

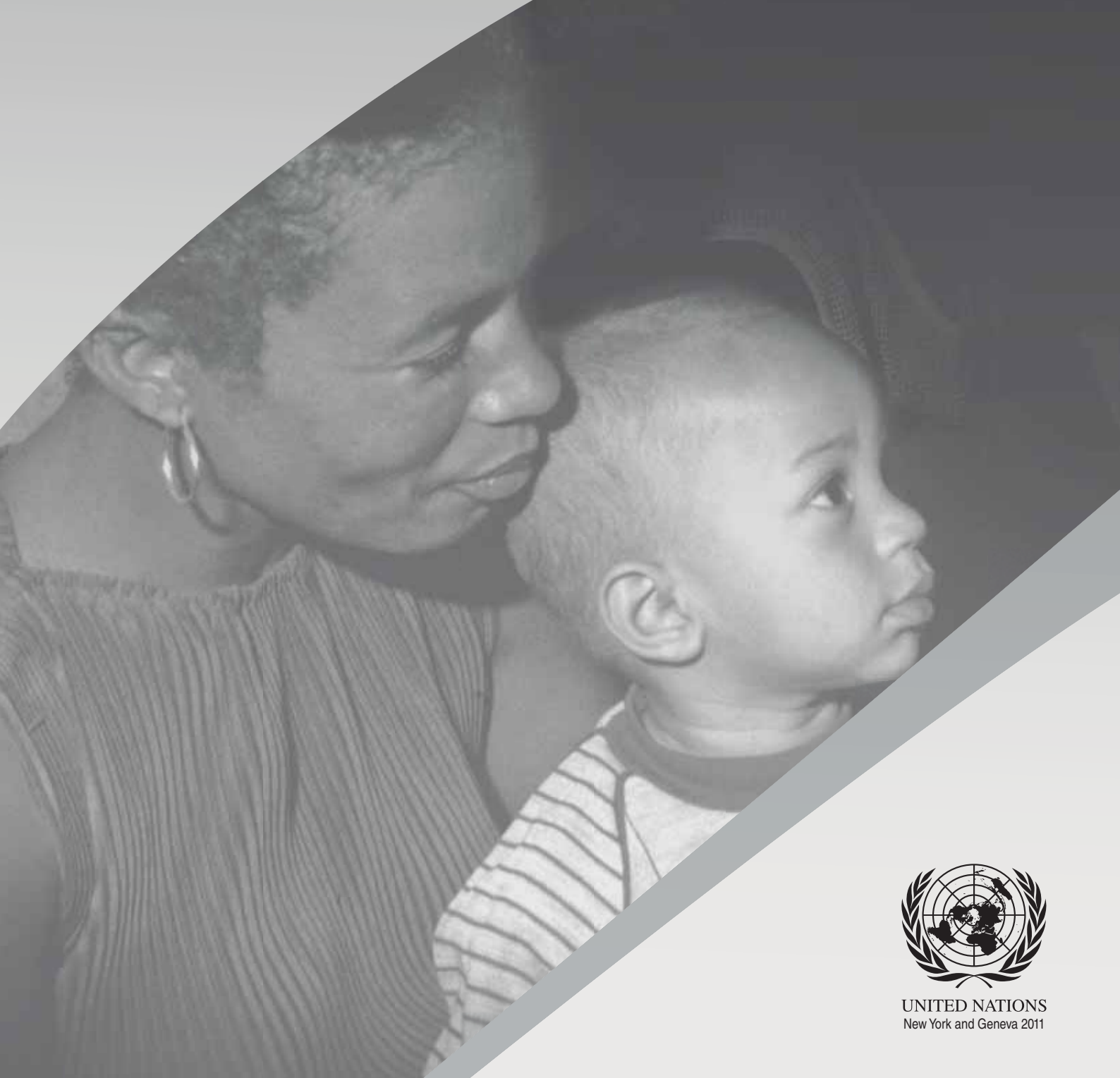


Who is benefiting from trade liberalization in Cape Verde?

A GENDER PERSPECTIVE



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This study is part of UNCTAD's activities on trade, gender and development carried out by the organization in accordance with its mandate. The Accra Accord resulting from the Twelfth Ministerial Conference (UNCTAD XII, Accra, Ghana, 20–25 April 2008) requested UNCTAD to strengthen its work on the linkages between trade and internationally agreed development goals and objectives, including gender equality (para. 96(d)), and to make efforts to mainstream cross-cutting issues of gender equality and the empowerment of women in all its work (para. 173). UNCTAD aims to contribute to the analysis of the linkages between trade policy and gender equality, and to the related international debate, by looking at specific country experiences. This study is one in a series of case studies that are being conducted by UNCTAD in six developing countries, namely Angola, Bhutan, Cape Verde, Lesotho, Rwanda and Uruguay.

This study was prepared by an UNCTAD team including Mona Froystad, Irene Musselli and Simonetta Zarrilli, in collaboration with Professor Guido Porto from the Department of Economics of the University of La Plata, Argentina. The overall work was coordinated by Simonetta Zarrilli.

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EXECUTIVE SUMMARY

Trade policies such as trade liberalization and facilitation that are aimed at fostering market integration tend to have strong redistributive effects, both across economic sectors and among individuals. Some may benefit, others may suffer, and yet others may be unaffected. The study explores some of the impacts of trade policies on household's welfare in Cape Verde, with a focus on gender issues. To the extent possible, it devises policies and instruments that would bring positive results for women. In particular, it looks at food prices, remittances and tourism. These dimensions emerge as important transmission channels through which trade policies affect gender relations in Cape Verde. They were identified in light of their critical significance to Cape Verde and Cape Verdean women, and based on considerations of data availability.

Cape Verde is characterized by being heavily dependent on imports, especially of food products and of several kinds of machineries. The export sector is small and limited to primary and low technology-intensive goods. The European Union (EU) is Cape Verde's main trade partner. Currently Cape Verde is eligible as beneficiary of the Everything but Arms (EBA) scheme, which gives the country duty-free access to the EU market. Cape Verde graduated from the Least Developed Country (LDC) status in 2008, and, as a result, will be removed from the list of EBA beneficiaries on 1 January 2012, after its three-year transition period. Within the Cotonou Agreement framework, Cape Verde is in the process of negotiating an Economic Partnership Agreement (EPA) with the EU. The agreement will guarantee that Cape Verde's exports continue enjoying duty-free access in the EU market after the phasing out of the EBA, but on reciprocal terms. There are concerns that the elimination of customs duties on most EU imports could lead to a significant decrease in Government revenue, which may badly affect the provisions of public services from which women in particular benefit. Moreover, if not implemented gradually and with appropriate safeguards, trade liberalization with the EU may hamper its industrialization prospects, with negative repercussions on women employed in import-competing sectors, among others. The risk is that many Cape Verdean producers will no longer remain profitable as their ability to compete with EU imports is highly limited by severe supply-side constraints.

Cape Verde, to a great extent, has showed commitment to gender equality and women's empowerment. It is a signatory of several related covenants and agreements at the multilateral and regional levels; domestically, the Constitution and other key laws guarantee equal rights for women and men. However, Cape Verde has experienced difficulties in ensuring de facto equality. Rather than in legislative barriers, gender inequalities seem to be rooted in socio-cultural norms that current policies and laws have not yet been able to overcome.

There are three main effects of trade policies on households that could be discerned: (a) the consumption effect on the price of the good consumed by the households; (b) the income effect on households' income, including earnings, sales of agricultural products and other forms of income; and (c) the revenue effect on the generation and distribution of Government revenues. Revenues may indirectly affect households through transfers and provision of public goods. Simulations were made in the study in order to assess how individuals' and households' welfare would be affected by (a) a change in food prices; (b) an increase in income originating from remittances; and (c) an expansion of some tourism subsectors. Results were aggregated by the relevant dimension (location, gender, poor or non-poor), so as to better identify any subgroup that would gain or lose from trade policy. The main findings of the analysis are summarized below.

Food prices

In both urban and rural households, food expenditure represents a large share of Cape Verdean households' total expenditures. Nationally, the food budget share is approximately 45 per cent amongst the households with the lowest income, with a small difference between female- and male-headed households. The share spent on food declines with the level of household well-being; it follows that higher food prices will affect more seriously the poorer households.

At the global level, average global agriculture and food prices are rising rapidly with the Food and Agriculture Organization of the United Nations (FAO) Food Price Index reaching a near historical high in May 2011. Against this background, the study simulates the poverty impacts of a 10 per cent increase

in international food prices that would translate in an equivalent increase in the cost of the food bundle at the household level. At the national level, the fraction of people below the poverty line increases by 2.6 percentage points (the increase in head-count ratio from 36.7 to 39.2 per cent). As stated earlier, there are only marginal differences between the poverty impacts on female- and male-headed households. However, in the case of extreme poverty, the impacts tend to be larger in female-headed households than in male-headed households (2.2 and 1.5 percentage points increase, respectively). The negative repercussions of a 10 per cent increase in the cost of the food bundle are larger in rural than urban areas: the fraction of people below the poverty line increases by 3.1 and 2.2 percentage points, respectively.

The study also simulates the poverty impacts of full tariff liberalization in agriculture, particularly in the context of ongoing EPA negotiations. Most favoured nation (MFN) applied tariffs average 12 per cent on agricultural products. Without estimates of the extent of the pass-through to domestic food prices, it was assumed that complete tariff liberalization would translate to a 10 per cent decline in food prices. The purpose of this second simulation is to isolate the impact of Cape Verde's trade liberalization policy on food prices from the impact on other factors. The change in food prices brought about by the hypothetical tariff cuts causes poverty to decline. At the national level, the fraction of people below the poverty line declines by 2.6 percentage points. Again, there are only marginal differences between the poverty impact in female- and male-headed households, though the impacts tend to be larger in female-headed households. The simulation also uncovers larger impacts in rural areas, particularly in the case of extreme poverty.

While the analysis shows that tariff cuts due to the EPA may have a pro-poor impact, it tends to discount considerations of food security. Because of its geographical and climate conditions, food insecurity in Cape Verde is structural, and the country will likely remain import-dependent on food. Nevertheless, it has an interest in preserving some capacity for domestic food and agriculture production. A balance should therefore be struck between the benefits, especially for poor households, of trade liberalization and related tariff reductions and the need to keep and enhance domestic productive capacity.

The 2007–2008 global food crisis has highlighted some of the risks of relying on food imports, leading to renewed interest in enhancing agricultural production in Cape Verde.

Persistently high agriculture and food prices in the international markets make national policies and programmes, including safety net programmes and proactive agricultural policies, of utmost importance. In Cape Verde, the central Government and the municipalities administer social protection mechanisms to control negative effects of food insecurity, such as school feeding programmes and targeted cash transfer programmes. A key consideration in designing a social protection scheme is deciding who should be targeted and how it should be provided. Findings from this study could provide some guidance on how to best identify the suitable beneficiaries of the schemes, based on the population's characteristics such as location, gender and income. The findings also point to the need to preserve and boost domestic capacity in staple food production to lessen Cape Verde's exposure to highly volatile international markets. Cape Verde has already identified some key areas of policy intervention, such as stimulating the artisanal fisheries sector, improving agriculture production through irrigation, and promoting sustainable management of natural resources.

A number of Aid for Trade initiatives could catalyse development assistance in support of Cape Verde's efforts to develop the infrastructure the country needs in enhancing food production capabilities. The key challenge is to align aid flows to the priorities expressed in national agricultural/sectoral policies. The technological upgrading of women farmers, their enhanced access to extension services, training on standards compliance could be included among the trade-related areas where support from the international financing schemes could be sought.

Remittances

Due to the Cape Verdean diaspora, remittances are a major link between migration and development for the country. Remittances and external rents are an important source of income, representing 10.5 per cent of total household income, and 14.7 per cent of income for female-headed households. There are also geographic disparities: in rural areas, remittances account for nearly 15 per cent of total income,

while in urban areas they account for only 7.1 per cent. Remittances have almost doubled between 1998 and 2008 in nominal terms (from \$77 million to \$138.4 million). However, the share of remittances in gross domestic product (GDP) actually declined in recent years.

The study simulates the household welfare effects of an increase of 20 per cent in income coming from remittances. The results show that the income gains are higher for female-headed households, and rural areas are more affected than urban areas. In urban areas, the gains are similar across the entire range of income levels, and are equivalent to 2 per cent of household income for female-headed households, and 1 per cent for male-headed households. In contrast, the gains in rural areas tend to be positively associated with per capita household expenditure, especially for female-headed households. Overall, the simulation suggests that an increase in remittances seems to be particularly beneficial for female-headed households, except for the poorest households in rural areas, whose share of income from remittances tends to be very small.

Given the equalizing effects of remittances on income distribution and their importance for household livelihoods, Cape Verde would benefit from exploring ways and means to sustain and facilitate remittance flows. This calls for policy and institutional coherence at the national and international levels, and it requires coordinated action among countries sending and receiving workers. There are two main policy areas that would be of particular importance: management of labour mobility and facilitation of remittance flows. Labour mobility is a complex issue where Cape Verde should carefully weigh the positive effects of migration and remittances, such as financial inflows and the establishment of transnational networks linked to the diaspora, against their negative repercussions

4 – the temporary movement of people as service suppliers – represents the only multilateral treaty-based regime in existence today for managing the temporary movement of certain categories of persons. The precise definition of temporary services suppliers, however, is rather unclear, and given the fact that the boundaries between temporary movement and temporary migration tend to blur, some countries use the same legal instruments to regulate both movements. As highlighted above, trade and migration instruments can be used to make working abroad beneficial to workers and to both the sending and receiving countries. As far as the temporary movement of services suppliers under GATS mode 4 is at stake, the study identifies the enhancement of temporary movement of lower skilled services suppliers, the simplification of the granting of visas, work permits and licensing requirements, the recognition of professional qualifications, and the streamlining of the economic needs tests as measures that could be considered to facilitate women's increased participation and benefits from working abroad.

Tourism

Through foreign exchange earnings, the creation of direct and indirect jobs, and skills development, tourism represents one of the most important opportunities for economic development, poverty reduction and women's empowerment in the country.

Despite its potential benefits for overall economic development, the expansion of the tourism sector comes with potential costs, including the need for large investments in infrastructure, pollution, over-exploitation of natural resources, changes in social relations, and potential for increase in prostitution and sexually transmitted diseases, among others. These are challenges that Cape Verde should get ready to face.

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