UNITED NATIONS
CABO VERDE

# THE 4-4-2

## 4 NEWS – 4 GLANCES – 2 QUESTIONS

### ECONOMIC BULLETIN

APRIL 2021

## INTRODUCTION

The 4-4-2 aims at sharing, at the end of each month, some punctual insights from calculations and analysis made in the past weeks by the UN and its partners on economic development and SDGs. It will stay away from subjective analysis, to focus on objective data, most of them published by the National Statistics Office and the Central Bank.

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JUNIOR DAVIS, HEAD, POLICY ANALYSIS AND RESEARCH BRANCH, ALDC DIVISION, UNCTAD

# 4 NEWS OF ...

## International trade as a main transmission channel of the COVID-19 crisis

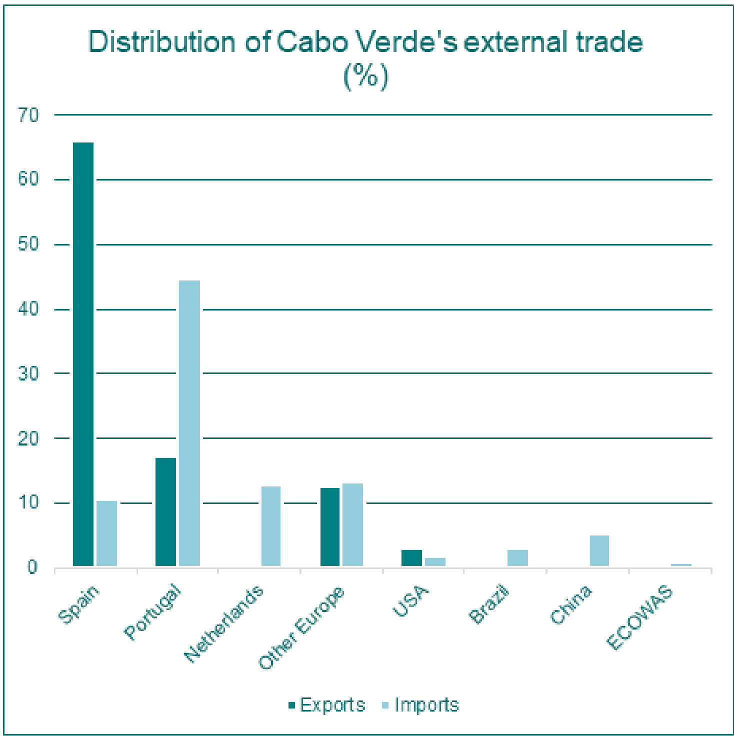
| COVID-19 impact on imports and exports (national) | |
|---|---|
| After a decrease by 24.8% in the three first quarters of 2020, exports went up by 9.4% in the last quarter (source: BCV) | Imports, by contrasts, continued to decrease throughout last year (8.5% in the first three quarters, 13.9% in the last quarter) (Source: BCV) |
| **COVID impact on imports and exports (Africa and World)** | |
| At regional level, the volume of imports and exports decreased by 8.8% in the last quarter of 2020 (-12% for the whole year, 0 and -5.6% respectively at global level) (source: UNCTAD database) | At global level, trade in services (all categories) decreased by 18.81% last year, -71.1% for travel services (tourism) (source: UNCTAD database) |

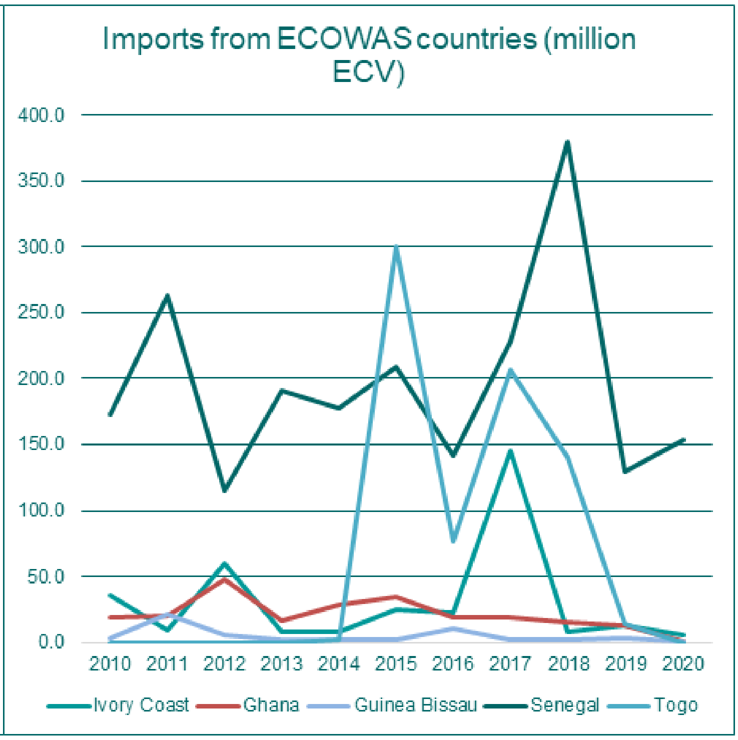
## Highlights from the Official Gazette

- The lay-off regime, allowing for a support to businesses in tourism and related sectors that lost at least 70% of their revenues due to the crisis to maintain jobs, is extended for three more months until the end of June (BO 23-04)

# 4 GLANCES AT...

## Regional integration and the African Continental Free Trade Agreement



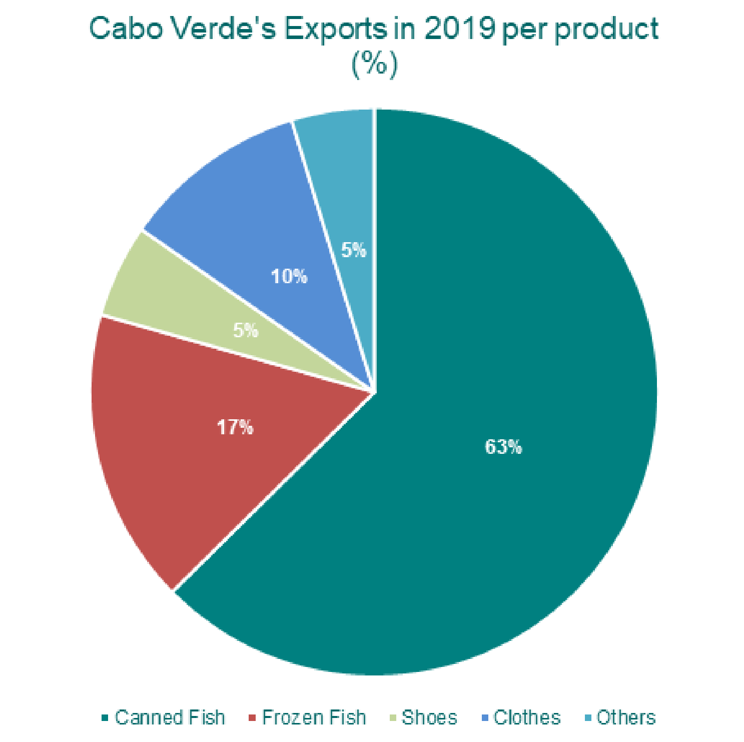



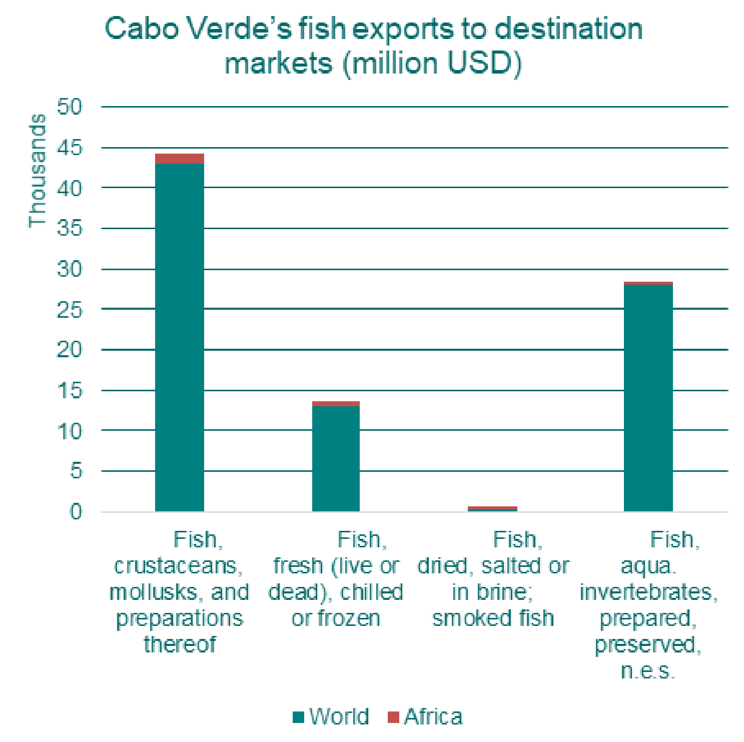

## Glance #1

**Cabo Verde's trade with ECOWAS is limited (2.2% of imports, 0.2% of exports on average in the last decade, fluctuating from year to year). Imports from ECOWAS originate from only 5 countries (Ivory Coast, Ghana, Guinea Bissau, Senegal, and to a lesser extent Togo). Exports on a regular basis go to only one country (Guinea Bissau), and sporadically to Senegal. No significant trade is registered with the region's biggest markets such as Nigeria (195.9 million people), Guinea Conakry (12.4 million people), or Benin (11.9 million).**

**Source: Banco de Cabo Verde**

# 4 GLANCES AT...



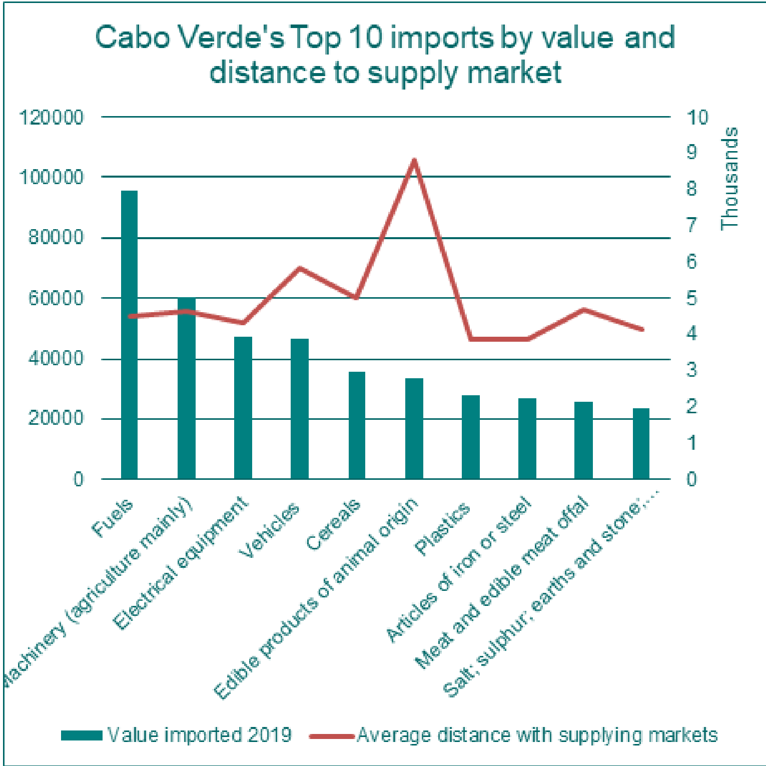



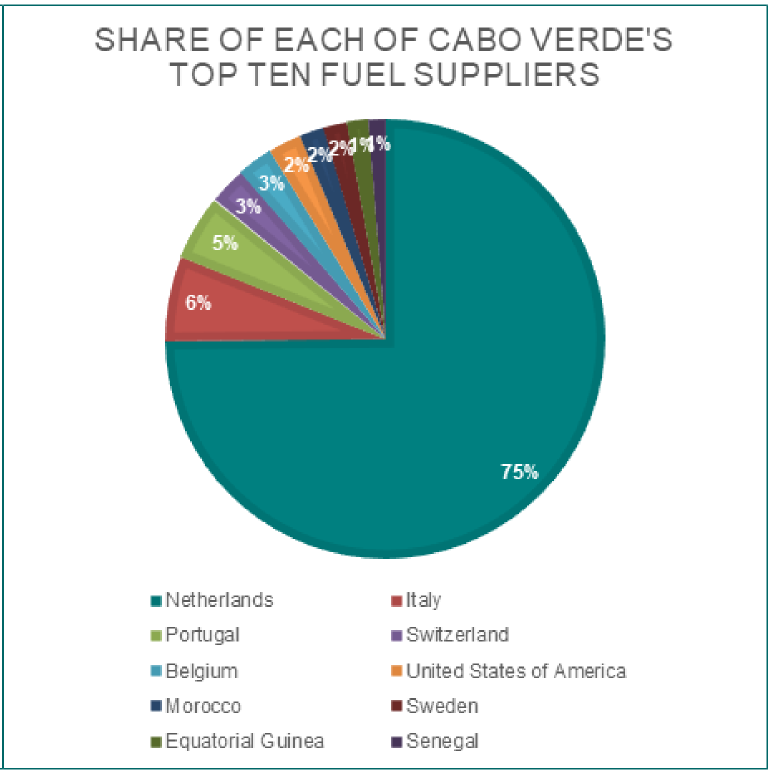

## Glance #2

**Cabo Verde's good exports are concentrated in two products: canned and frozen fish (80%) and footwear and clothing ( 15% ). According to a study from FAO, ECOWAS is by far the largest importer of fish products in Africa. In 2010, Nigeria was the fourth larger importer of fish in the World in terms of volume, mostly chilled and frozen fish (in volume) and canned fish (in value). Its main suppliers were the US, Chile and Albania. Ivory Coast and Ghana are two other net importers of fish products in the region. Cabo Verde's MSMEs producing footwear and clothing are all integrated in Portuguese value chains. Possibility for them to upscale production and integrate regional value chains is yet to be confirmed.**

Sources: Cabo Verde Central Bank (graph 1) and UNCTAD secretariat calculations based on UNCTAD Stat (Graph 2)

# 4 GLANCES AT...



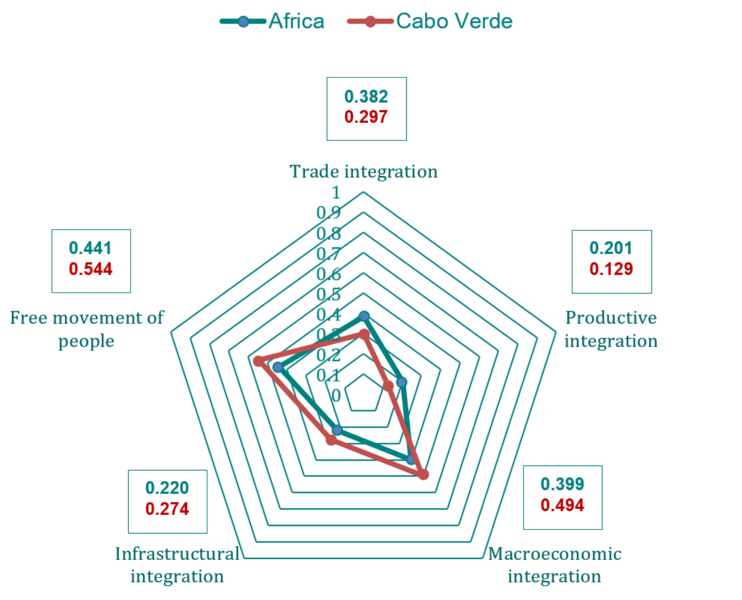

## Glance #3

**All top ten import goods in terms of value come from markets situated distant by at least 4,000 km on average, reinforcing the structural isolation of Cabo Verde. The main suppliers for the first import per value - mineral fuels and related products – are European countries. The average tariff applied, 5.2%, is the same for all suppliers. The share of some fuel suppliers was multiplied by 2 or 3 in the last 5 years, among them Senegal, with 174% growth.**

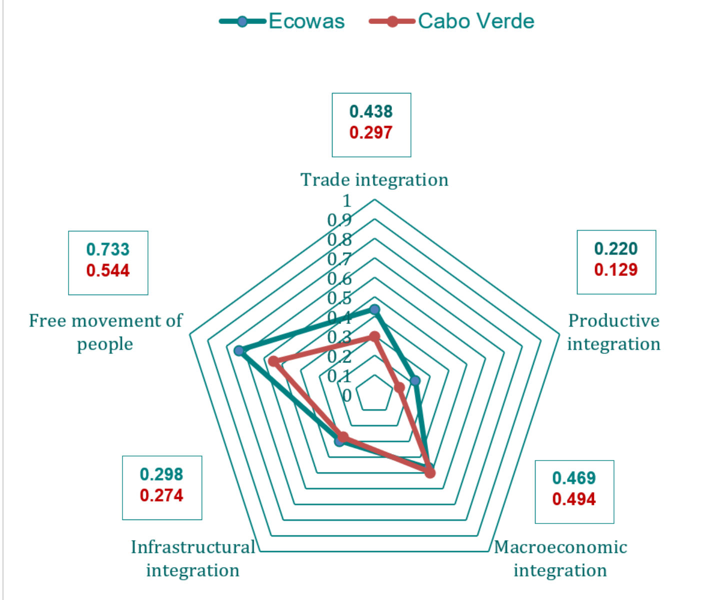
Source: International Trade Center

# 4 GLANCES AT...

Cabo Verde’s integration within Africa




Cabo Verde’s integration within ECOWAS




## Glance #4

**According to the 2019 African Regional Integration Index (ARII), Cabo Verde is among average performers at continental level with a score of 0.344 (on a score of 0 low to 1 high). But at ECOWAS community level, Cabo Verde ranks 11 out of 15 countries suggesting a limited integration. Looking at performance per dimension, Cabo Verde shows good progress on free movement of people (a score of 0.544) and macroeconomic integration (a score of 0.494) while efforts should be made to enhance trade integration, productive integration and infrastructural integration with a respective score of 0.297, 0.129 and 0.274.**

Source: data from African Regional Integration Index Report 2019

# 2 QUESTIONS TO...

**JUNIOR DAVIS**

HEAD, POLICY ANALYSIS AND RESEARCH BRANCH, ALDC DIVISION, UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
PROSPERITY FOR ALL

### HOW REGIONAL INTEGRATION CAN MAKE CABO VERDE'S IMPORTS CHEAPER OR MORE ACCESSIBLE, AND HOW CAN THESE IMPROVEMENTS LEAD TO A RISE IN PRODUCTIVITY?

For Cabo Verde regional co-operation is important given its limited productive capacities and vulnerabilities due to its isolated and fragmented territory, the small size of its population, its dry Sahel climate, and scarce natural resources. As a Small Island developing State (SIDS), deeper regional integration should enable Carbo Verde to participate in broader value and supply chains and exploit regional synergies.

In theory, there are basic 'static' and 'dynamic' arguments concerning the effects of economic integration. The static effect underscores the concepts of trade creation and trade diversion. (1). Of most importance here, trade creation occurs when high-cost domestic products are substituted with goods from the region at a lower cost. Both households and productive units (firms and farms) benefit from trade creation, by accessing goods, services and intermediate goods at relatively lower costs through the reduction of transport costs, customs taxes at border posts, and visa fees for exporters and importers, which increase the price of products. Well-functioning regional integration removes customs taxes at the border and visas. Therefore, ceteris paribus (other things remaining equal), regional integration should make imports cheaper.

The relative productivity of an economy is fundamentally affected by its ability to provide for essential commodities such as food and energy. In Cabo Verde, the domestic production of food has been structurally far below national requirements as its rice imports account for 2.9 per cent of GDP. (2)

Cabo Verde does not abound in natural resources, unlike other countries of the subregion, which export oil (Nigeria) or agricultural commodities (Cote d'Ivoire, Ghana). It should benefit more from regional agreements with countries that have a potential comparative advantage in the production of commodities with high import values such as refined petroleum and cement. In the short term, eliminating trade barriers (mainly tariffs) will also enable Cabo Verde to access goods, especially those that it does not produce at relatively lower costs.

Cabo Verde has a high and rising dependence on petroleum product imports. Petroleum product imports constitute about 10 per cent of the county's total imports (UNCTADSTAT, 2021). Despite its low participation in ECOWAS activities, Cabo Verde hosts the ECOWAS Centre for Renewable Energies (ECREEE) (3). Regional integration has availed Cabo Verde an opportunity to coordinate and execute regional programs, projects, and activities for renewable energy and energy efficiency investments. In the long run, such initiatives will enable it to address its high dependence on fossil fuel imports and utilize its high renewable energy potential, including solar, wind, and biomass. Green energy could help to revitalize Cabo Verde's industries by increasing the level of industries access to affordable and sustainable energy supply.

(1) Trade creation refers to consumption shifts resulting from a high-cost producer to a low-cost producer and trade therefore expands. Trade diversion on the other hand means that trade shifts from a lower cost producer outside for example, a customs union, to a higher cost producer inside the union.
(2) Data sourced from World Development Indicators database, accessed April 2021. https://databank.worldbank.org/source/world-development-indicators
(3) http://www.ecreee.org/

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## JUNIOR DAVIS

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PROSPERITY FOR ALL

### WHAT EFFECTS COULD AN IMPROVED REGIONAL INTEGRATION HAVE ON CABO VERDE'S EXPORTS? WOULD THIS BOOST JOB CREATION AND INCOME GENERATION AT THE NATIONAL LEVEL?

In 2019, out of Cabo Verde's total exports of US$ 43 billion dollars, only US$ 7 million had been destined for the other countries of ECOWAS (see Table 1). Not having signed the revised CEN-SAD Treaty in 2013, Cabo Verde is no longer a member of CEN-SAD.

Thus, successful integration into ECOWAS, could provide a large relatively non-competitive export market for Cabo Verde as the fish trade balance is highly negative in the ECOWAS region. In 2019, fish exports amounted to US$ 1.2 billion as compared to US$ 2.1 billion of fish imports. According to the Sub-Regional Fisheries Commission (7), the overall potential in waters under the jurisdiction of Cabo Verde varies between 36,000 and 44,000 tons per year for an overall catch level of 10,000 tons per year. This implies that the country only exploits on average, about a quarter of the potentially available catch. Through deeper integration into ECOWAS, Cabo Verde could have access to a market capable of absorbing twice its current levels of production and still maintain, or even increase exports to countries outside the ECOWAS region as its Exclusive Economic Zones (EEZ) Fisheries are able to supply almost four times its current production.

For Cabo Verde to considerably increase its exports, it is essential that it boosts investment in physical and human capital to revitalize critical sectors such as energy and transportation. This may require reappraising the country's development and financing strategies by mobilizing resources through PPPs, innovative finance, enhancing the private sector and accelerating the implementation of the transformation agenda to diversify the economy to make its EEZ more climate-resilient.

This could result in a virtuous circle of increasing growth, employment, and incomes.

In 2016, 10,200 people were employed in the fishing sector in Cabo Verde (8). By investing in human capital for fishing due to increased production, the number of employees in the fishing industry is likely to grow, which could lead to increased income.

Regional integration could also support Cabo Verde's aim to utilize its geostrategic location to become an international platform/hub for high value-added services whilst expanding its productive base. Cabo Verde's economy is largely service-oriented, with commerce, transport, tourism, and public services accounting for about three-fourths of GDP and 54 per cent of employment. The tourism sector mainly drives these services exports. International tourism receipts as a share of exports for Cabo Verde was 56.5 per cent, and 29 per cent of Cabo Verde's GDP in 2019 (9).

International tourism receipts accounted for. However, weak regional integration limits the sector to non-African tourists (mostly European and American). Cabo Verde could attract more tourists by becoming better integrated into ECOWAS. Regional integration will enable Cabo Verde to become a hub for services beyond tourism in offshore services and Business Process Outsourcing, back-office operations, software development and maintenance. Regarding ICT, Cabo Verde ranks 4th in Africa and 1st in the ECOWAS Region according to an ITU Ranking (10).

(7) https://spcsrp.org/en/cabo-verde
(8) https://spcsrp.org/en/cabo-verde
(9) Data sourced from World Development Indicators database, accessed April 2021. https://databank.worldbank.org/source/world-development-indicators
(10) https://www.itu.int/net4/ITU-D/idi/2017/index.html#idi2017byregion-tab

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Cabo Verde's geographic disconnection from other African countries mainly translates into high transport costs. It is indeed these transport costs that complicate Cabo Verde's trade relations. The lack of overland connections to other countries limits cross-border trade, which is vibrant in West Africa. Cabo Verde's relatively dense airport network reflects the importance of air transport in its transportation system. Through multilateral and bilateral partnerships in regional agreements, Carbo Verde may fully utilize high-priority highways, such as the Lagos-Nouakchott trans-coastal highway, via Dakar (4,560 km), the Dakar-N'Djamena trans-Sahara highway (4,460 km), which have been earmarked for integration. Also, regional integration should enable the country to harness the benefits from utilizing major trade poles and corridors such as the southern conurbation zone comprising southern Nigeria, Benin, Togo, and Ghana, which extends to Côte d'Ivoire. Modernized land and maritime transport, through regional integration, will link ports and road services, enhance trade facilitation, and the utilization of one-stop border posts (OSBPs). They will also increase capacity enhancement, possibly through public private partnerships (PPP) in the Dakar-Abidjan corridor (one of the busiest African Regional Transport Infrastructure Network (ARTIN) corridors in West Africa). Such regional infrastructure could allow the country to position itself as a regional hub for transshipment and improve maritime connections to wider African export markets.

One of the main objectives of regional integration is to boost intra-regional trade by eliminating trade barriers (both tariff barriers and non-tariff barriers), making it easier for member countries to exchange products and services. For example, the African Continental Free trade Area (AfCFTA) may also generate greater export opportunities for Cabo Verdedespite the potential cost to public revenues of joining it (e.g. lost tariff revenues).

trade Area (AfCFTA) may also generate greater export opportunities for Cabo Verdedespite the potential cost to public revenues of joining it (e.g. lost tariff revenues). However, in the case of Cabo Verde revenue losses from integration within the AfCFTA (or a future customs union) would likely be low as most of their imports come from outside the continent. (4).

Cabo Verde may harness the potential benefits of deeper regional integration to address its challenges in developing a more sustainable growth model, diversifying from its dependence on the services sector and towards a more differentiated productive base. (5)

***Through regional integration, Cabo Verde has the potential to double its merchandise exports, create more jobs and generate income through the sale of fish in a wider regional market.***

Cabo Verde's fish exports represent 80 per cent of its total exports (Figure 1). However, the most common destinations for exports are outside Africa. In fact, in 2019, 97 per cent of Cabo Verde's fish exports were to non-African countries. That could be due to two contracts that the country signed with the Federation of Japanese Cooperatives and a Partnership agreement with the European Union. Paradoxically, the Economic Community of West African States (ECOWAS) is by far the largest fishery products importer by volume (70 per cent) in Africa, according to the FAO (6). Nigeria is the world's fourth-largest fish importer and the largest fish importer in Africa in volume terms. Côte d'Ivoire and Ghana are also among the top ten importers of fish in Africa. However, Cabo Verde trades far less with these countries and particularly with Nigeria. This may be because the country is much less well integrated into regional markets in terms of international trade.

(4)See: UNCTAD (2019) Economic Development in Africa Report 2019: Made in Africa Rules of Origin for Enhanced Intra-African Trade. https://www.un-ilibrary.org/content/periodicals/19905122

(5)See UNCTAD (2017) Economic Development in Africa Report 2017: Tourism for Transformative and Inclusive Growth. https://www.un-ilibrary.org/content/books/9789210603683

(6) http://www.fao.org/in-action/globefish/fishery-information/resource-detail/en/c/338418/

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Through regional integration, Cabo Verde can position itself as an international service center and "gateway" to ECOWAS and Africa for major international and national companies. This would lead to the generation of foreign exchange which is essential for international trade.

***An improved regional integration could increase Cabo Verde service's exports, create more jobs and generate income through tourism.***

Overall, regional integration enlarges the size of the market, stimulates the efficient allocation of resources, increases human capital and mobility of labour.

It also helps countries to diversify production, increase domestic and regional mobilization of resources, and enhances opportunities for cross-border infrastructure investment.

Hence, Cabo Verde could raise the level and value of exports, increase employment, and generate more income by leveraging its comparative advantage in strategic sectors such as fishing and tourism. In addition, regional integration will avail new opportunities to accelerate and intensify the reform process to diversify Cabo Verde's economy in the wider regional market and the AfCFTA.

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