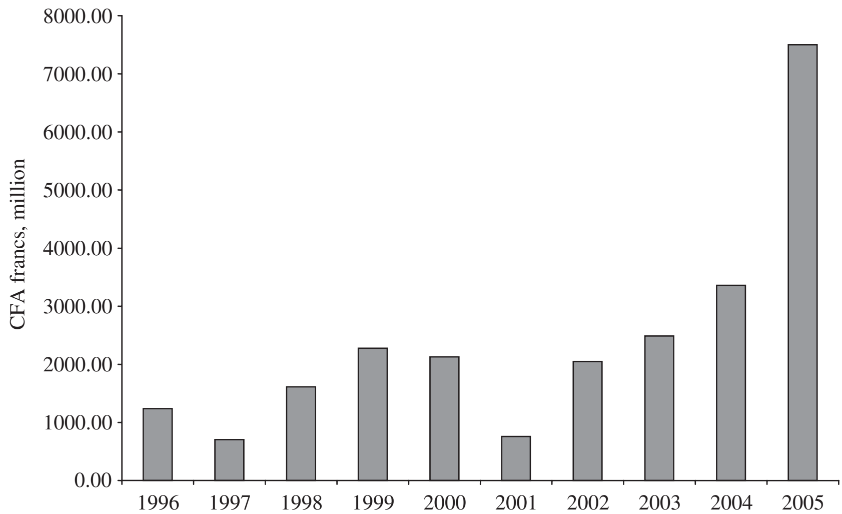
For the time being, the total production cost, especially the energy used in production, transport and goods handling add to the costs, and make producing competitively priced textiles in Senegal difficult. Additionally, Western African regional markets are swamped with low-cost textiles imported from China. Perhaps because of this, the Thappar group, which planned in 2003 to invest almost US$4 million in Senegal, seems to have lost some of its original enthusiasm, and seems to be less inclined to make additional investments in this sector, unless, as its investors have requested, substantial improvements are made to the business environment that improve conditions for textile manufacture.

(iv) Chinese investment almost only in the fishing industry

Although they appear to be ambitious, Indian investors are still relatively cautious in their dealings with Senegal. This situation is also seen in the case of Chinese direct investments in Senegal. *Sénégal Pêche* and *Sénégal Armement* are among the few Chinese companies who continued to invest in Senegal during the period of breakdown in diplomatic relations. Their investments totalled in the region of 10 billion CFA francs between 1994 and 2005. Aside from these sister companies, Chinese investment has been virtually non-existent over the past 10 years. This can almost certainly be explained by the lack of diplomatic relations at the time. But it above all gives us insight into the strategy of Chinese business in Senegal, who to date have mainly only invested in a few specific commercial sectors, typically the fisheries industry which provides faster and more certain return on investment than the industrial sectors which require heavy investment.

In this way China and India do not really seem different from the traditional foreign investors in Senegal. Their investment strategies with regards to Senegal are still cautious. Although in a better position than its neighbours, Senegal still does not attract enough financing in the form of foreign direct investment to cover its outgoings, not least a trade deficit of 713 million CFA

FIGURE 2
Senegal's Exports to China
(CFA francs, million)



Source: *Direction de la prévision et des études économiques* (DPEE), Senegal.

francs in 2003. To reverse this pattern and be able to take advantage of the opportunities offered by China and India, the Senegalese authorities will have to convince their partners to invest in the priority areas identified in the *Stratégie de la Croissance Accélérée* (SCA, Senegal's economic growth strategy; see Section 4*b*).

3. BILATERAL COOPERATION: CHINA AND INDIA, TWO STRATEGIC PARTNERS FOR SENEGAL

Despite the contrasting and in some places disappointing (lack of diversification of Senegalese exports and low FDI) economic relationships we have looked at, the growing economic and geopolitical importance of the two Asian Drivers has prompted a rethink in Senegalese diplomacy. At the same time Senegal, due to the pivotal role it plays in West African politics, has the potential to be a key partner for China and India in the region.

Nevertheless, China and India contribute little to the official development assistance (ODA) allocated to Senegal at the moment. We should therefore ask whether, given the lack of raw materials in Senegal other than phosphate, if the economic gains of a reinforced political partnership with China and India would be enough for the needs of the Senegalese economy.

a. Moving Towards a Reinforced Political Partnership between Senegal and the Asian Drivers

(i) Senegal: potentially a key partner for the Asian Drivers in Africa

China and India's interest in Africa is economic (starting with energy resources), but also geopolitical. India, candidate for a permanent seat on the UN Security Council alongside Germany, Brazil and Japan, intends to become one of the world's foremost economic actors. India has been perceived as playing a central role in democratic stability in Asia since mid-1990 and has been making efforts to create external links with the United States, Russia and even the European Union. At the same time India is hoping to promote new South–South partnerships, a role very similar to the one it played within the non-aligned movement following the Bandung Asia–Africa conference. Although the context has greatly evolved since then, India plays no less of a role, along with Brazil and South Africa, in the international trade negotiations at the World Trade Organization (WTO) with the G21, by forming political alliances with these countries, notably with Africa. For China also, the idea of a multi-polar world is the driving factor for a voluntary strategy of diplomatic and political partnership with the African continent, despite their preoccupation with securing supplies of raw materials.

Thanks to an active and subtle diplomacy, Senegal is today widely represented in numerous international institutions (The United Nations Commission and the Food and Agriculture Organization of the United Nations (FAO), for example). Senegal also acts as a key mediator on the African continent, as shown by its role in the conflict in Côte d'Ivoire, the Madagascan crisis and its participation in the peacekeeping activities of the African Union. Likewise, whatever difficulties President Wade himself encountered in setting up the NEPAD, it is clear that Senegal was keen to play an active role. In showing its political stability and its capacity to change political leaders by democratic and peaceful elections, Senegal is undertaking careful communication work to promote itself as a 'democratic window' on francophone Africa.

This diplomatic willingness, which allowed the country to form varied collaborations and to become a favourite with development partners, also allows it to be a key country on the political front for China and India in their attempts to develop a strong political partnership with Africa.

(ii) China and India as pillars of an evolving Senegalese diplomacy

The political change-over in 2000 did not damage the traditional diplomatic activism of the Senegalese authorities. The Senegalese diplomacy did not try any less to renew itself, the most symbolic illustration of this being Senegal's moving closer to the United States and the People's Republic of China. Senegal is indeed progressively distancing itself from its traditional partners (Europe and France in particular) while keeping its historical links with these countries. The breakthrough of new countries with significant political and economic power onto the world stage has pushed Senegal to remodel its diplomatic strategy around four main points: respecting international law, willingness to promote peace, the problem of supporting better African integration and wanting to develop an economic diplomacy for the country.

This last objective, as well as the problem of diplomatic independence and the consideration of new worldwide geopolitical balances, accounts for the creation of new and diverse geographical partnerships. An economic representative office has been opened in India, and another will soon be opened in China. China and India potentially (although only potentially at this stage) represent very important markets for exportation and suppliers of investment to Senegal.

b. India, China and Senegal: Cooperation Remains on a Modest Scale

Next to the apparent ambitions and diplomatic willingness, the reality is a rather small level of cooperation.

(i) The depth of the India–Senegal partnership: less than meets the eye

Help given by India is nowhere near as much as that from France, Spain, the United States and Germany, who between them provided 74 per cent of the official development assistance received by Senegal in 2005.

Additionally, Indian financing is essentially tied aid. We have to recognise, however, that India accompanies their well-adapted and low-cost technologies with training. India follows a cooperation plan whereby it focuses its efforts on areas in which its businesses already have a clear advantage, promoting technology transfers through the bias of commercial contracts.

As we have already seen, the recent implantation of the Tata group in 2003 is a good example of the link between Indian cooperation and the commercial interests of their national businesses. Their cooperation in rail transport and agriculture is also tied aid, since the Indian companies are providing equipment paid for by concessional loans from the Indian government.

(ii) Senegalese diplomatic pragmatism tested by Chinese ambition

The re-establishment of the diplomatic relationship between the People's Republic of China and Senegal (in October 2005) is still too recent to begin analysing the Chinese cooperation policy with regard to Senegal. Although the situation has since vastly changed, it should be noted that from 1971–96, the People's Republic of China had contributed to the sum of 1 billion yuan. This makes an average of 25 million yuan per year, making China a small donor. In 1996 President Abdou Diouf cut diplomatic ties with the People's Republic of

China for mainly financial reasons. The Secretary of State at the time, the present President Wade, supported his choice.

The ‘cheque book diplomacy’, as it was agreed to call the strategy of Chinese Taipei, proposed substantial financial backing to any state that was prepared to officially recognise its sovereignty. In these conditions, and with 200 billion CFA francs over the past four years, Chinese Taipei was a favourite with bilateral donors, pouring financing into numerous areas, including projects dear to President Wade such as the *Université du Futur Africain* to which Taipei recently donated more than two million CFA francs. Although the funds from Chinese Taipei were large and not tied to specific projects, the funds given by Chinese Taipei were no longer sufficient to justify estrangement from the People’s Republic of China who had become omnipresent on the continent and was on the look-out for new partnerships in Africa.

The diplomatic reconciliation between these two countries shows us an example of foreign relations in the middle of reconstruction, driven by political realism. It shows the need to regulate the situation with a political partner who has now become undisputed. Senegal’s desire to take one of the seats which are destined for African countries on the United Nations Security Council certainly helped to speed up negotiations with a state which has the power of veto. The growth of commercial exchanges between Senegal and the People’s Republic of China since 2000, while Taipei’s seem to have been falling, certainly helped matters.

China attaches very few conditions to its cooperation with other countries. Apart from the absence of diplomatic relations with Chinese Taipei, China imposes no real political conditions: ‘Beijing allows the African nations to decide their vote within the United Nations (UN), hasn’t suggested deploying any soldiers on their territory, and above all refrains from giving democratic lessons to these governments’ (Lafargue, 2005).

China has given some money to mark its official return to Senegal, but nothing indicates that it will be as generous as Chinese Taipei. Beyond the political aspects of cooperation, Senegal, on restoring ties with the People’s Republic of China, look to them as a potential investor in Senegal or at least as a future destination for Senegalese exports. The relationship with China is far from equal: it carries great risks for Senegalese economic actors and raises many questions.

(iii) The uncertain economic gain from a partnership with China

From a political viewpoint, Senegal is an important country in West Africa; they have little to offer China, however, in terms of raw materials. What could then be the benefits for Senegal from intensifying economic relations with China?

We could highlight that the few natural resources available in Senegal are already being heavily exploited. The growth in fisheries production risks leading to over-fishing, and is threatening this sector. As for phosphates, they are mainly tied into the partnerships with private actors in India. Deposits of gold in the south of the country are small and few, and oil resources are almost non-existent.

It seems like it will be a difficult task for Senegal to attract significant Chinese investment under these circumstances. Senegal could make the most of its political stability to act as a bridge to the sub-region. But it remains the case that in the eyes of many Chinese groups, political stability is far from being necessary to their activities: some have set up in politically unstable countries or even in civil wars (as in Sudan and Angola). At the same time, it is difficult for Senegalese products to find their place in the Chinese market. The Senegalese Prime Minister, on his visit to Beijing in 2006, confirmed Senegal's difficulties in proposing attractive products to the Chinese market. Prime Minister Macky Sall brought up the question of access for Senegalese products to the Chinese market, but his request was principally concerned with groundnut, and not very many other products besides this.

The economic gain from a stronger relationship with the People's Republic of China is even less likely now that it might increase the number of Chinese entrepreneurs migrating to Senegal; the impact of this on the local economic fabric is uncertain (cf. *infra*). Certainly, with a population of barely 10.8 million and a relatively high level of poverty, Senegal's interior market does not hold much potential. Nevertheless, it is still attracting a large number of Chinese economic actors who seem to have adopted a strategy of 'space occupation' on African territory. This strategy, as we will see in the third part of this study, has raised worries from national economic actors, whose own positions might be at risk. Chinese entrepreneurs do not necessarily bring a reinforcement of certain activities (notably in the formal sector), already weakly structured, or any improvements in employment conditions in the job market. The spillover effects are therefore limited.

4. THE SENEGALESE ECONOMY FACED WITH THE ASIAN DRIVERS: RISKS AND OPPORTUNITIES

As we have already seen, the economic benefits to Senegal from forming relations with the two Asian Drivers have been limited and contrasting. As a market for Senegalese exports, China is a marginal importer, and exports to India are not sufficiently diverse. To add to this, Chinese and Indian FDI in Senegal remain limited and concentrated in specific sectors, phosphates in the case of India and fisheries for China.

What are the consequent prospects, risks and opportunities that can be predicted for Senegal in its future relations with China and India?

a. Senegal and the Asian Drivers: New Commercial Dynamics with an as yet Uncertain Impact

(i) Chinese and Indian Traders: friend or foe of the Senegalese consumer?

Since 2000, Chinese and Indian communities in Senegal have grown rapidly. At present there are around 140 Indians registered through the Indian Embassy in Senegal, to which can be added 50 'floating people'.[6] In 1997, the Indian community consisted of only three families outside of Embassy staff. According to official statistics from the Department of Interior Affairs of the Ministry of Commerce, the Chinese community counted 515 expatriates in 2005. Other sources quote a hypothetical figure of 1,500 Chinese nationals in Dakar. Consequently, the number of Chinese commercial establishments multiplied by seven between 2002 and 2005.

Unlike the Indians, the Chinese are only in Dakar. The Chinese community is concentrated in the *Boulevard du Centenaire* area, where they live and own shops. It is also made up of construction workers working mainly for the company *Henan Chine*. This company is at the root of the expansion of the Chinese community in Dakar.[7]

The Senegalese union for traders and industrialists (UNACOIS), the Senegalese business association for the informal sector, appears to be worried by the size of the Chinese network. This position is based on several observations. Most of all, business people in Senegal are surprised at the extremely low prices that products from China are being sold at. A Chinese trader explains the low prices by the special deals that the Chinese companies have with factories producing the goods in China. UNACOIS also brings up frauds concerning the importation of Chinese products discovered by Customs and the Ministry of Commerce. Investigations are being made into the size of the problem, and the involvement of some Senegalese customs officers. Finally, some members of the Chinese community are not living up to their administrative responsibilities (starting with tax obligations), which also raises questions about the effectiveness of the monitoring of tax payments.

Most Chinese shopkeepers come from a poor region of China called Henan. How do they therefore manage to fill, transport to the port and get their containers through customs? Two explanations are offered.[8] The first imagines that the Chinese traders organise within their families and save together to invest in the containers. The second suggests that these Chinese traders are involved in a large network that stretches beyond just Senegal, and guarantees them a regular

[6] 'Floating' people are those who have not got permanent residency in Senegal, but who trade with the country and stay there for extended periods of time.

[7] For a detailed study of the growth of Chinese migration to Dakar, see Bredeloup and Bertoncello (2006)

[8] These hypotheses were discussed during the interviews conducted by the authors.

supply of new products. These networks would perhaps offer them preferential financing. How could the fact that the Chinese shopkeepers manage to pay commercial rents, equivalent in some cases to five times the market price, or to invest in business premises be otherwise explained? The limited nature of their trade, and the small returns, do not easily allow this type of investment.

The lack of available information means these hypotheses can neither be confirmed nor disproved. The persistent rumours about the business practices of the Chinese community produces a reaction of secretiveness, which increases the mistrust between local and Chinese traders. At the same time, consumers and even local businesses in the informal sector seem to benefit from the low prices of Chinese shopkeepers.

Relationships with the Indian business community seem much easier. Representatives of UNACOIS, who were interviewed for the purposes of this study, said they consider their collaborations with Indian operators to be mutually beneficial. Their investment is often accompanied by transfers of knowledge and skill. They are involved in much more diverse sectors (the rail industry, pharmaceuticals – cf. *infra*).

(ii) Competition from Chinese textiles: the impact on Senegalese manufacture and second-hand clothes sales

Competition with the Chinese actors is without doubt at its strongest in the textile industry. For Senegalese consumers, particularly those from the most disadvantaged sections of the population, these products give them the opportunity to purchase new clothes at affordable prices. But the local textile industry, and particularly the clothing industry, is suffering from the competition from clothing imported from China for sale on the domestic market.[9]

The importation of copies of certain models made in Senegal does not entirely explain the difficulties these industries are facing, although it serves to highlight the lack of competitiveness of the Senegalese clothing industry.[10]

The cost of factors such as electricity are too high, and the electricity cuts that Senegal is once more experiencing since 2005 are doing even more damage to the competitiveness of local industries. The rising price of electricity at the beginning of 2006, justified by the rising petrol prices, has increased utility prices for companies who already had some of the highest prices in

[9] The Senegalese clothing industry is currently going through a crisis which is at risk of undermining its structure. At the beginning of the 1980s there were 14 textile factories in Senegal. By 2005 there were only eight, three of which were not in full-time operation. All the factories are in financial difficulties.

[10] The consequences of the dissolution of the Mutifibre Agreement on exports of Senegalese clothing products to external markets have not yet been evaluated, but there is no doubt that it will create more problems for the sector (for more on this subject see Goldstein et al., 2006, Annex B).

TABLE 2
The Cost of Transporting Freight to the United States (2002)

	Country of origin	*Mexico*	*China*	*India/ Pakistan*	*Honduras*	*Brazil*	*Sub-Saharan Africa*	*Senegal*
Freight sent to the United States	Price in US$ for a 40 ft container	1,600	3,500	3,500	1,900	2,900	3,500	4,000
Average time of travel	Days of travel	3	28	24	7	18	21	9

Source: *Nouvelles Sociétés Textiles du Sénégal* (2002).

the region. Also, as shown in Table 2, the cost of sending freight to the United States from Senegal is higher than from competing countries, stopping Senegal from benefiting on the American market from the fact that it is close by (measured in days by boat) and from seizing the opportunities offered by the AGOA.

(iii) Potentially promising sectors?

The large growth of cashew exports to India at the end of the 1990s has already been touched upon. But this sector is still extremely dependent on the Indian market, from the fixing of prices to the quantities sold. Already well established in India, scrap metal recycling also represents a new area of activity for Indian economic actors in Senegal. Their presence has not yet attracted large quantities of direct investment, but they have started businesses where previously there were only small informal businesses which were poorly adapted to the global or international market in recycling. The construction sector and the transport industry seem have the most potential.

The construction sector: less expensive infrastructure but limited skills transfer. Before the breakdown of the relations with China, at the beginning of the 1980s, the Chinese state offered Senegal a sports stadium. The company that constructed this stadium, *Henan Chine*, never left Senegal and is now one of the most competitive public works companies in the country.

The competitiveness of *Henan Chine* raises many questions. If the answers are complex and badly documented, the explanation can perhaps be found in the company's working methods. They use Chinese machinery which is less expensive than that from Europe. Additionally their engineers are very familiar with these machines and have access to spare parts and after-sales service. *Henan Chine* also works non-stop, with teams working day and night shifts. A final explanation could come from employing Chinese engineers, who are a lot cheaper than their Senegalese counterparts. When necessary, *Henan Chine* forms alliances with other local businesses which have the skills they need. For toll roads, for instance, it added its experience in constructing bridges and viaducts to that of its local partner, Jean Lefebvre Sénégal, who specialises in road construction.

The low cost of *Henan Chine* could prove to be an advantage for infrastructure development in Senegal. On the other hand, *Henan Chine* makes very little investment. It brings the skills it needs from China, which means that very little local employment is created, establishing a new form of dependence on Chinese skills and technology. The transfer of technologies and skills to local employees, notably to Senegalese engineers, is very limited.

The transport industry: a future outside of the 'development niche'? As we have seen, TATA's installation in Senegal happened in a very cautious manner, and is linked closely to the development market and to actions taken by Indian cooperation. Although these investments have contributed to technological and skills transfers, the financial size of the investment is limited. It is not certain that TATA will stay in Senegal permanently, especially if the company does not manage to find a place in the local market outside of the contracts financed by development partners. TATA's factory is already experiencing problems related to overcapacity. Furthermore, one of the company's current problems is finding a steady supply of the components needed for its work. At the moment all the input for the group comes from India, which raises production costs for the subsidiary. The group's policy is usually to manufacture low-cost vehicles from locally available components.

b. Sectors with Mutual Economic Interests in a Difficult Situation: The Case of Phosphate

(i) ICS: the limits of a South–South partnership

ICS, the symbol of the economic relationship between India and Senegal, has been in acute financial crisis since 2001. According to sources,[11] the accumulated deficit has been equal to or larger than the companies' assets. Due to ICS's economic weight in Senegal, the difficulties they have been experiencing had a significant detrimental effect on the Senegalese economy in 2006 (AfDB/OECD, 2007). This situation has been caused by several internal and

[11] ICS debt was estimated at 235 billion CFA francs at the end of 2005, of which 80 billion CFA francs was to suppliers, 75 billion CFA francs to development investment partners (Agence française de dévelopement, West African Development Bank, European Investment Bank) and 80 billion CFA francs to local banks.

external factors such as logistical and management issues and the fall in the international trade in phosphates and phosphoric acid since 1998. This combined with bad management and heavy investment in infrastructure has put ICS in a difficult financial position.[12]

This crisis also highlights the limits of an India–Senegal partnership, unequal since one of the partners (India) appears to have acquired too much weight given that it is the unique outlet for its partner, especially since ICS has put all its efforts into serving the Indian market, and has not really considered the options presented by the fertiliser market on a regional level. Of course, ICS produces 250,000 tonnes of fertiliser per year which are sold on the West African market, but they do not cover the full needs of the region. ICS's commercial management justify this by the instability and weak promises made by the West African fertiliser market, compared to that of phosphoric acid. A more offensive strategy towards the West African fertiliser market would allow ICS to move away from its dependence on its Indian buyer and diversify its products. The problem, already raised in the context of cashew exports, lies in the processing and optimisation of products exported by Senegal to the Asian Drivers.

c. How to Grasp the Opportunities Offered by the Asian Drivers?

To reinforce its attractiveness and seduce new partners, the Senegalese government is at the moment creating an accelerated growth strategy (SCA – *Stratégie de Croissance Accélérée*) to accompany its Poverty Reduction Strategic Paper (PRSP). The SCA rests on five clusters identified as being motors of growth: (1) the agriculture and food industries; (2) marine products; (3) tourism, the craft industry and cultural industries; (4) cotton, textiles and clothing; and (5) communication and information technologies (CIT), as well as teleservices. Future collaborations could be formed with the Asian Drivers around any of these clusters.

(i) Identifying complementary sectors with the Asian Drivers

Senegalese fishing and clothing sectors: challenges to be overcome. Among the five clusters identified by the SCA, marine products on one hand, and cotton, textiles and clothing on the other, are already receiving investment from Chinese and Indian actors. However, these sectors are faced with challenges that are partly related to competition from the Asian Drivers. At the same time there is large potential for cooperation between Asian and West African

[12] The IFFCO group signed an agreement with Senegal outlining the conditions of recapitalisation of ICS: it foresaw the injection of US$80 million, or 40 billion CFA francs before 30 June 2007. ICS financial debt will be restructured.

countries in the development of aquaculture[13] and fish breeding, a development which is also worth exploring to reduce pressure on Senegalese marine resources and support a revival of this sector.

High-quality textiles and clothing was identified as a pillar of Senegal's accelerated growth strategy. But, as has been highlighted by recent investments from the Indian group Thappar in the textile company NSTS, many questions remain concerning the competitiveness of an industry crippled by debt and high production and service costs. The United Nations Industrial Development Organization (UNIDO) recently highlighted again the relatively gloomy future of this sector in Senegal.[14]

If we go by the experience of Indian investors who moved to Senegal, their consistent strategy of using the niche created by the AGOA appears to have been largely unsuccessful. Chinese actors seem hesitant to invest in this sector in Senegal, and appear to prefer to export low-cost products made in China. Due to the competition and general pessimism, it would be reasonable to ask questions about the future of the 'cluster' of textiles and clothing in Senegal.[15]

Retailing: the difficulties of formalising the activities of the Chinese immigrants. The retail sector, which is not mentioned in the SCA, is nevertheless attracting a lot of attention from the authorities. The contribution from the Chinese retailers to the Senegalese economy is limited since their activities, which are for the main part based in the informal sector, are likely to bring into question the efforts of the authorities to bring retail businesses owned by Senegalese actors into the formal sector. There is a real risk: it is estimated that only 10 per cent of Chinese store owners have a bank account in Senegal. It is true that this figure is not necessarily lower than that of Senegalese store owners, but it highlights the fact that the Chinese storekeepers are happy with this informal situation, despite the stance taken by the Senegalese government.

The circumstances that surround the arrival, the presence and the development of commercial activities in the Chinese community illustrate certain incoherencies that the authorities currently practise in this area. In the future they will have to be more transparent. For example, the relative tolerance of the Senegalese authorities towards the installation of Chinese businesses that do not fulfil the administrative conditions required contradicts the firmness shown when recovering taxes from the Senegalese shopkeepers. As a general rule, it

[13] On the subject of potential cooperation between Africa and Asia in developing aquaculture, we can refer to a regional study entitled 'Exploring Opportunities for Sustainable Shrimp Farming in West Africa: Focus on South–South Co-operation' from the Sahel and West Africa Club (2006), as well as the round-table report on the same subject in Conakry, Guinea, 6–8 June 2006 (http://www.oecd.org/document/58/0,2340,fr_2649_33711_36810959_1_1_1_1,00.html).

[14] Gherzi Textile Organisation (2005).

[15] For more information on the future of the textile/clothing industry in sub-Saharan Africa, see Goldstein et al. (2006) and Kaplinsky and Morris (2006).

would be good for the conditions of their integration into economic life in Senegal to be clarified so as to reduce tension between the local population and the members of the Chinese community.

Possible partnerships in the agriculture industry, information technologies and in construction. Two other 'clusters' identified under the SCA, the food and agriculture industries on one hand and communication and information technologies (CIT) and teleservices on the other, could be considered as being potentially interesting in terms of partnerships with China and India.

A pillar of both the Senegalese and Indian economies, exchanges between the two countries in agriculture need to be developed to have knock-on effects in the rest of the Senegalese economy. More worryingly, the continuation of these exchanges is in question: the case of cashew nuts highlights Senegal's difficulties in valorising its exported agricultural produce, while there exists an unsatisfied national, and even regional, demand for processed products.

In the CIT and teleservice area, India has gained an international reputation. Although this sector is only just emerging in Senegal, it offers opportunities for market conquest in the francophone areas of the market. With a digital link[16] running through Senegal, the technical environment offered to potential investors seems interesting. But efforts will have to be agreed upon to increase Senegal's attractiveness in this domain, especially in relation to competition from countries such as those from Maghreb that have large and sophisticated telecommunications sectors, which could convince Indian investors to move more permanently into the area.

(ii) Attracting and taking advantage of Chinese and Indian investments in Senegal

To be able to exploit the complementarities in the sectors, the Senegalese authorities should undertake the necessary reforms to create an attractive environment for investors, be they Indian or Chinese. They should also form a clear view of the areas in which they have conflicting interests, and in this way put the accent on those which are mutually beneficial. Besides which, they should be seen in the light of a more global strategy of economic development and allow the development of businesses capable of adding value to basic products and to supporting technology transfers.

Developing technology transfers. Although it is necessary to take a step back to appreciate the real benefits from TATA's investment in Senegal, the latter is undoubtedly interesting as it comes with transfers of technical know-how. Certainly Senegal does not have the scope to choose its investments. Still,

[16] Senegal has a digital network that covers the entire national territory and consists of over 2,200 kilometres of fibre optic.

it could try to use the model for encouraging investments that took place in Mauritius in the 1990s, asking investors to accompany their operations with real transfers of technology and skills.

Enhancing the value of local products. The case of ICS is very illustrative in regards to valorising raw materials, be they mineral or agricultural, produced in Senegal. Without again putting into question the role of the partnership with India in the phosphate sector, we can however highlight the lack of vision on the part of the political authorities regarding the role and place of this industry within the national economy. Senegal has been content with the spillover effects of this industry, without putting in place a more global development plan for this industrial sector or integrating it into the West African region.

Obtaining a larger access to the Chinese market. While the Economic Partnership Agreements (EPAs) between the European Union and the Economic Community of West African States (ECOWAS) are creating a lot of discontent in the region, particularly with the Senegalese authorities, the negotiation of commercial agreements with the Asian Drivers could be a path to explore for Senegal. In fact, access of foreign products to their markets is largely protected, apart from metal and fuel raw materials.[17] Granting enhanced market access could contribute to encouraging diversification of the Senegalese economy and the development of non-traditional exports from the country.

(iii) Political dividends of a reinforced relationship with the Asian Drivers

In a general sense, the historical place of India in the non-aligned movement, as well as its current key role in international commercial negotiations, could make it a useful 'political resource' for countries like Senegal. Although countries like India and less developed countries like Senegal have conflicting interests in certain areas, they also have points of common interest, whether it be the reform of the World Trade Organization's Dispute Settlement Body or reductions in agricultural subsidies.

India's expertise coupled with its political power has allowed it to demand, along with Japan, Brazil and Germany, a reform of the UN Security Council. Senegal itself plays a big role on the continental scale. Political alliances should be able to be formed within international government organisations, starting with the UN.

[17] On this topic, see Phil Alves' presentation entitled 'Trade and Market Access: Can China and Africa Cooperate?' given at the conference 'China in Africa in the 21st Century: Preparing the Forum on China–Africa Cooperation', organised by the South African Institute of Foreign Affairs, 16–17 October 2006, in Johannesburg.

5. CONCLUSION

Senegal is in the peculiar position of having a more developed partnership with India than with the People's Republic of China. While these two commercial superpowers are growing on an international and continental level, the Senegalese authorities are trying to make up the ground they have lost in their relationship with the People's Republic of China since the diplomatic break in 1996.

It is easy to see Senegal's interest in developing partnerships with the two countries, whether it be for political gain, or for the possible benefits from investment, technology transfer or development cooperation.

They might be disappointed however. The Asian Drivers' interest in Senegal seems limited. Outside of investments in phosphates and fisheries, FDI from the two countries is limited. Additionally, the amount of official development assistance put forward by China and India, although highly symbolic, is nonetheless relatively anecdotic in terms of financial size. The image Senegal enjoys of a first-class actor on the continent (especially where NEPAD is concerned) certainly seems to play a role in cementing its ties with China and India. Senegal has the role of gateway and springboard for the sub-regional market, not only because of its geographical position, but also because of the good state of its infrastructure compared to other countries in the region and from its relative political stability. It benefits from a geographical closeness to the American and European markets and from trade agreements such as the AGOA with the United States and the Everything But Arms initiative with the European Union.[18]

For the moment the Chinese and Indian promises are taking their time coming and Senegal has not yet managed to take advantage of these relationships to become a large FDI recipient. Whatever the reasons given (the business environment, the limited market, the end of the Multifibre Arrangement, etc.), the difficulty of securing sustainable commercial and economic partnerships remains the same. Senegal appears to be more of a logistical and commercial centre for importation and re-exportation, than as a production base for regional or foreign markets. It would be wrong to think that, as shown in the example of the phosphate industry or the exploitation of Senegalese cashew and fishery resources, partnerships with China and India are by definition equal for the simple reason that they are borne of South–South cooperation.

If public policy alone is not enough to induce economic development in a country, the State in Senegal traditionally plays an important role. In these conditions it is essential that the authorities be clear on their economic

[18] The original rules attached to these agreements were very restrictive; see Goldstein et al. (2006).

development and social priorities. It is only by doing this that they will have the tools to build more equal and beneficial partnerships with the Asian Drivers.

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