

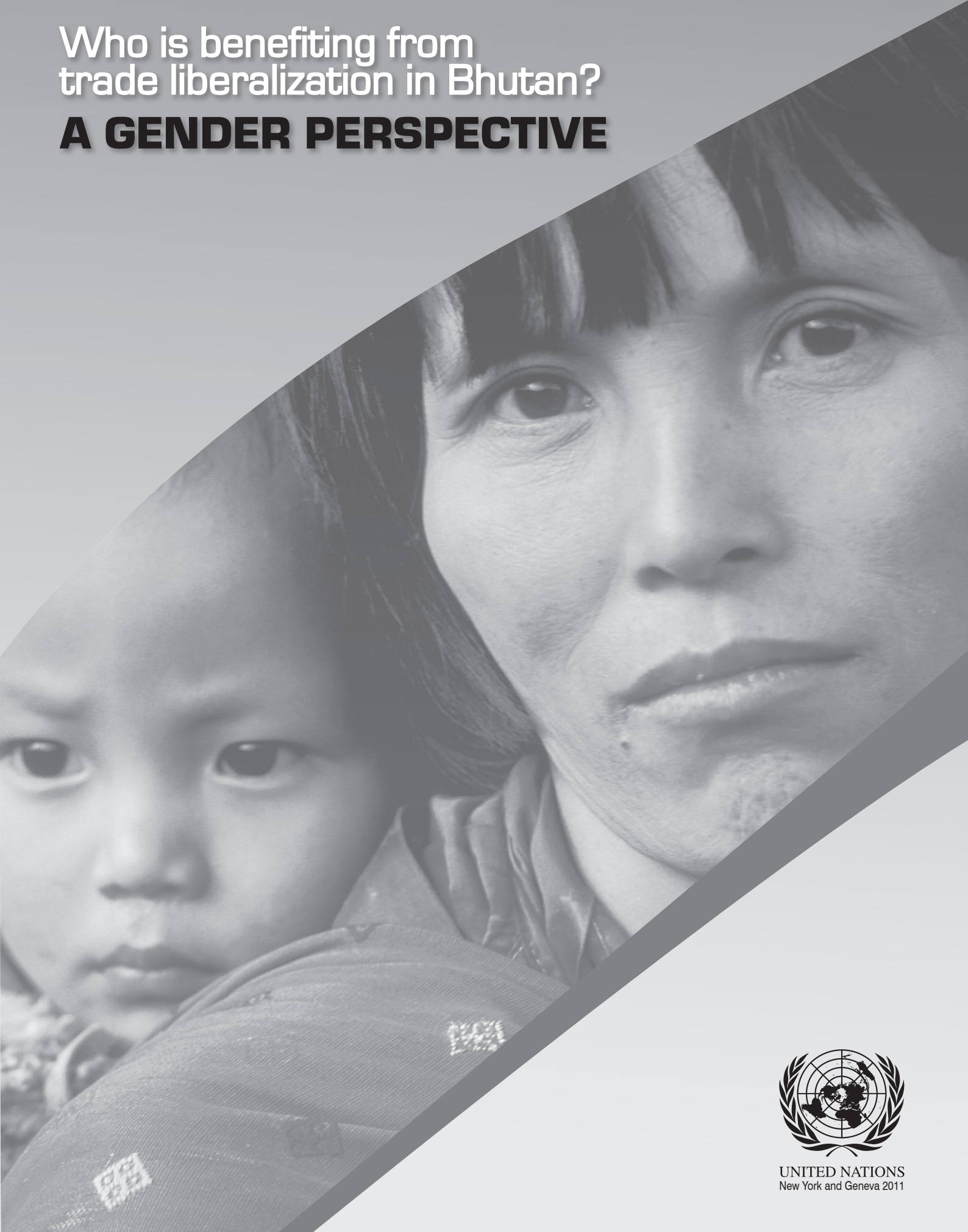


Who is benefiting from
trade liberalization in Bhutan?

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 Meeting of the United Nations Conference on Trade and Development (UNCTAD XII) held in Accra, Ghana on 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, Bhutan, Cape Verde, Lesotho, Rwanda, Uruguay and Angola.

This study was prepared by Irene Musselli, Simonetta Zarrilli, Mona Froystad and Sarah Houghton from UNCTAD's Trade, Gender and Development Unit, 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. Invaluable support was provided by the Royal Government of Bhutan, in particular the Ministry of Economic Affairs, which generously shared data, official documents and reports with UNCTAD. Precious support was provided by the United Nations Resident Coordinator Office and the Office of the United Nations Development Programme (UNDP) in Thimphu, which ensured the coordination between UNCTAD and the Royal Government of Bhutan. The study benefitted from insightful comments and suggestions provided by Lisa Borgatti, Murray Gibbs, Alessandro Nicita and Yumiko Yamamoto.

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EXECUTIVE SUMMARY

Trade policies tend to have strong redistributive impacts, which favour some groups or individuals, while penalizing others. The aim of this report is to determine who would benefit from further trade liberalization or facilitation in Bhutan and, in particular, to analyse whether there is a gender bias in the gains from trade. The Bhutanese economy is characterized by a fair degree of openness in terms of import tariffs or quantitative restrictions, since the bulk of Bhutan's imports is sourced from countries with which Bhutan enjoys free or preferential trade. Similarly, major destinations of Bhutan's exports are countries where goods originating from Bhutan enter duty free or under preferential arrangements. Accordingly, in this study, trade liberalization is intended to broadly cover aspects of trade facilitation – in the areas of customs procedures, transport and standards compliance, for example. In these areas, Bhutan suffers from high transaction costs associated with customs clearance, transport bottlenecks and other non-tariff barriers (see chapter 2). Policies aimed at reducing these constraints would boost Bhutan's export competitiveness and have a significant trade-enhancing effect. The analysis is also relevant to assess the gendered impact of a reduction in most-favoured nation (MFN), or non-preferential, tariff rates, which are relatively high in Bhutan. The report also sheds some light on tariff liberalization in sectors of potential export interest to Bhutan, such as handicraft textiles.

A review of the documents of the Royal Government of Bhutan reveals a long-standing commitment to gender equality. Yet, there are still questions about how effectively these commitments have been translated into practice, particularly in the economic and trade domains. For example, it appears that gender considerations were not taken into account prior or during the negotiations of the trade agreements to which Bhutan is a party. The inclusion of a gender perspective in the design and implementation of trade policies is a way to give substance and meaning to commitments.

The conceptual framework underlying this study is that trade policies affect economies through their effect on prices of goods and factors of production and by their effect on government revenues. Three main effects on household can be discerned: (a) the consumption effect, which refers to the manner in which trade policies affect the price of the goods consumed by the house-

holds; (b) the income effect, which refers to changes in household income, including earnings, sales of agricultural products or any other goods, farm profits (if the household produces the goods) and other forms of income including government transfers; (c) the revenue effect, which refers to how trade policies affect government revenues and how those revenues are redistributed to households. The quantitative analysis was conducted in three steps. First, the analysis sought to measure the extent to which trade policies affect domestic prices of goods and factors of production. This included making estimations of or assumptions on the extent to which international prices affected the domestic prices of goods and factors of production. Estimations and assumptions were also made in an effort to determine to what extent trade policy affects government revenues. The second step was to identify and quantify the sources of income and the consumption basket for each household. This provided a measure of the dependence between household real income and changes in the price of a particular good or factor of production attributable to trade policy. Third, the price changes in goods and factors of production prompted by trade policies were mapped into each household's budget and income shares. This allowed for the calculation of any positive or negative effect of trade policy on the real income of the household. Results were then aggregated by the relevant dimension – region, gender, poor or non-poor – so as to better identify any subgroup that would gain or lose from the trade policy.

The main findings of the analysis are summarized below. Given that data was available and that most households, including female-headed households, work in the agricultural sector, a particular focus was given to this sector.

Hydropower resources and the mineral sector

Data from the *Labour Force Survey Report 2009* (Royal Government of Bhutan 2009a) show that only 1.1 per cent of the total population work in this sector, and only 0.4 per cent is represented by women. As a result, plans and policies related to this sector contribute to achieving economic self-reliance and overall socio-economic development, but have little direct effect on women's employment. There are nonetheless some important gender-specific aspects to consider. In particular, modern energy services would help women

meet their practical and educational needs. Women would also indirectly benefit from the expansion of this sector, via government spending and spillovers. Well-managed public spending can be translated into high-quality public services that can benefit the whole population, and women, in particular.

Similarly, the mineral sector offers few direct employment opportunities, especially for women. Only 0.2 per cent of the workforce is in mining and, within manufacturing, employment in cement-related industries is also negligible (Royal Government of Bhutan 2009a). As in the case of hydropower resources, there will not be sizeable quantifiable impacts on female employment. However, women would indirectly benefit from the expansion of this sector, via government spending and spillovers.

Manufactures and tourism

As in the cases of electricity and cement, available data do not allow to generate a meaningful quantification of the likely gender impacts of trade liberalization or facilitation in manufactures and tourism. Nevertheless, the inclusion of these sectors is important because of their potential source of growth for the country.

On aggregate, only 4.7 per cent of total Bhutanese employment is in the manufacturing sector (Royal Government of Bhutan 2009a). At first glance, this may indicate that trade liberalization or facilitation will have only small impacts at the national level. However, this aggregate picture conceals the dynamic potential of specific subsectors, such as textiles and handicrafts and agro-processing.

The *Bhutan Living Standard Survey Report 2007* (Royal Government of Bhutan 2007) indicates that almost half of the employment in manufacturing is in textiles. The textile sector has important gender-specific aspects, accounting for 85.7 per cent of all women employed in the manufacturing sector. The domestic market for traditional garments is sizeable, as all Bhutanese citizens must wear the appropriate national dress in all public areas. Bhutan's textile handicraft could expand significantly if certain conditions were met. It would first be necessary to establish trademark protection for the traditional textile designs. This will help reposition Bhutanese textile handicrafts as differentiated products of superior quality. A second key issue is to establish linkages with key tourist outlets, as well as with strategic off-takers in global supply chains: branded retailers, specialized wholesalers and traders.

Processing of fruit products in Bhutan also has significant potential, particularly if linkages with the tourism sector are operationalized, for example, food supplies to hotels and catering for meetings or workshops. This will be contingent on the ability of local suppliers to meet stringent food safety and quality standards, in addition to requirements for timely deliveries, as well as quantity and consistency of delivery.

Like textiles, tourism is a source of potential gains from trade. The promotion of community-based tourism and forms of ecotourism is viewed as an effective catalyst for poverty reduction, promotion of cultural heritage and environmental protection in rural areas (Royal Government of Bhutan 2009b). A survey on tourism in Bhutan presents evidence of a large proportion of women in employment (UNCTAD 2007), supporting the view that women may benefit from the expansion of this sector.

Agriculture

From an employment perspective, agriculture is the most important sector of the economy, absorbing 65.4 per cent of the total workforce and 72.1 per cent of the female workforce (Royal Government of Bhutan 2009a). The sector is particularly important from a poverty perspective, owing to a higher incidence of poverty in rural areas and low education levels among those engaged in subsistence farming.

The study identifies key agricultural products where the impacts of trade are first, potentially sizeable – and thus meaningful for analytical purposes – and, second, quantifiable in the following areas:

- Exports of potatoes, oranges, and apples, the major export crops in which Bhutan shows a revealed comparative advantage;
- Imports of paddy rice, the Bhutanese staple food, and the major imported crop, in which Bhutan has a comparative disadvantage.

The analytical framework used in this report implies that net producers of export goods, such as potatoes, oranges, and apples, and net consumers of imports, such as rice, will gain from trade. By combining trade and microsurvey data, the analysis attempts to identify and compare these net producers and net consumers: women versus male, rural versus urban, poor versus non-poor. By doing so, the report sheds some light on the potential beneficiaries of agricultural trade liberalization or facilitation in Bhutan and, in particular, whether there is a gender bias in the gains from trade. With specific reference to the major agri-

cultural exports and imports, the principal conclusions that emerge from the analysis are as follows:

- The Bhutanese population would stand to gain potential benefits from trade liberalization or facilitation in these commodity sectors;
- There appears to be little or no gender bias in the gains from trade;
- Trade liberalization or facilitation would have a pro-poor impact where potatoes and oranges are concerned, while it appears that non-poor households would benefit relatively more than poor households from an expansion of exports of apples. Import liberalization or facilitation in rice will benefit net consumers. Since the share spent on rice sharply declines with the level of household well-being, lower rice prices will have a pro-poor bias for net consumers. The impacts on net producers of rice were not documented. It is important to note that 75 per cent of farming households are engaged in rice production, and thus may be affected by a change in the price of rice due to trade liberalization.

Hence, the analysis highlights that Bhutan would benefit from further diversifying into higher-value commodities that have the most dynamic export potential: oranges, apples and potatoes. There are, however, some important concerns that should be taken into consideration.

First, the ability to expand export trade in high-value products will be contingent on overcoming supply-side obstacles at home, such as increasing productivity, boosting trade infrastructure and building human and institutional capacities, and meeting stringent entry and quality requirements in export markets. From a policymaking perspective, this calls for (a) the mobilization of internal resources (transfer of resources within the economy, across sectors) and (b) the pooling and alignment of external funds. A number of Aid for Trade initiatives, including the Enhanced Integrated Framework – can catalyse development assistance in support of Bhutan's efforts to develop the basic economic infrastructure and tools the country needs to expand its exports of apples, oranges and other high-value products. Where specific gender issues arise, it will be important to incorporate them in the design and implementation of support schemes, not to have mute supply-side responses to policy incentives. Policy options and models may also play

a sustainable manner. Examples of such policy options are outgrower schemes, supermarket and off-taker-driven supply chains, as well as supply chains facilitated by non-profit organizations. The feasibility of these options should be explored.

Enhancing women's participation in the production and export of agricultural and food products, including through the integration in international supply chains, would be contingent upon enhanced education and skill accumulation. This is of special importance, considering that 87 per cent of women who head households in rural areas have no schooling.

Second, questions arise as to how to reconcile a focus on dynamic export crops with considerations of food security, equitable development, biodiversity conservation and cultural heritage, which play a key role in the distinct development strategy of Bhutan. The integration of these aspects calls for a holistic approach that attempts to strike a balance and eventually unleash synergies between dynamic export sectors and traditional ones. A key component of this strategy is the creation of linkages between dynamic export sectors and traditional ones. High-value niches within the traditional sector should be identified – for example, the collection and sale of mushrooms, medicinal plants and plants for the extraction of essential oils. These niche sectors in agriculture can provide employment for women, and build upon their traditional knowledge. Synergies and complementarities should be established with other dynamic activities, for example, low-impact, high-value ecotourism.

The scope and reach of this report is limited by some methodological constraints.

First, the core analysis focuses on specific trade sectors (the major exported and imported agricultural commodities) for which the available microsurvey data allow to generate a meaningful quantification of the likely gender impacts of trade liberalization or facilitation. Due to lack of microsurvey data, the report does not provide an in-depth quantitative assessment of other sectors in which Bhutan is either currently competitive or where there is a potential to become competitive in the future, including high-value organic niche products, particularly forest-based products; handicraft textile manufactures; mineral waters; and community-based tourism and ecotourism. These are promising areas into which Bhutan may wish to diversify and broaden its economic and export base so as to generate quality employment, including for women.

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