PN-ABH-237
70232

# NONTRADITIONAL EXPORT EXPANSION IN THE CENTRAL AMERICAN REGION

Final Report

March 1987

SRI Project Number IMU 2618

Contract Number PDC-0000-I-00-6133-00

Prepared for:

Bureau for Latin America and the Caribbean
Agency for International Development

By: International Policy Center
SRI International-Washington

SRI International
1611 North Kent Street
Arlington, Virginia 22209

# NONTRADITIONAL EXPORT EXPANSION IN THE CENTRAL AMERICAN REGION

## Table of Contents


| | | Page |
|---|---|---|
| | Preface | i |
| I. | Project Summary | 1 |
| | A. Introduction | 1 |
| | B. Regional Performance and Prospects | 2 |
| | C. Common Experiences and Lessons | 10 |
| | D. Elements of An Export Promotion Strategy | 17 |
| | E. Regional Initiatives | 20 |
| | F. Country-Specific Recommendations | 22 |
| II. | The Nature of Nontraditional Exports | 33 |
| III. | Intra-Regional Trade | 35 |
| IV. | Determinants of Nontraditional Exports | 38 |
| V. | An Econometric Analysis | 46 |


---

Country Reports for Belize, Costa Rica, Guatemala, Honduras Panama, Dominican Republic, and Jamaica. Each report has the following table of contents and is separately paginated.


I. Introduction: The Economic Context

II. Trade and Payments Profile

- A. Traditional Export Performance
- B. Nontraditional Export Performance

III. Determinants of Export Performance

- A. Macroeconomic Determinants
- B. Microeconomic Determinants
- C. Policy and Promotional Determinants
- D. Other Determinants

IV. Nontraditional Export Opportunities

V. Action Recommendations

Appendices:
- A. List of Interviews
- B. Exports by 2-Digit SITC Code
- C. Quantifiable Determinants of Nontraditional Exports


---


Full Report Appendices:
- A. Central American Regional Exports
- B. Annual Growth Rate in Central American Exports
- C. Total Exports from Countries Studied
- D. Annual Growth in Exports from Countries Studied

## PREFACE

This report presents the results of a research study entitled "Nontraditional Export Expansion in the Central America Region." The study was conducted by the International Policy Center of SRI International as a work order under an AID Indefinite Quantity Contract (No. PDC-0000-I-00-6133-00) on macroeconomic and international economic research. The Office of Development Programs in the Bureau for Latin America and the Caribbean of the Agency for International Development sponsored the study.

In the first phase of this study, SRI economists carried out field research in seven countries: Belize, Costa Rica, Guatemala, Honduras, Panama, Dominican Republic and Jamaica. The latter two countries were included since they are similarly situated but are not subject to political instability of the same type that the other countries have faced and, in some instances, continue to face.

Project team members traveled to each of the seven countries to gather data, confer with USAID Mission representatives, and interview government officials and executives of businesses engaged in exporting nontraditional goods. Following general introductory sections, this report includes sections for each of the countries examined. The country sections review each country's experience in exporting traditional and non-traditional commodities, examine the principal determinants which underlie nontraditional export performance, indicate potential opportunities in the future, and present a series of action recommendations aimed at expanding nontraditional exports.

The country reports were prepared by the following individuals. John Mathieson, Director of SRI's International Policy Center, drafted the analyses for the Dominican Republic and Jamaica. Andrew Zimbalist, who wrote the Costa Rica and Panama reports, is Chairman of the Department of Economics at Smith College and a consultant to SRI. Philip Karp, an SRI Senior Political Economist, is responsible for the Belize and Guatemala analyses, and SRI International Economist

Kathleen Heffernan prepared the Honduras report. The reports are similar in structure, but differ according to the country circumstances encountered.

Each country section is appended by two sets of data, the first of which is export statistics at the one and two digit SITC level of disaggregation. The second appendix includes macroeconomic statistics on factors which act as potential determinants of nontraditional exports.

The second phase of this study involved the analysis, including single equation econometric testing, of relationships between trade performance and underlying determinants. In the study's third phase, the project team presented recommendations for appropriate actions to improve performance. This report is intended to be of use to USAID Missions and Bureaus, and hopefully to the policymaking communities in the United States and in each of the countries examined as well.

# NONTRADITIONAL EXPORT EXPANSION IN THE CENTRAL AMERICA REGION

## I. PROJECT SUMMARY

### A. INTRODUCTION

Over the past decade, the economies of Central America have been buffeted by a continual series of economic and political shocks, which cumulatively have resulted in severe economic dislocations and declines in output and incomes. Some of these shocks, such as declining commodity prices, rising oil prices, currency instability, high interest rates, global stagnation, and growing trade protectionism have been externally imposed on these nations. Other major problems are of local origin, including excessive government spending, inappropriate economic policies, and overvalued exchange rates. Finally, shrouding these economic difficulties has been the pall of regional political instability and strife, which has seriously disrupted commercial activities and threatened the overall business environment of several countries.

All countries in the region are heavily dependent on imports to support economic activity and meet consumer needs. Export earnings are required not only to finance imports, but also to meet onerous debt servicing requirements. Nations in Central America and the Caribbean region have historically relied on sales of traditional products, essentially in the agricultural and mineral categories, to generate needed foreign exchange. Traditional agricultural exports have consisted mainly of plantation crops such as sugar, coffee, cacao, bananas, and tobacco. The primary mineral exports have been bauxite, ferronickel, gold, and silver. For decades, foreign sales of these products sustained the domestic economies of these countries. In recent years, highly volatile and generally declining commodity prices, increased competition from new sources of production, and in some cases various forms of protectionism have combined to reduce the volumes and/or values of exports in many traditional commodity categories. This contraction occurred at the very time when rising

overall trade deficits and debt repayment obligations raised the need for these countries to increase foreign exchange earnings.

These sobering economic realities have forced governments to reconsider their basic policy strategies and to shift emphasis from import substitution policies to export promotion orientations. Expanding knowledge and appreciation of the successful economic models of the newly industrializing countries of East Asia (South Korea, the Republic of China, Hong Kong, and Singapore) added momentum to the change in approach in the Caribbean Basin region. The shift was also encouraged by various incentives provided by the United States in the so-called Caribbean Basin Initiative (CBI) and in related trade and tax policies.

The change from import substitution to export promotion has been initiated in most countries in the region, but it is far from complete. In addition, the overall "results" of the CBI have been modest to date and are disappointing to most recipient countries. However, students of the East Asian development experience would point out that the gestation period for fundamental policy reforms is considerable, and it simply takes time before material impacts are achieved.

Regardless of whether or not "the CBI is working," what remains clear is that the program and indeed the region's economic prospects hinge on the development and growth of "nontraditional" exports -- commodities that fall outside the range of traditional exports. The experience, determinants, and prospects of the region's nontraditional exports are the subject of this study.

## B. Regional Performance and Prospects

The overall export performance of the seven countries included in this study has been subject to both cyclical and structural changes over the past fifteen years. From 1970 to 1975, the aggregate exports of the group grew from $1.4 billion to $3.6 billion, at an annual average growth rate of

nearly 21 percent. This rise can be attributed principally to increases in traditional exports, which benefited from strong international demand and rising commodity prices.

Over the latter half of the 1970s, the growth of traditional exports slowed markedly, to only 8 percent. This was due to decreases in commodity prices and demand caused by the global recession induced by a quantum rise in oil prices. During this same period, however, the group's nontraditional exports increased at annual average rates of 20 percent. The sum result was a rise in total exports from $3.6 billion in 1975 to $5.8 billion in 1980.

In the 1980s, the cyclical downturn in commodities markets has taken on structural characteristics. That is, consumption levels of basic commodities have fallen due to the introduction and use of advanced materials (e.g., fiber optics, plastics, ceramics) and substitutes (e.g., sugar substitutes). In the case of sugar, the Central American/Caribbean countries have also been severely affected by reductions in U.S. sugar quotas. Further exacerbating these trends were the second round of oil price rises in 1979-1980, deep recession in the United States and elsewhere, the onset of the protracted debt crisis, and regional political instability.

The cumulative effect of these adverse conditions has been a reduction of the group's total exports to $4.8 billion in 1984, the last year for which comprehensive data are available. The leading cause for this decline was a 20 percent decrease in traditional exports from 1980 to 1984. However, nontraditional exports also declined by 10 percent over the same period.

The drop in exports has led to rising frustrations in the region, as well as complaints that the Caribbean Basin Initiative (CBI) incentives have not yielded their intended results. These conclusions should be conditioned by a number of facts and observations.

- Recent data and interviews indicate that in certain countries, especially Costa Rica and the Dominican Republic, the exportation of nontraditional products is taking hold and is likely to expand relatively rapidly over the next few years.

- The CBI, which was implemented in January 1984, was accompanied by publicity which engendered excessive expectations which were unwarranted in view of historical experience. However, one major objective of the CBI has been to nurture an export orientation in the region. The SRI team concludes that this goal is well in the process of being accomplished.

- Basic changes in policy orientation require considerable time and effort, and the introduction of new export ventures entails a gestation period and a certain amount of "growing pains." The initial results of policy changes made and new ventures established are promising.

- Overall trade trends mask two important and beneficial shifts in the structure of trade. First, the share of nontraditional exports in the group's total exports rose from 23 percent in 1970 to 34 percent in 1984, indicating diversification. Second, the destination of the group's exports has shifted increasingly from regional markets, which have contracted, to the United States, which represents a much larger and more stable market if trade restrictions are avoided. U.S. trade figures show marked increases in imports of nontraditional goods (e.g., wearing apparel, miscellaneous manufactures) from the region in 1985 and 1986.

- A significant proportion of the nontraditional exporters interviewed for this study indicated that they had

inaugurated their exporting activity only within the past one or two years, and that increases in volumes are recent. While this sample is by no means scientific, and is probably skewed toward the "high achievers" with respect to export performance, it provides evidence that export increases are being achieved but have not yet been recorded.

These observations do not belie the fact that major problems and obstacles to export expansion remain in place, nor are they intended to paper over what is generally acknowledged to be disappointing regional performance to date. Each country examined faces a series of challenges in the years ahead.

Stepping away from current developments and taking a broader, longer-term perspective, the SRI team concludes that the potential for increasing the region's nontraditional exports is considerable, for two basic reasons.

1. An objective assessment of available economic resources indicates that most if not all of the countries possess the basic ingredients necessary for nontraditional export growth. The primary asset is labor, supplemented by climatic conditions and geographic location.

2. The SRI team observed a significant shift in attitude and approach throughout the region toward an export orientation. The realities that the economies can no longer depend on commodity earnings and import substitution policy regimes are increasingly acknowledged both in the business and policymaking communities. The extent to which this shift in perception has been translated into concrete reforms varies, but the shift itself has clearly taken hold.

Rates of growth in nontraditional exports from the region in the range of 10 to 20 percent annually over the next decade are conceivable under a reasonable scenario. However, the achievement of these rates is a feasible possibility rather than a prognosis. The chances of reaching this goal are contingent on three necessary conditions, each of which represents a major challenge.

1. The structural economic imbalances which result directly or indirectly in high inflation, foreign exchange shortages, and high interest rates -- each of which is a constraint to investors and exports -- gradually be alleviated through prudent policy management and adjustment strategies. In most cases, this in turn involves the extremely difficult balancing task of maintaining political and social stability over a period of prolonged austerity.

2. The individual country governments should continue to dismantle policy-induced impediments to exporting. These "bottlenecks" range from overvalued exchange rates to cumbersome customs procedures to high import duties required of firms operating outside free zones, and most represent vestiges of import substitution regimes. Differences in progress achieved in these areas largely explain differentials in recent performance. Those countries which have achieved the most in terms of appropriate policy reforms (particularly Costa Rica and the Dominican Republic, and Jamaica to a slightly lesser extent) will be rewarded with higher than average export growth rates. However, additional changes are necessary in all countries in the region if they hope to become sufficiently competitive.

3. The U.S. government should keep the region's access to U.S. markets as open as possible, and forestall efforts to erect trade barriers on a commodity-by-commodity

basis. Nontraditional exporters have been chastened by the imposition of restrictions on a growing list of products, and/or the withdrawal of goods from eligibility for preferences. Many firms are hence loathe to invest in large scale facilities or ventures at a time of acute protectionist pressures in the United States.

The discussion has thus far focused on the performance and outlook for the Central American/Caribbean region as a whole. The prospects for individual countries studies vary considerably, and are summarized briefly below. More detailed discussions are presented in the country case study sections of this report.

Belize's nontraditional exports have grown at an average 5 percent per year since 1980. This growth rate could increase modestly to the 5 to 10 percent range as policy improvements boost exports. The strongest prospects are for gains in agricultural exports, especially citrus products, but also winter vegetables and cacao. Opportunities for exports of garments and other labor-intensive manufactures are constrained by the small size of the labor force. However, exports of apparel to the United States have grown to a level of about $14 million in recent years, and have become the largest product category in Belizean exports to the United States.

The outlook for Costa Rican exports of nontraditional goods is usually the best among Central American countries. The nation's economic base is sufficient to support a diversified set of exports, including agricultural and light manufactured goods to the United States, and intermediate and consumer goods to regional markets. Led by apparel and fruit and vegetables, Costa Rican exports to the United States expanded by 32 percent in 1986 over 1985. However, the country's sales to its neighbors in the region have languished. Under appropriate domestic and international conditions, one could reasonably project Costa Rica's nontraditional exports to rise at annual rates of between 15 and 20 percent over the next few years.

In Guatemala, reversing the downward trend in nontraditional exports, which fell from $680 million in 1980 to $386 million in 1985, will be a major challenge for the government of President Marco Vinicio Cerezo. However, recent developments indicate that a return to positive growth is likely. The President's announced macroeconomic targets and exchange rate reform are perhaps the most important steps toward placing nontraditional exports back on a growth trajectory, but a number of additional policy changes are required. The greatest near-term opportunities lie in the agribusiness sector, particularly winter vegetables, but exports of wearing apparel from Guatemala to the United States have also grown steadily in recent years. Assuming a subsidence in the regional political crisis and attainment of the desired impact of recent reforms, Guatemalan nontraditional exports could reach their 1980 peak within two to three years, and then continue to grow at a more moderate rate of 5 and 10 percent thereafter.

Honduran nontraditional exports grew by an average annual rate of 10 percent in the 1960s and 20 percent in the 1970s, but following their peak in 1980 have decreased. Part of this reduction can be traced to price falls for two forestry-related goods, manufacturers from wood -- mainly furniture -- and turpentine. Some of the decline may also be due to underinvoicing. Regional political instability has clearly exerted a detrimental impact. However, recent gains have been reported in 1986 exports of nontraditional agricultural products, garments, and wood and wood products to the United States, and these sales should continue to expand. Under appropriate conditions, Honduran nontraditional exports could return to growth rates in the 5 to 10 percent range.

Nontraditional exports from Panama expanded from $76 million in 1979 to $101 million in 1985 and an estimated $133 million in 1986. Much of the recent success can be attributed to increases in assembly operation (especially apparel) in the Colon Free Zone and in sales of fishery products (including shellfish), which have offset declines in other areas. The prospects for agricultural and forestry product

exports are also relatively good and increased sales of certain industrial products can also be expected. Collectively, these exports could generate increases in the 10 to 15 percent range over the next five years.

The Dominican Republic enjoys the broadest range of nontraditional export opportunities among all countries in the Caribbean Basin region. Following currency devaluation, activity in the nation's free zones has boomed, especially in the categories of textiles and apparel and miscellaneous manufactures. Several large electronics ventures are now producing or preparing to produce components in the country. Nontraditional agricultural exports (e.g., melons, tropical fruit and winter vegetables) are likely to expand gradually. Overall, Dominican exports could increase by 15 to 20 percent annually in the years ahead.

Jamaica's nontraditional exports fell in most years in the 1980s after recording an average growth rate of 12 percent in the 1970s. Interest in Jamaica as an export "platform" has risen quickly following the country's currency devaluation. Exports of apparel to the United States, for example, grew from $26 million in 1984 to $99 million in 1986. Other opportunities cover the range of light assembled products, such as electronics, footwear and leather products, and other manufactures requiring labor-intensive production processes. If the current low level of U.S. dollar-based wage rates remain in place, overall growth rates of 10 to 15 percent for nontraditional exports could be anticipated.

These growth projections are not intended to represent precise forecasts, but rather are indicative of rates of expansion which could be anticipated over the next five to ten years if reasonable progress is achieved in the conditions described above. Actual growth rates could exceed those indicated, particularly in individual years as exports pull up from trough levels. Similarly, deteriorating conditions could result in lower or even negative rates.

## C. Common Experiences and Lessons

The nontraditional export performance of each of the seven countries included in this study is to a certain extent unique, and will continue to vary as a result of differences in domestic conditions and policies. Notwithstanding these variations, the project team has identified a number of common factors which are shared by most or all of the countries in the region. Drawn from the interviews and analysis undertaken, these observations are intended to provide an overview of current conditions which are affecting -- positively and negatively -- nontraditional exporting activities in the region, as well as the requirements necessary for improving performance.

The analytical framework developed by the project team to assess the major determinants of nontraditional exports focuses on three functional categories of requirements: Markets, capacity, and competitiveness. In short, exporters need access to foreign markets, the capacity to produce the goods involved, and the ability to produce these goods competitively. This section summarizes the common experiences and their implications under the rubric of these three categories of determinants.

### Markets

1. The historical trade pattern for all seven countries shows that they exported "traditional" commodity products to the United States and other industrial countries, and they sold "nontraditional" goods to markets within the region. Effective demand in these latter markets has fallen sharply in recent years, as have earnings from commodity exports. As a result, the share of nontraditional products in total exports is gradually rising, and the destination of exports has shifted dramatically to the United States. Sales to other industrial countries are very limited, but may

rise gradually over time. For the time being, nontraditional exporters are concentrating almost solely on the U.S. market.

2. The majority of new market opportunities have been opened by and are highly dependent upon a series of U.S. policies which provide preferential access to the U.S. market. The U.S. Generalized System of Preferences (GSP), the Caribbean Basin Economic Recovery Act (CBI), and the Section 807 provisions of the U.S. Tariff Code have provided critically important incentives for ventures which might otherwise be unprofitable. New exporters in the region are hence vulnerable to the threat of partial or total policy reversals by the U.S. government.

3. In all of the countries examined, nontraditional exporters have encountered problems in accessing U.S. markets in particular product categories. Problems have included rejected shipments (especially for agricultural products), unanticipated labeling requirements, documentation difficulties, rulings on contents of processed foods, new tariffs and countervailing duties, ineligibility of U.S. ventures for OPIC insurance, and so forth. These problems have two causes -- lack of familiarity with U.S. policies and procedures, and implicit or explicit forms of trade protectionism initiated by U.S. firms. Unfamiliarity should diminish over time, but protectionism represents a threat, in both perceptions and actuality, to exporters in the region.

4. At the level of the individual firm, most exporters acknowledged that they lack necessary marketing techniques, experience, and information. This in turn has led to foregone opportunities, an undesired

dependence on buyers, the production of goods with substandard quality, and the establishment of ineffective or even counterproductive joint ventures. Exporters, particularly locally owned firms, are now on a marketing "learning curve" and will overcome many of these problems as they gain experience. However, they constitute a major constraint for the period immediately ahead.

5. Regional exporters need to establish stable marketing channels and relationships if they hope to achieve appropriate economies of scale and reduce uncertainties and vulnerabilities. Most entrepreneurs expressed a desire to enter into mutually beneficial marketing arrangements or joint ventures with U.S. firms, but noted numerous examples of poor experiences in the recent past.

6. The project team "reconfirmed" the truism that "success breeds further success" at both the macroeconomic and microeconomic levels. Companies which have achieved shares of U.S. markets due to price, quality, and experience, are obtaining larger orders. The demonstration effects of successes in free zones are taking hold among local business communities, and foreign investors are focusing their attention on countries or sectors with proven records. In addition, successful local exporters are actively considering new ventures which represent vertical or horizontal extensions of their current output.

Capacity

1. Overall, the region's productive capacity for producing nontraditional exports is significantly underutilized. Certain factors of production, especially labor and

land, are readily available. Other inputs, such as capital and managerial expertise, need to be rechanneled from other uses into the export sector.

2. The region's primary asset for utilizing and developing a viable export sector is its labor resources, which are described as abundant, trainable, and industrious. Labor markets do vary. In Belize, the labor pool is relatively small. Costa Rica enjoys a better than average mix of higher-intensive industries but is impeded by onerous labor laws. In general, however, nontraditional exporters view their labor forces as being ample and highly productive, and most indicated that labor militancy is waning as a result of economic realities.

3. In addition to labor, the region also has comparative advantages arising from arable land and favorable climate, which support agricultural production, and geographic proximity to the major new market for nontraditional exports, the United States. Both of these assets need to be developed further if they are to be fully exploited. New land pattern uses and production methods need to be employed in the agribusiness sector, and the volume of trade needs to be expanded in order to reduce unit transportation costs.

4. The primary capacity constraint to expanded exports is the unavailability and/or high cost of capital and credit. In the more dynamic areas throughout the region, factory space of appropriate quality is in short supply. On the one hand, exporters are almost unanimous in their complaints that interest charges are too high (due primarily to tight monetary policies), and that lenders require physical assets such as land or their homes as collateral for loans. On the other hand,

lenders argue that businesses often seek to overleverage their ventures, and lenders often have problems in pursuing recourse in the event of loan defaults. Whatever the cause, the dearth of investment and working capital has hindered the ability of nontraditional exports to initiate operations, expand capacity, and cover the financing requirements of larger trade volumes.

5. Infrastructure inadequacies have created bottlenecks which range from minor nuisances to considerable constraints to exporters. To a large extent, supporting infrastructure was designed to serve traditional exporters, rather than meet the needs of nontraditional exporters. Problems lie less in road and rail networks than in port and air cargo facilities. Producers of agricultural goods require refrigeration and storage facilities and rapid on/off container capacity at ports, which are lacking in many instances. Operators of assembly businesses also need efficient transportation links to provide them with the quick responses required by purchasers. Most exporters also commented that they lack regular, reliable air and sea cargo service.

6. Access to necessary utilities is a problem in certain areas. The primary concern is the lack of stable supplies of electricity. Electricity blackouts or brownouts, whether scheduled or not, are highly detrimental to sensitive machinery and often require a complete shutdown of production lines.

7. The export capacity of all countries in the region is limited by shortages of foreign exchange, coupled with cumbersome customs procedures that are often designed to ration scarce foreign exchange. Exporters (such as businesses in free zones) eligible for duty free

treatment on imports of machinery and other inputs have fewer problems ultimately receiving the inputs, but often have trouble obtaining them on tight schedules.

8. The growth capacity of a large number of export firms is limited by little or no depth at middle management levels. Top executives are often competent, well-educated, and hard working, but they must oversee production line operations, marketing, finance and administration. When they travel abroad they may leave a vacuum of decisionmaking ability, since junior management is unprepared to carry on business transactions. This problem should gradually be overcome as firms grow in size, but in the near term firms are constrained by shortages of business management skills.

Competitiveness

1. The principal source of competitiveness for nontraditional exporters in the region is low wage rates, especially for agricultural or production line workers. Although wages vary, they are in general extremely competitive vis à vis the United States and Puerto Rico, and in most cases they are well below prevailing rates in South America and even the Far East.

2. The prices of a significant range of the region's nontraditional agricultural exports are or have the potential for being competitive particularly in U.S. markets. However, profit margins are squeezed by high transportation, marketing and packaging costs and by small production runs that don't allow producers to take advantage of economies of scale.

3. An appropriately valued foreign exchange rate is critical to the competitiveness of exporters. The

interest of investors and exporters in Jamaica and the Dominican Republic following these countries' currency adjustments grew dramatically, and can sustain export gains so long as the currencies do not become overvalued as a result of domestic inflation. The key link is that export competitiveness is strongly determined by the U.S. dollar-valued wage rates in the region.

4. Domestic price distortions caused by price controls and/or import substitution regimes act as a major constraint to exports. In a number of countries, price distortions provide incentives for investment capital to remain in import-substitution activities or other areas in which profitability is assured through official policies rather than by market forces.

5. From the perspective of exporters, numerous market imperfections reduce competitiveness and/or profitability. Most of these are policy-induced, and include land use restrictions, labor laws, limited access to local capital, and delays in applications for various business transactions. The sum result is limited flexibility to adapt to altered business conditions and an inability to respond quickly to new sales opportunities.

6. High transportation costs place exporters at a competitive disadvantage. As trade volumes rise over time, container costs should fall, but means to more efficient and less expensive transportation services in the near term should be explored.

7. In most countries, the cost of capital is high in real terms and hence squeezes returns if exporters employ debt rather than retained earnings for financing. Reduced interest rates will occur only in tandem with

the achievement of overall structural adjustment and financial stability.

D. Elements of an Export Promotion Strategy

As noted previously in this report, a perceptible change toward an export orientation can be observed in the Central American/Caribbean region. In addition, an objective assessment of economic assets indicates that the potential for increases in regional exports of nontraditional goods is considerable. However, this potential has not been fully tapped.

Drawn from the findings of this project, the following discussion points out the possible elements that might represent components of an aggressive comprehensive export promotion strategy -- with a concentration on nontraditional products -- for individual countries in the region. Progress has been achieved in each of these areas to varying extents in specific countries. Specific examples will be noted where appropriate.

The pursuit of export promotion is primarily the responsibility of the governments and business communities of each country. However, in all elements described below, donor assistance could enhance the pace and quality of their formulation, adoption, and implementation.

1. Attitudinal Change Efforts. Domestic constituencies need to become completely aware that exporting nontraditional products is not only feasible, but also the only viable alternative for restoring economic output and well being in the region. Local markets are simply too small to support import substitution approaches. Programs should seek to target leadership in the government, the business community, the media, and elsewhere. In this area, the work and results of CINDE in Costa Rica have been impressive. In addition, the announcement in Honduras that 1987 is "the year of exports" is a noteworthy approach to direct public attention toward exporting. Long-term education programs also include building domestic

constituencies for appropriate policy changes as they are developed and put into place. These efforts are especially important to overcome import substitution mentalities which have become ingrained over decades.

2. Comparative Advantage Assessment. Each government should undertake an examination of the nation's true export "assets" and "liabilities" which form the foundation for profitable exporting. This assessment need not be exhaustive in either depth or breadth; rather, it should serve as a general guide for the implementation of incentives and promotional activities. A number of countries in the region currently take a "scattershot" approach to nontraditional export development, and considerable efforts and funds have been ill-used on fundamentally inappropriate export candidates. No export opportunity should be ignored, but local business communities and government bodies need an indication of the types of export projects which are essentially viable.

3. Export Promotion Policy Strategy. The countries in the region have taken clear strides to encourage new forms of exporting. These efforts could be given direction and impetus through the creation of an overall policy strategy or blueprint. The strategy would encompass fiscal policies, foreign exchange rates, incentives, tariffs, and business procedures and regulations as they affect exports. The strategy would be developed on the basis of an assessment of current policies, a design of "ideal" policies from the viewpoint of exporters, and a detailed implementation plan and schedule indicating how shifts can be made from the existing to the ideal policies. An excellent model for such an undertaking is the National Export Development Plan prepared by the Nontraditional Exporters Guild in Guatemala.

4. Marketing Information Database/Service. A legitimate and useful role carried out by export-oriented governments is the provision of relevant information and data to current and prospective exporters. This would consist of a readily accessible central

repository of information on trade procedures and opportunities, staffed by knowledgeable professionals. The service at a minimum should offer information on U.S. import rules and regulations. Also, marketing data (trade and consumption) on sectoral prospects would be useful, as well as lists of purchasing agents. Finally, the service could organize seminars and training sessions. The trade development programs of the U.S. Department of Commerce could serve as a model for similar services, albeit smaller in scope, in the region.

5. Export Trade Finance Assistance. Governments should consider opening special financing "windows" for nontraditional exports. Needed services in this area include lines of trade credit, letters of credit facilities, and official guarantees. The latter would not incur significant budget outlays. Adequate trade financing is of critical importance to both small firms and exporters seeking to expand the volume of their foreign sales.

6. Management Training Programs. The dearth of middle management skills -- accounting, budgeting, inventory control, receivables management, personnel management, and so forth -- is felt throughout the region. Top-level managers typically receive good educations in U.S. universities, often business schools, but middle managers often find a lack of relevant curricula in local institutions. Governments should begin with an "audit" of business skills courses to prepare a needs assessment. New courses or training programs should take into consideration the fact that employers are not able to release their middle managers for an extended period of time, which suggests that programs should be intensive and short in duration and/or carried out in night sessions.

7. Export Promotion Activities. In addition to the important and difficult task of creating a business climate conducive to exporting, national governments can and should also undertake general export promotion. Functional components of promotion programs include the preparation of a marketing brochure with relevant information for

country, and participation in trade fairs and seminars. Effective programs can be small in scope and budget, and can be combined with the marketing information service described above. Noteworthy work in this area has been undertaken by FIDE and FEPROEXAAH in Honduras, and by the Nontraditional Exporters Guild -- a private organization -- in Guatemala.

E. Regional Initiatives

In both theory and practice, the vast majority of trade promotion activities are most effectively carried out at the national level. Since the countries in the region are competing with one another for market shares, "cooperative" regional efforts face a built-in lack of support.

Logistical and political problems notwithstanding, the project team has identified a number of areas where the United States, donor agencies, or even regional organizations could support export promotion at the regional level. They are based on problems shared by all countries and on activities in which economies of scale could be enjoyed.

1. A "Truce" on U.S. Trade Restrictions. In both perception and reality, U.S. trade policy toward the CBI countries can be characterized as being ambivalent or hypocritical, depending on one's viewpoint. On the one hand, a battery of trade incentives has been put into place. On the other hand, ad hoc restrictions such as product ineligibility for incentives, reduced sugar quotas, new duties, and other devices have proliferated. Regardless of the extent and net impact of incentives and restrictions, nontraditional exporters in the region are fearful that as soon as they have invested their capital and gained market shares, their access to U.S. markets will be closed. Concerned exporters need a signal from the United States to assure them that their efforts, when they prove successful, will not be "rewarded" with protectionist devices. A directive from the highest levels of the U.S. government which declares a unilateral

"nonproliferation" truce on new restrictions (other than legal ones involving subsidies, dumping, and countervailing duties) could provide such a signal. Exporters need to be assured that the "rules of the game" will remain the same.

2. Policy Reform Support. Through multilateral and bilateral assistance agencies, the U.S. government actively promotes appropriate structural adjustment and policy reform in the region. There are additional opportunities where foreign assistance could be allocated directly to help cover the short-term costs of policy reform. For example, general support funds could replace the revenues foregone as a result of tariff reductions on machinery and intermediate goods needed by exporting companies.

3. U.S. Market Information. In spite of the CBI programs operated by USAID and the Department of Commerce, nontraditional exporters expressed a strongly felt need for additional detailed information on how to do business with the United States. Areas in which knowledge is limited include Department of Agriculture rules and requirements, trade documentation, the precise application of trade incentive statutes, etc. The services currently being provided are considered too general to be of any major use. Therefore, regionwide programs to develop and disseminate this type of information could assist exporters and overcome numerous misunderstandings.

4. Transportation Needs Assessment and Plan. The problems of high transportation costs and irregular service are ubiquitous throughout the region. The issues are complex and involve both standard market forces and nonmarket variables, and hence will be difficult to solve until trade volumes rise. Nevertheless, efforts to direct public attention to and address these issues would be welcomed. An initial assessment of sea and air transportation needs and difficulties could provide the facts necessary to support strategies to improve regional transportation services, which are now a major constraint to export growth.

5. Customs Improvement Programs. In every country examined, customs procedures and delays are cited as a bottleneck to export expansion. To a large degree, customs agencies are charged with the unpopular task of rationing scarce foreign exchange through licenses or other measures. However, the efficiency of customs houses needs to be enhanced in order to break the vicious circle wherein importing obstacles limit exports and reduce foreign exchange availability. Regional programs or grants could be directed toward training or advanced information systems to streamline customs operations.

6. Trade Financing Support. USAID missions have undertaken a range of venture capital and secondary financing projects, and the results have been mixed. Assistance for trade financing (e.g., lines of credit, letter of credit guarantees, etc.) could be developed at either the national or regional levels and alleviate a problem encountered by the more dynamic nontraditional exporters.

7. Short-Term Technical Assistance. Numerous examples were given to the project team of the high value that exporters place on advice from U.S. specialists in particular production methods and marketing approaches. This form of very short-term technical assistance is often too expensive for local entrepreneurs, and so a number of such assignments have been financed or subsidized by donor agencies. An expansion of such programs, perhaps on a regional basis, could yield considerable returns.

8. Management Training. The need for business skills development in the region was noted previously. While it makes sense to pursue training programs principally at the national level, these efforts could be supported or supplemented through regional activities.

## F. Country-Specific Recommendations

The previous discussion has concentrated on the experiences and alternative initiatives that hold for the Central American/Caribbean

region as a whole. While common approaches may hold promise in certain areas, the most important efforts to promote expansions of nontraditional exports will be undertaken at the individual country level, and these will vary by country. The following recommendations have been drawn from the country case studies undertaken by the SRI team.

BELIZE

1. Intensify efforts to diversify the agricultural and export base away from sugar. Sugar export volume has fallen only slightly during the 1980s, indicating marginal movement away from sugar. The long-term outlook for sugar is poor. Programs to replant sugar lands with substitute export crops should be expanded.

2. Increase the transparency of investment incentive decisions. The current case-by-case granting of investment incentives has led to complaints of favoritism. Criteria used in bestowing incentives should be standardized and made public.

3. Assist free zone establishment, but limit direct government involvement to site preparation -- building water, sewer and electrical lines and road -- and not owning or managing zones. Past SRI investigations of industrial free zones have shown that zones that are run privately or by nonprofit coalitions have higher occupancy rates, are cleaner, and offer more worker amenities, such as lunch rooms and health services, than government-run zones. Rents in private or nonprofit zones tend to be higher, but do not appear to deter business interest; on the contrary, businesses seem willing to pay higher rents to obtain better services such as trash removal and maintainance. The Government

should offer incentives to private individuals and groups to build factory space and own and operate zones.

4. Increase availability of capital, especially venture capital, to exporters. One obvious but difficult way to attack the problem is at its source, by decreasing fiscal deficits and reducing foreign debt, thereby freeing funds for the export sector. Perhaps ESF conditionality could be used to push for these changes, but they are more appropriately the domain of the IMF and cooperating countries. Two other promising alternatives for the short run include offering a seminar to local bank officials on credit to exporters, with the goal of discovering new financial instruments that would be both profitable for the banks and helpful to exporters. One such product could be credit to exporters using equipment or inventory as collateral, instead of the currently-required real estate. A second approach could be the establishment of a venture capital pool to offer start-up funds at real rates that reflect risk.

5. Provide additional management training to the export sector. Some business fundamentals can be taught perhaps using the case method. Other knowledge is gleaned on-the-job or informally, from peers and superiors. Both AID and the Government of Belize should assess their formal and informal management training programs and look for ways to strengthen and expand them to train more managers, especially those now or potentially in the export sector.

6. Provide a consistent, stable political and policy environment. The specifics of a given policy (as long as it is pro-export) are less important to the business community than the longevity and stability of the

policy, and the consistency with which it is implemented. Strong local coalitions need to be forged to support pro-export policies in Belize.

COSTA RICA

1. Ease credit shortages over time by deregulating the banking sector, lowering real interest rates and loosening monetary policies. The importance of credit availability in Costa Rica was underscored both in in-country interviews and in econometric analysis of the determinants of the country's nontraditional exports. The extent to which these changes can be implemented depends on the successful attainment of other Costa Rican macroeconomic goals.

2. Increase the supply of trained middle-level managers to bolster Costa Rica's eroding competitive advantage in this area. The number of management training opportunities, both local and abroad, should be increased. Courses need not be subsidized; fees should be set to recover costs, and scholarships should be available.

3. Assess the efficacy of the independent customs agent requirement. Regardless of whatever good intentions spurred its implementation, the law requiring Costa Rican exports to employ an outside customs agent to handle all dealings with Customs may not be performing as well as expected. The Customs shakeup in mid-1986 would also seem to obviate the need for independent customs agents.

4. Review laws and regulations that allow the Central Bank and other government institutions to set prices. Price

intervention can have devastating effects on export competitiveness. Price controls such as those existing in Costa Rica always cause price distortions, but are especially damaging to an outward-looking, export-oriented economy, and are probably a holdover from the past when import substitution was the overarching goal.

GUATEMALA

1. Release the export sector from selected government regulations. Used very successfully by several of the Newly Industrializing Countries (NICs), this strategy could provide a strong stimulus to export growth, and a first step toward broader economic liberalization. Policies that are presently constricting export growth include bureaucratic customs clearance, taxes, and labor laws.

2. Increase the flow of market information to exporters. Consumer buying trends and tastes, U.S. agricultural import and licensing requirements, and joint venture opportunities should all be disseminated more widely among Guatemalan exporters, perhaps by the Nontraditional Exporters Guild.

3. Evaluate the import/export inspection services being provided by the Societe General de Surveillance (SGS). Exporters are alleging that SGS imposes undue delays that are reducing their ability to export successfully. The complaints may indicate that SGS is indeed doing its job properly, and thwarting under and over-invoicing. The validity of exporter claims should be assessed, and if necessary, action should be taken to alter the arrangement.

4. Evaluate the free zone at Santo Tomas de Castilla, and consider promoting free zones in other areas of the country. Allegations of poor management and inadequate physical infrastructure at the zone should be investigated and the zone management should be contracted out to private or nonprofit group if the evaluation indicates serious difficulties. Given that the zone's remote location is a major problem, consideration should be given to offering incentives for free zones at other sites.

5. Upgrade exporter management skills. Current management education programs should be examined, and options should be assessed to make the curricula as practical and useful as possible and to reach as many nontraditional exporters as possible.

HONDURAS

1. Devalue the lempira, perhaps by ten percent. The econometric analysis of determinants of Honduran nontraditional exports suggests that devaluation of the lempira would have a significant, positive impact on Honduran nontraditional exports.

2. Provide additional venture capital. A number of options for increasing credit availability could be pursued. A useful criteria to use to choose among alternate approaches is to determine which market niche AID is most likely to be able to fill. Domestic credit in Honduras totalled nearly $1.5 billion in 1985, and in comparison, AID credit programs are modest. Three approaches appear feasible.

- Make risk capital available. Target venture capital to nontraditional exporters who can demonstrate that their investments are likely to make a profit, offer substantial employment, foreign exchange, and perhaps equity effects. The idea of creating or supporting a venture capital pool is presently being considered by a number USAID Missions, and a role for AID/Washington might be to offer a two to three day seminar at which mission personnel hear presentations from successful venture capital firms in the United States, and discuss the pros and cons of alternate risk capital delivery mechanisms.

- Offer loan guarantees. This option would be costless if credit requests are carefully and accurately screened for risk, and would go a long way toward relieving the credit shortage.

- Co-sponsor seminars with local banks and local branches of multinational banks on new venture financing. One discussion topic could be the pros and cons of the current requirement that only real estate, and not equipment or inventory, can be used as collateral.

3. Increase the supply of skilled managers. Fees should be charged for the courses, and they should be as close to cost-recovery as the market will bear. Scholarships should also be available.

PANAMA

1. Extend export incentives to all sectors. A large quantity of piecemeal legislation has been passed over the past few years, and has had a positive impact on

nontraditional exports. However, an announcement that export promotion is a high-priority Administration goal, backed by substantive export incentive legislation to boost exports across the board, and not in just a few preferred sectors, is needed. In particular, CAT (tax credit certificates) benefits should be extended to more exporters in more sectors. Reportedly, nearly half the value of all CATs has been received by six enterprises. Broadening CAT coverage to more businesses in more industries would attract additional domestic producers into exporting, bring more foreign investment to Panama, and help create a climate of fair and equitable government treatment of business.

2. Adjust the Labor Code to provide additional incentives for high productivity. Under the current code, workers have very few incentives to improve their work performance, because it is very unlikely that they will be fired or laid off. Employers are reticent about hiring new workers to support an export expansion if they cannot lay them off if demand falls. Worker rights are always a sensitive issue, but nonetheless should be addressed.

3. Increase credit availability. Projections of the net results of activities such as AID's FIDESA program indicate that significant balance of payments benefits can be achieved.

4. Advertise export incentives, especially among foreign investors. The SRI team discovered that legislation already on the books is not having the impact it could because of a lack of awareness of its existence. Better public dissemination of incentives could eliminate this problem.

DOMINICAN REPUBLIC

1. Streamline investor services and promotion policies. The current proliferation of investor assistance agencies and incentive-granting institutions must be curbed, and their efforts, knowledge and resources should be coordinated.

2. Diversify away from sugar through programs to change land use, including the rental or sale of government land. Progress has been made in shifting land under sugar cultivation to winter vegetables and fruits, but in the face of the very pessimistic long-term price trend for sugar, such efforts should be augmented.

3. Enhance capital availability. Capital market development, loan guarantees, and venture capital pools all represent possible strategies to increase the amount of capital exporters can use to fund expansion.

4. Increase incentives to invest in factory space or export expansion to the level of incentives currently provided for investment in tourism.

5. Seek to encourage, or perhaps even mandate, backward linkages such as local sourcing. The Dominican Republic is currently in the envious position of receiving more applications from potential free-zone occupants than can be handled with existing capacity. The extent of backward linkages with the local economy that each applicant offers would be one way of prioritizing access to free zone factory space.

6. Reform customs procedures. In general, zone occupants receive good customs cooperation, but companies outside of the zones point to slow customs clearance as a source

of long delays and a serious limitation to export expansion.

7. Strengthen management/marketing training. Local and international management training initiatives should be developed with the goal of increasing the quality and quantity of business related skills.

JAMAICA

1. Maintain pro-export policy stability. Overall Jamaica has developed a good set of export incentives that facilitate and promote nontraditional exports. The major challenge for the future is to maintain the incentives, and extend or adjust them as conditions warrant. Of particular importance is maintaining an appropriately-valued exchange rate, since Jamaica's prime comparative advantage is its skilled, low-cost labor force. This advantage would disappear if the wage rate in dollars rose substantially due to an overvalued currency.

2. Reduce bureaucratic obstacles to exporting, especially in customs clearance but also in licensing and obtaining tax drawbacks. Jamaica should seek to break the vicious circle in which limited foreign exchange inhibits importing inputs for exports, and low export levels in turn limit foreign exchange earnings.

3. Increase capital availability. A number of options exist to ease the shortage of capital, including new venture capital pools (such as the Trafalgar Bank), guaranteed loans to nontraditional exporters, and new financing techniques, such as leasing, commercial paper, and share issues.

4. Simplify local sourcing requirements. Burdensome requirements currently discourage firms that export 100 percent of their output from using local inputs. By facilitating local sourcing, officials will increase the backward linkages from the export sector to the domestic economy.

5. Enhance management skills. Both the government of Jamaica and the USAID Mission to Jamaica should review their education portfolios, seeking ways to increase both the quality of management education and the number of people who receive training.

## II. THE NATURE OF NONTRADITIONAL EXPORTS

Attempting to attach a single, precise definition to the term "nontraditional exports" is a difficult and somewhat dangerous exercise, for several reasons. For example, what is considered nontraditional in one country may be traditional in another. In addition, in some cases products which have been exported for a decade or more (e.g., apparel from the Dominican Republic, chemicals and manufactured consumer goods from Guatemala and El Salvador to regional markets, etc.) are still classified as nontraditional. Finally, in a number of countries differences emerge among agencies, interest groups, and academic circles on the question of what commodities should or should not be included in the nontraditional category. This is not just an academic question in some cases, since producers of nontraditional products may be eligible for special incentives.

For these and related reasons, the SRI project team has adopted a flexible definition of nontraditional exports and is developing different product groupings for each country. They display the following characteristics.

- To a certain extent, nontraditional exports consist of anything other than what has been explicitly identified as traditional. However, what some countries have classified as nontraditional (e.g., minerals exports from the Dominican Republic), the project team has deemed to be traditional for purposes of this study.

- In general, nontraditional exports are those which either have not been sold until recently (the past five or ten years) or have only been exported in small quantities.

- Nontraditional exports typically fall into identifiable product categories. In the agriculture area, for example, the majority of nontraditional exports are in winter vegetables, citrus and other tropical fruits other than bananas and coconuts, and processed foods. In manufacturing, they include goods from assembly operations and light industry consumer products such as apparel, leather goods, electronic components, etc.

- Most nontraditional exports are oriented toward serving markets in the industrialized countries, primarily the United States, rather than developing countries inside and outside the region.

There are a number of important reasons for focusing on nontraditional exports as a unit of analysis. First and foremost, the nations in the Central American/Caribbean region desperately need to develop new sources of foreign exchange. The long-term prospects for demand and prices of many traditional commodities are limited if not poor. Markets for traditional agricultural commodities normally only expand with population growth, and prices fluctuate only on the basis of worldwide surpluses and shortages. The outlook for many basic minerals has been dimmed by economic stagnation, efforts by consuming countries to reduce import dependencies, and the introduction of new processes and advanced materials (e.g., ceramics, plastics, etc.) which require lower minerals inputs. The worldwide consumption of many basic materials on a per capita basis has shifted from an upward to a downward trend.

Nontraditional exports are also important because they both cause and result from higher levels of economic development. Recent experience indicates that developing countries initially concentrate on the production of basic commodities and rely on imports of more sophisticated products. "Successful" economies break out of that pattern and move gradually into goods requiring increasing amounts of technology and capital. One can follow the progressive steps taken by countries such as the Republic of China, which began with sugar and rice exports and over time added processed foods, light manufactures, and eventually "high technology" exports. As the export sector of such countries evolves, it tends to provide positive "spillover effects" to the economy as a whole, leading ultimately to what development practitioners call "industrial transformation."

A third reason for examining nontraditional exports is that, when compared to traditional exports, the former generally constitute more stable sources for generating income, employment, and foreign exchange earnings. This is due primarily to the fact that nontraditional

exports tend to be less susceptible to swings in world demand and price, and in most cases are not based on seasonal production patterns. In addition, they represent a diversification of the composition of exports.

Another benefit of nontraditional exports is perhaps more subtle but is no less important than those described above. The long-term growth of nontraditional exports is contingent upon the establishment of modern business practices and an appropriate political and policy environments. These exports cannot expand significantly in a climate marked by overvalued exchange rates, massive government budget deficits, price distortions, punitive tax rates, and other inappropriate policy structures. Therefore, nontraditional export growth tends to be accompanied by policy reforms which are conducive to economic stability and private enterprises. These economic "fundamentals" in turn lay the groundwork for increased investment, reduced capital flight, and long-term growth.

## III. INTRA-REGIONAL TRADE

The new nontraditional export thrust of the countries examined in this study is directed at gaining market shares in the United States and in other developed countries. In the past, however, the majority of these exports were sold to neighboring countries in the region. Trade within the Central American region was based largely on the evolution of the Central American Common Market (CACM), whereas the Dominican Republic and Jamaica served the Caribbean Common Market (CARICOM).

The Central American Common Market was established by the General Treaty for Central American Integration, drawn up in 1960 by Guatemala, Honduras, El Salvador, Costa Rica, and Nicaragua. The Treaty was ratified in 1963 by Guatemala, Costa Rica and Nicaragua, in 1964 by Honduras, and in 1965 by El Salvador.

The Treaty's fundamental goal was regional economic integration, which it planned to attain by creating large regional markets in which firms could take advantage of economies of scale, and by aligning foreign exchange and monetary policies. Based on the assumption that individual country markets were too small to allow manufacturers to obtain low unit costs, CACM members mandated immediate free trade in 95 percent of all goods, stipulating that remaining tariff barriers should be removed by June 1966. In addition, the CACM proposed to assign industrial activities to individual countries on a case-by-case basis, thus eliminating small, inefficient operations. Lastly, the CACM countries established a Central American Clearing House to clear multilateral payments in national currencies.

The CACM never really attained much industrial specialization, as each country fought to promote and protect its own industries. However, the CACM was fairly successful in creating a free trade zone and in clearing multilateral payments. Intra-CACM exports rose steadily from $135.5 million in 1965 to $1.2 billion in 1980. At its zenith, the Central American Clearing House was clearing 95 percent of all regional, multilateral payments in national currencies.

The CACM has not functioned well in the 1980s. Intra-CACM exports fell 43 percent from their 1980 high to just $779 million in 1984. There are basically three reasons for this. First, some countries have benefited more from economic integration than others, and the losers tend to withdraw from the CACM Market when it is in their interest to do. Guatemala and El Salvador, the most industrially advanced countries when the CACM was formed, were initially the largest beneficiaries. Seeing that its position had not substantially improved, Honduras effectively withdrew from the CACM in 1970. More recently, Costa Rica has benefited from CACM membership; it ceased running a trade deficit in 1984, in part because of increased exports to El Salvador.

Second, real per capita incomes in CACM countries have fallen by approximately 13 percent during the 1980s. Since regional imports

depend heavily on income, they too have fallen, thus restricting intra-CACM export opportunities.

Lastly, the increasing misalignment of local currencies within the region caused certain countries to maintain persistent trade deficits. Nicaragua, El Salvador, and Honduras failed to realign their currencies against those of Costa Rica and Guatemala, resulting in a large appreciation of their real exchange rates. The overvaluation of Nicaragua's cordoba, El Salvador's colon, and Honduras' lempira encouraged imports and discouraged exports, thus stimulating unsustainable regional trade imbalances. The trade surplus countries responded by reducing trade credit, thereby restricting their exports and reducing intra-CACM trade.

The collapse of the CACM market has had more serious consequences for some exporting countries than others. Only three of the countries studied were members of the CACM -- Guatemala, Costa Rica, and Honduras. Not being members, neither Belize, Dominican Republic, nor Jamaica ever exported more than one percent of their total exports to CACM member countries. At a high point in 1977, 9.2 percent of Panama's total exports were destined for the CACM, but this percentage has since fallen almost continuously to 1.5 percent in 1983.

However, the CACM constitutes a significant market for Guatemala, Costa Rica, and Honduras. During the 1970s and 1980s, CACM countries have bought between one-fifth and one-quarter of Guatemala's total exports. This percentage rose to nearly one-third (29.0 percent) in 1981. The CACM has also consumed approximately one-fifth of Costa Rica's exports over the last 20 years. The CACM has been slightly less important as a market for Honduras; members bought 18.0 percent of total Horduran exports in 1965, only 3.0 percent in 1972, 13.0 percent in 1983, and 6.0 percent in 1985.

In 1980 as much as 40.0 percent of Jamaica's nontraditional exports were sold to members of CARICOM. This share fell to only 29.0 percent in 1984, and has dropped significantly in subsequent years,

largely due to declining oil revenues and demand in Trinidad and Tobago, Jamaica's largest regional customer. The Dominican Republic's orientation toward North America has kept its dependence on CARICOM markets to a minimum. In recent years, only about 2.0 to 3.0 percent of total Dominican exports were sold to members of CARICOM, indicating overall stagnation in the region.

## IV. DETERMINANTS OF NONTRADITIONAL EXPORTS

Nontraditional export performance is a function of both supply and demand factors. In general, the single most significant determinant of nontraditional export growth is foreign demand, without which all other factors would be irrelevant. Foreign demand, in turn, is both income-induced and policy-induced. In this case, income can be defined as a combination of the effective purchasing power of ultimate consumers at the microeconomic level (households, corporations, and government entities) and foreign exchange availability at the macroeconomic level.

Policy-induced demand can be either expansive or restrictive. Demand for a given country's exports is increased when that nation is provided some form of preferential access through policies of the importing country. Demand is restricted when preferential access is denied or eliminated and when import barriers are erected.

All the countries examined in this study face basically the same world market conditions. All export primarily to the United States and to a lesser extent Canada and the European Community, and therefore are deeply affected by the economic performance of these countries. In addition, all of the countries studied are party to and receive the benefits of the Caribbean Basin Economic Recovery Act (the CBI), the 807 provision of the U.S. Tariff Code, and the Generalized System of Preferences (GSP), and hence benefit from the preferential access provided by those policy initiatives. In short, the countries studied are operating on essentially the same competitive basis with

respect to market demand factors. However, as will become evident in the individual country reports, the nontraditional export performances of these nations vary significantly.

Any country's ability to respond quickly, efficiently, and successfully to export opportunities depends on several supply factors. This study has revealed four basic categories of supply-side variables that affect export performance. They are macroeconomic factors, microeconomic factors, policy and promotional factors, and other country-specific factors such as political stability. A nation's export success is therefore a function of the degree to which it approximates the "ideal" in each of these categories.

## A. Macroeconomic Determinants

The macroeconomic factors that affect export growth can be subdivided into four groups. They are resource endowments, growth factors, stability factors, and other variables.

### 1. Resource Endowments

Resource endowments such as a country's stock of labor, capital, and raw materials, as well as its agricultural assets and physical proximity to export markets, are a first set of determinants of export performance. Countries that have plentiful, inexpensive labor, capital, and raw materials have an obvious advantage over economies that lack these production inputs.

Taken as a whole, Central America is long on labor, land, and raw materials and short on capital. Labor costs vary but compare very favorably with U.S. wage rates, at least from an employer's point of view. The climatic conditions and arable land available in the region have been highly conducive to the cultivation and exportation of

tropical and semi-tropical agricultural commodities. Mineral deposits in the Dominican Republic and Jamaica, and vast forested regions in Belize and Honduras, have provided significant export earnings for these countries.

Raw material abundance is the basis of traditional exports, since countries tend to export what they have. But the astounding export-led growth of natural resource-poor nations such as Japan and the Republic of China illustrates that raw material abundance is less important for nontraditional exports, for which the important input is low-cost labor to assemble goods. Since Central America has low-cost labor, in some cases lower than in East Asian competitor countries, nontraditional export expansion could be feasible, but only if additional factors are also present.

In contrast to the availability of low-cost labor, the high cost and lack of availability of working and long-term capital is a region-wide constraint. The relatively-undeveloped Central American capital markets provide only limited financial services. Several financing options open to firms operating in developed countries, such as a public stock issue or bond sale, are prohibited either explicitly, by law, or implicitly, by a lack of secondary markets in which to resell financial assets. In some cases, even more mundane financing mechanisms are lacking. One Belizean exporter reported that he lost a large sale because no local bank would honor a letter of credit from his foreign buyer. To give a second example, Central American banks tend to require real estate as collateral for a loan and will not accept machinery or inventory, which exporters are more likely to possess. A small business or a firm that leases factory space instead of owning the land outright is often unable to borrow from local banks to finance an export expansion.

In the context of lack of local financing, joint ventures can turn to their foreign partners for funds for expansion, but wholly

locally-owned firms must rely on internally-generated revenues. Thus, the capital shortage prevalent in Central America and the Caribbean is a critical obstacle that slows nontraditional export growth.

Central America's proximity to the nearly $400 billion U.S. import market confers an important advantage on Central American exporters, and on neighboring Caribbean exporters as well. Cut flowers and fresh vegetables, both of which represent large and growing markets in the United States, can be transported to their final destination well within the time limit of a day or so, after which time they become unsaleable. Garment assembly operations also benefit from being close. The fashion business in the United States operates on a tight schedule of four 13-week seasons each year. Since garments can be flown cost-effectively from Central America, they reach U.S. markets in a matter of hours, while East Asian garments, sent by sea because air transport would be prohibitively expensive, face a four week voyage by sea. Clothes buyers who purchase from Central America have the advantage of waiting an extra month before making crucial decisions on what will sell well in a given season.

### 2. Growth Factors

Export growth is aided by high domestic demand and high historical growth in Gross Domestic Product and exports. The Central American economies studied tend to be be weak in all three of these categories, and their export performance has been constrained because of this weakness.

Large domestic markets, defined as markets with large populations and high buying power, can act as proving grounds for potential exporters, allowing them to gain mass production and distribution experience, and to take advantage of economies of scale. Unfortunately, this proving ground is unavailable for any of the Central American nations. The largest country studied was Guatemala with 8 million people; the richest was Panama with GDP per capita of $1,980 (compared with $15,390 in the United States).

High historical GDP growth rates can be considered a lagging rather than a leading indicator of export growth, in that growth signals that the economy is functioning and that the preconditions necessary for exporting are in the process of being met.

Perhaps the most significant "determinant" of export growth in a given year is export growth the previous year. Once exporters overcome problems in their production and distribution processes, establish relationships with foreign buyers or distributors, and fulfill the bureaucratic requirements for importing and exporting, they are generally poised for growth.

### 3. Stability Factors

The inflation rate, the budget deficit or surplus, the balance of payments, and growth in the money supply comprise the third set of factors. Investors, both local and foreign, take economic stability into account when making location and expansion decisions. Foreign buyers, desiring stable suppliers, also look for stability. High and rising inflation, large budget deficits, insufficient and falling international reserves, and galloping money stock growth all warn potential investors and buyers of imbalance and instability.

### 4. Other Macroeconomic Factors

The last of the major macroeconomic factors considered in this study are exchange rates, which directly affect the profitability of exporting. An overvalued exchange rate, a ploy commonly used in the past to make imports of capital and consumer goods artificially cheap, is less common today. Of the five Central American countries visited, only Honduras currently maintains its currency appreciably (more than 5 percent) above its market value. The recent take-off of nontraditional exports from Jamaica and the Dominican Republic is directly attributed to currency devaluations.

## B. Microeconomic Determinants

In addition to the macroeconomic conditions that affect all exporters, companies are subject to firm-specific factors that affect their export performance. Certain of these variables are quantifiable and pertain to operating costs. They include utilities costs (and availability), factory lease expenses, and transportation costs.

Other factors in this area are nonquantifiable. Many constraints can be traced directly to the heritage of import substitution regimes. One example is quality control. In some firms, quality control is excellent. However, many firms are accustomed to the lax quality standards of domestic and regional markets, and seem unable to improve product quality or perhaps do not understand the need for it. When one firm from a given country exports "shoddy" goods, it sometimes creates a negative image of the entire country in foreign markets. Quality control standards in individual firms can generate externalities that affect the export opportunities afforded other firms.

In the course of the interviews conducted for this study, two microeconomic factors were consistently mentioned as serious contraints to export growth. The first is poor internal management. Export firms must be managed well if they are to succeed. Yet low educational levels and a dearth of management training institutions mean that throughout Central America, with the possible exception of Costa Rica, there is a lack of skilled managers. Foreign firms often compensate for this by doing away with middle management, and maintaining expatriates in-country to manage day-to-day plant operations.

A second constraint is a lack of risk-takers. Nontraditional exporting is an inherently risky business, since in many cases it us untested. Both economic and sociological factors in Central America urge risk avoidance behavior.

Although skilled management and risk-takers are both in short supply, one finds that most Central American countries have formal mechanisms to provide exporters with foreign contacts, such as potential buyers, joint venture partners, and market information. USAID Missions to the various countries have played a key role in creating and providing initial funding for these export promotion and assistance institutions. The relatively small size of the Central American countries and economies has meant that modest AID programs can have significant impact.

### C. Policy and Promotional Determinants

In dramatic contrast to the disincentives placed on exporting under the import substitution schemes common in the 1960s and 1970s, nations now compete to offer attractive tax holidays and other incentives to potential exporters. It is unclear how much these incentives packages sway foreign investors' location decisions. However, it is clear that the historical and expected longevity of the incentives is important to potential investors. Investors are willing to trade off export incentives for a stable political and economic environment, since policy stability is paramount in their minds. On the other hand, the provision of incentives by the U.S. government has been of critical importance to the region's nontraditional export growth. The elimination of these provisions would wreak havoc on new export ventures.

### D. Other Determinants

A last, very significant factor that affects export performance is political stability, both national and regional. Two on-going regional disturbances -- the civil war in El Salvador and the superpower-backed controversy in Nicaragua, which includes border skirmishes with neighboring Honduras -- have resulted in capital flight from the region and greatly curtailed foreign investor interest in locating new operations there. To give an example of the negative effect of the conflicts on export growth, foreign investors have

reportedly postponed a $12.5 million investment in shrimp farming in Honduras pending resolution of the region's political difficulties.

The quantitative analysis undertaken in Part II of this study has estimated the effects of the above-mentioned factors on nontraditional exports. However, one must remember that it is difficult to rank order the determinants, because the absence of any one factor can potentially disqualify would-be exports from world competition. The export chain, from production to distribution, is only as strong as its weakest link. Firms that produce high-quality goods at low cost but are unable to get them to foreign markets are not successful exporters, and neither are firms that utilize efficient transportation networks to export poor-quality merchandise.

## V. NONTRADITIONAL EXPORT DETERMINANTS: AN ECONOMETRIC ANALYSIS

### THEORETICAL FOUNDATIONS

International trade theory was one of the first subject areas to be pursued in modern economic analysis. Trade theories presented by the "classical economists" such as Adam Smith, David Ricardo, and John Stuart Mill focused primarily on the gains from trade to prove that free international trade benefits trading countries. Much of this work was policy oriented since it aimed to provide counterarguments to restrictive trading practices such as the British Corn Laws.

Despite the emphasis of the classical economists on the gains from trade, implicit in their writings are the underpinning for theories to explain the structure and determinants of trade. Within this theoretical framework, the driving force behind international trade is comparative costs, and gains from trade are achieved through specialization.

Turning to determining factors, early theories rested largely on the "labor theory of value," which holds that all production inputs can be reduced to their labor component. Following developments in neo-classical economics, the Heckscher-Ohlin theory focused on all factor endowments (general labor and capital) which vary among countries in absolute terms but more importantly in relative terms. Simply stated, this latter theory posits that relative costs and hence competitiveness are a direct function of individual countries' relative abundance of labor, capital, and land.

Notwithstanding considerable advances in theoretical sophistication and empirical estimation capabilities, almost all trade analyses to this day are based directly or indirectly in the Heckscher-Ohlin formulation. For example, the factor endowment model adequately explains the flow of capital-intensive goods from the industrial countries to developing countries, in return for

labor-intensive products exported from the latter. An UNCTAD study on "dynamic product" in the composition of manufactured exports from developing countries concluded that the following categories of exports recorded the most rapid growth in the 1970s: Apparel, transistors, footwear, shaped lumber, radio receivers, and telecommunications equipment. This conclusion is far from startling, but nevertheless reconfirms the economic reality that in the absence of protectionism, the production of goods requiring large inputs of labor inevitably migrates to sites where labor is relatively abundant.

While factor endowment models are useful in explaining the commodity composition of trade, they fall short in their ability to provide answers to two important questions. First, what variables determine the volume rather than the composition of trade? Second, why do some countries succeed in expanding exports rapidly (e.g., South Korea, the Republic of China, etc.), whereas other countries -- often with very similar endowments of labor and capital -- fail to increase their international sales? The former question can be solved to a certain extent by adding a demand factor to the analysis, since the volume of trade is a function of both supply and demand variables. The answer to the second question is that a country's ability to compete internationally depends on many factors beyond simple resource endowments. Growth in exports requires not only economic capacity but also economic efficiency, and some countries have been less successful than others in creating an economic environment that promotes efficiency.

With these issues in mind, econometricians have in recent years shifted their inquiries toward variables which explain demand and competitiveness. The export equations developed by the OECD and by the Wharton's Project LINK group include such variables as growth in foreign demand (expansions in GNP or imports), changes in market shares, relative prices (wholesale or export prices), and internal conditions (population and employment).

Most standard versions of international trade theory are unacceptable as a basis for the quantitative analysis developed in this study. Traditional theories depend on simplifying assumptions -- the neutrality of money, identical production functions across countries, domestic conditions approaching perfect competition, the international immobility of factors, etc. -- which do not hold in real world situations. In addition, from a practical standpoint, most theorems on the determinants of trade require far more data than are generally available. Finally, formal trade theories are generally unable to provide inferences on policy issues, which are a major focus of this study.

## II. THE SRI MODEL

With these considerations in mind, the SRI project team developed its own model to examine the determinants of nontraditional exports from the Central America and Caribbean region. This model is based on the economic logic captured by the following questions which address the necessary conditions for nontraditional export expansion.

1. Is there a market for the goods?
2. Can the target countries produce the goods?
3. Can the target countries compete with alternative sources of supply?

These three simple questions cover all the important variables to be tested as determinants. The first condition relates directly to foreign demand. For practical purposes, the market sought by exporters in the region is that of the United States, since the largest shares of their nontraditional exports are sold to the United States. Shifts in regional demand in the Central American Common Market (CACM) and the Caribbean Common Market (CARICOM) have also had a material impact on nontraditional exports.

Given the small sizes of the region's economies and low historical levels of nontraditional exports from the region, one could assume that the U.S. market is virtually unlimited in size. For example, the total exports of the countries examined to the United States in 1985 amounted to about $3.0 billion, of which perhaps four fifths represented traditional exports. By comparison, Taiwan alone exported some $15.5 billion to the United States in the same year, and almost all of these goods would be classified as nontraditional.

Despite the substantial potential for increased regional exports to the United States, one cannot assume the U.S. market to be unlimited. The regional producers are not operating in a vacuum, but instead vie with both U.S and foreign competitors for sometimes limited markets in specific product categories. In addition, since they are relative newcomers to many product markets, producers in the region are often viewed as marginal sources of supply, and hence are among the first to suffer sales losses during cyclical downturns. This type of experience was related by many exporters who specialize in subcontract work such as "807" operations. As a result of these considerations, the SRI team decided to use U.S. imports as the indicator for demand.

The last two questions posed above address the "supply side" of the equation. They respectively pose the questions of whether the countries have the physical capacity to produce nontraditional exports and whether these exports will be produced at competitive costs and quality levels. That is, one must first determine whether or not firms and countries have the supply-side capacity to export, and then assess whether they can do so competitively.

To evaluate capacity, exports must answer several questions. Are labor and capital resources available at appropriate price levels? Do firms have access to imports of capital goods, raw materials, and intermediate goods that serve as necessary inputs to production? Does the country offer sufficient infrastructure -- road, ports, air and sea cargo transportation, and utilities -- to support and hopefully to

facilitate exporting? Each of these "capacity" indicators represents an important ingredient which can serve either as an inducement or as a deterrent to exporting.

Of the five capacity variables deemed to be important -- labor, domestic capital formation, domestic credit, access to imports, and infrastructure -- labor availability is assumed, given high rates of unemployment throughout the region. A second variable, infrastructure, is difficult to quantify in a meaningful way, and to a certain extent is captured statistically by the capital formation variable. Consequently, the basic regression model contains three capacity variables: Domestic credit, domestic capital formation, and the value of imports.

The second important set of supply side determinants relate to competitiveness. Can a country produce goods with sufficiently high quality and at low enough prices to compete in world markets? Do managers have sufficient experience and knowledge of foreign consumer preferences and market entry considerations to export successfully?

Quality control is impossible to quantify and varies widely across firms and nations, but the other two competitiveness determinants -- price competitiveness and market knowledge -- can be estimated and incorporated into the model. To account for price competitiveness, the project team has employed the countries' "real" exchange rate, which is a powerful factor determining U.S. dollar denominated wage rates. This factor also directly affects export profitability by determining the local currency value of export shipments. When available, dollar labor costs were also included.

As an indicator of market knowledge, the model employs the variable of nontraditional exports lagged by one year. This assumes that the previous year's success in exporting captures the extent to which the country has cumulatively developed marketing expertise and contacts. This variable also proxies as a "capacity" indicator, since it indicates that the export capacity, such as infrastructure and

other qualitative factors, from the previous year is in place for current year exports.

During the data collection phase of this project, the SRI team sought to gather figures on variables which would more directly and precisely relate to the region's nontraditional export performance. For example, wage rates are an important determinant, but they should be adjusted to reflect relative rates of productivity. However both wage and productivity figures were in most cases unavailable, and the accuracy of existing statistics are highly suspect. In addition, one would expect the effective rate of import protection to be an important indicator of the degree to which countries have shifted from import substitution to export promotion strategies. In practice, however, there are no time series estimates of either nominal or effective rates of protection. It would also be useful to test data on export prices (generally in index form), but these figures are only collected for a select group of traditional exports, and no data are available on nontraditional export prices.

## III. THE RESULTS OF THE SRI MODEL

### SRI Model I

The SRI team derived and tested an equation, which we refer to as Model I, that incorporates the capacity, competitiveness, and demand factors discussed above. Nontraditional merchandise exports are expressed as a function of real exchange rate (or real effective exchange rate), U.S. imports, nontraditional exports lagged one year, real domestic credit, and real capital formation and, in certain countries, merchandise imports, time, foreign direct investment, and real wages. Real exchange rate is the nominal exchange rate adjusted for the differential between local and U.S. inflation. It is expressed in local currency per U.S. dollar; thus an increase indicates devaluation. Real effective exchange rate is the trade-weighted exchange rate adjusted for the difference between local inflation and trading partners' inflation.

The single-equation econometric tests of the SRI model affirmed the assertion that capacity, competitiveness, and demand are indeed important determinants of nontraditional export performance. The estimates of the coefficients and the t-statistics are summarized in Table 1, appended to this section of the study.

Overall, the estimates are significant and carry the expected signs. Two variables, U.S. import demand and own-country merchandises imports, consistently have positive partial correlation coefficients with nontraditional exports. U.S. import demand is positive and significant at the 0.10 level in three countries: Belize, Costa Rica, and Guatemala. Own-country merchandise imports are statistically significant and positive in three countries (Costa Rica, Panama, and Jamaica), and significantly negative in one, the Dominican Republic.

The importance of own-country merchandise imports as a determinant of nontraditional export performance merits a brief discussion. On the surface, the positive partial correlation indicates that to export successfully, producers need access to imports used as inputs in the production process. However, the value of merchandise imports also serves as a proxy for foreign exchange reserves and for the degree of "openness" of the economy. Thus, the regression results indicate that greater foreign exchange reserves and a more open economy are positively correlated with increased nontraditional exports.

Four other variables are significantly and positively associated with increased nontraditional exports -- real capital formation, the real effective exchange rate (REER), the previous year's nontraditional exports, and CACM import demand. Table 2 illustrates the number of countries in which each variable yields a significant (at the .10 level), positive partial correlation coefficient. The positive regression coefficients for real capital formation, the real effective exchange rate, and the previous year's nontraditional exports are consistent with the argument that capacity and competitiveness are positive determinants of nontraditional exports.

Although the SRI model did yield interesting results, the fact that it generated a fairly high number of coefficients with signs opposite of those expected (for example, two of the four significant REER coefficients were negative) and a high number of insignificant coefficients, indicated that high multicollinearity between variables was yielding imprecise results. Specifically, U.S. import demand and own-country merchandise imports explained such a large portion of the variance in nontraditional exports that the true effect of the remaining variables could not be detected. Judging by the concentration of unexpected signs for coefficients in Costa Rica, Guatemala and the Dominican Republic, the multicollinearity was particularly acute in those countries.

SRI Model II

To deal with this circumstance, the SRI team opted to utilize a stepwise regression package that identified those variables that made the greatest contribution at the margin to R-squared. From among the independent variables listed above, the econometrics package specified various equations by including variables on the basis of statistical criteria.

In a purely academic exercise, the practice of eliminating the overpowering variables from the equations would be carefully scrutinized. Perhaps a two-stage least squares procedure would be undertaken as an alternate way of dealing with high multicollinearity. However, for the purpose at hand, the team was not rigorously testing competing theoretical constructs, but rather was searching for answers to the question, "What determines nontraditional export performance?" In addition, the absence of a well-defined theory makes a practical approach to modelling more acceptable.

In exploring the determinants of nontraditional exports, the SRI team ran from four to thirteen equations per country. The results are presented in Table A below, and in Tables 3 and 4 appended to this section of the report.

The country-specific results are discussed in detail below. However, in general one notes that U.S. imports are positively associated with nontraditional export growth in four countries, Belize, Costa Rica, Dominican Republic, and Jamaica. Four variables -- the previous year's nontraditional exports, domestic credit, gross fixed capital formation and labor costs -- are positively correlated with exports in two countries (not necessarily the same two countries for each variable). Another four variables show a positive partial correlation coefficient in a single country (but not all in the same country) -- own-country merchandise imports, real capital formation, time, and a dummy variable for the years 1975-1987.

**Table A**

**SRI MODEL II EQUATIONS**

**Belize**

$$\underset{}{NTEXP} = \underset{(0.12)}{69.55} - \underset{(0.10)}{46.90}\ RER + \underset{(0.03)}{0.30}\ USM$$

**Costa Rica**

$$NTEXP = \underset{(0.36)}{180.40} + \underset{(0.03)}{0.53}\ USM + \underset{(0.04)}{0.27}\ NTXL - \underset{(0.17)}{0.04}\ CR + \underset{(0.28)}{0.12}\ FCF$$

$$+ \underset{(0.09)}{0.16}\ IMP - \underset{(0.31)}{3.04}\ TIME$$

**Guatemala**

$$NTEXP = \underset{(0.01)}{-2637.59} - \underset{(0.00)}{3.04}\ NTXL + \underset{(0.00)}{0.58}\ CR + \underset{(0.12)}{0.27}\ IMP + \underset{(0.04)}{22.99}\ TIME$$

$$+ \underset{(0.05)}{1077.24}\ LABOR + \underset{(0.13)}{161.08}\ D1 - \underset{(0.96)}{7.66}\ D2$$

**Honduras**

$$NTEXP = \underset{(0.05)}{142.93} + \underset{(0.18)}{0.21}\ NTXL + \underset{(0.00)}{0.25}\ FCF + \underset{(0.93)}{0.00}\ IMP - \underset{(0.06)}{2.14}\ TIME$$

---

Significance levels in ( ).

## Table A (Continued)

## SRI MODEL II EQUATIONS

**Panama**

$$NTEXP = \underset{(0.26)}{-79.51} - \underset{(0.14)}{113.90}\ RER + \underset{(0.24)}{0.11}\ USM + \underset{(0.02)}{0.58}\ NTXL - \underset{(0.03)}{0.02}\ CR$$

$$+ \underset{(0.17)}{0.03}\ IMP + \underset{(0.17)}{2.49}\ TIME$$

**Dominican Republic**

$$NTEXP = \underset{(0.21)}{5.74} + \underset{(0.01)}{0.37}\ USM + \underset{(0.60)}{0.00}\ CR + \underset{(0.21)}{0.02}\ IMP + \underset{(0.33)}{8.59}\ D1 - \underset{(0.09)}{16.71}\ D2$$

$$NTEXP = \underset{(0.34)}{-10.53} + \underset{(0.06)}{0.37}\ USM - \underset{(0.51)}{0.26}\ NTXL - \underset{(0.91)}{0.00}\ CR + \underset{(0.73)}{0.01}\ IMP$$

$$+ \underset{(0.10)}{60.87}\ LABOR$$

$$NTEXP = \underset{(0.02)}{10.54} + \underset{(0.08)}{0.04}\ FCF + \underset{(0.28)}{0.02}\ IMP - \underset{(0.76)}{0.00}\ GDPL + \underset{(0.06)}{16.76}\ D1$$

**Jamaica**

$$NTEXP = \underset{(0.07)}{418.15} + \underset{(0.02)}{0.44}\ USM + \underset{(0.46)}{0.01}\ CR + \underset{(0.19)}{0.06}\ IMP - \underset{(0.10)}{6.00}\ TIME$$

$$NTEXP = \underset{(0.17)}{286.36} + \underset{(0.10)}{0.33}\ USM + \underset{(0.10)}{0.03}\ CR - \underset{(0.24)}{3.69}\ TIME + \underset{(0.66)}{0.51}\ AID$$

**Aggregated Data**

$$NTEXP = \underset{(0.96)}{-16.34} + \underset{(0.00)}{12.47}\ RER + \underset{(0.49)}{0.25}\ USM - \underset{(0.00)}{0.08}\ CR + \underset{(0.62)}{0.03}\ IMP$$

$$-\underset{(0.90)}{0.70}\ TIME + \underset{(0.00)}{0.08}\ GDPL$$

$$NTEXP = \underset{(0.91)}{21.42} - \underset{(0.54)}{1.26}\ RER + \underset{(0.00)}{1.10}\ NTXL + \underset{(0.05)}{0.03}\ CR - \underset{(0.03)}{0.10}\ FCF$$

$$+ \underset{(0.95)}{0.00}\ IMP - \underset{(0.93)}{0.25}\ TIME + \underset{(0.03)}{0.03}\ GDPL - \underset{(0.48)}{18.63}\ D1$$

$$- \underset{(0.06)}{44.72}\ D2 + \underset{(0.12)}{27.73}\ CACM$$

---

Significance levels in ( ).

## DEFINITION OF VARIABLES

**Symbol**

| | |
|---|---|
| REER | Real Effective Exchange Rate is the estimated price in domestic currency of a relevant, export-weighted basket of foreign currencies. The REER is expressed in local currency per basket of foreign currencies. Source: SRI. |
| RER | Real Exchange Rate in local currency per U.S.$, is the price of local currency, corrected for the differential in inflation in the United States and the country. Source: Central Banks, SRI calculations. |
| USM | U.S. Imports is U.S. merchandise imports f.o.b. in billions of U.S.$. Source: IMF International Financial Statistics. |
| NTXL | Nontraditional Exports Lagged 1 Year is nontraditional merchandise exports, f.o.b., in millions of U.S.$, lagged 1 year. In any given year, the figure used is the previous year's exports. Source: IMF, Central Banks, SRI calculations. |
| CR | Domestic Credit, in millions of U.S.$, represents net claims on government, plus claims on local governments, the private sector, and other financial institutions. Source: IMF International Financial Statistics. |
| FCF | Fixed Capital Formation in millions of U.S.$ are the IMF statistics on gross fixed capital formation. FCF represents gross investment (depreciation is not subtracted) of the public and private sectors in infrastructure, plant and equipment, but not inventory. Source: IMF International Financial Statistics. |
| IMP | Country Merchandise Imports represent each country's merchandise imports, f.o.b., in millions of U.S.$. Source: IMF International Financial Statistics. |
| TIME | Time is a dummy variable used to pick up any effects correlated with the passage of time. It equals 0 in the first year and increases by 1 in each successive year. In the example of Belize, TIME = 0 in 1970, 1 in 1971, and 15 in 1985. |
| GDPL | Gross Domestic Product Lagged 1 Year are the IMF GDP statistics for each country, lagged 1 year. Source: IMF International Financial Statistics. |
| LABOR | Labor costs, in U.S.$ per month, are the monthly wage earnings for blue collar workers. They are not adjusted for productivity. Source: International Labor Organization Yearbooks. |

**DEFINITION OF VARIABLES (Continued)**

**Symbol**

| | |
|---|---|
| D1 | Dummy 1 is used to assess any significant change beginning in 1975. It equals 0 in each year prior to 1975, and 1 in 1975 and each subsequent year. |
| D2 | Dummy 2 is like Dummy 1 but tests 1980 as a watershed year. It equals 0 until 1979 and 1 from 1980 on. |
| CACM | Membership in the Central American Common Market is represented by this dummy variable, which is assigned a value of 0 for countries not in the CACM (Belize, Panama, the Dominican Republic, and Jamaica) and 1 for CACM member countries (Costa Rica, Guatemala, and Honduras). |
| AID | Official Unrequited Transfers. Source: IMF International Financial Statistics. |

As a comparison of Tables 2 and 5 indicates, the signs of the coefficients are more likely to be as expected in Model II than in Model I; in Model II, a higher REER is associated with increased exports, as is own-country merchandise imports and capital formation. The R-squares tend to be lower, which was also expected since the team explicitly removed variables that added greatly to explained variance. The SRI Model II appears to depict the determinants of nontraditional exports more accurately than does Model I.

The following sections examine the regression results of the SRI Model II for each country, as well as for regionally aggregated data.

**Belize**

The dearth of extended time series data on Belize limited the SRI team's ability to develop estimates of many variables. In addition, since the equations have only one degree of freedom, the coefficients are not particularly robust. However, the econometrics analysis of Belize does indicate that a driving force behind Belizean nontraditional exports is U.S. import demand (from the world, not just from Belize). The coefficient suggests that an increase in U.S.

imports of $1 billion would stimulate an additional $300,000 in nontraditional exports, or roughly one-third of the 1985 nontraditional exports. An elasticity of 1.11 as suggested by the regression results (see Table 4) means that a one percent increase in the value of U.S. imports would be associated with a 1.11 percent increase in nontraditional exports from Belize.

The fact that no other variables were significant in the equation does not mean they are not significant in the real world. The limited number of years of data and high correlations between variables diminish the power of the regression methodology to detect determinants of nontraditional exports growth.

**Costa Rica**

An R-squared of .99 for Costa Rica indicates that the six variables regressed on nontraditional exports explain nearly all the variance in the dependent variable. The high R-squared corroborates the completeness of the SRI Model II for Costa Rica.

Three variables are significant in the equation; U.S. imports, nontraditional exports lagged one year, and Costa Rican merchandise imports, all are positively associated with increases in nontraditional exports. U.S. imports is a demand variable, lagged exports a competitiveness variable, and merchandise imports a capacity variable. The fact that one variable from each classification is significant further supports the validity of the SRI approach. The fact that no more than one variable from each classification is significant does not mean that additional factors are unimportant; it simply means that the limited number of observations limits the regression technique's ability to detect additional important factors.

Taking each significant variable in turn, we consider first U.S. imports. The elasticity of nontraditional exports with respect to U.S. imports (0.36) indicates that the Costa Rican exporters are proportionately less affected by changes in the U.S. import market

than are Belizean exporters, who face an elasticity of 1.11. A review of export destination statistics supports this conclusion: the United States is the destination of only 42 percent of Costa Rican exports, whereas the United States receives 51 percent of Belizean exports.

A second significant variable is lagged exports, which is consistent with the argument that the previous year's exports affect export performance. This conclusion confirms that contacts made and marketing channels created in a given year will not only increase that year's export but the following year's as well.

Lastly, Costa Rican merchandise imports are significantly and positively correlated with nontraditional export growth. The correlation coefficient is consistent with the following conclusion: The open economy policies and foreign exchange availability that support imports also promote exports. Every additional dollar's worth of goods imported is translated, on average, into an additional $0.16 worth of nontraditional exports. In summary, the regression results are consistent with the conclusion that U.S. demand, lagged exports and merchandise imports are positive determinants of nontraditional exports in Costa Rica.

**Guatemala**

The SRI Model II test for Guatemala included seven variables -- lagged nontraditional exports domestic credit, Guatemalan merchandise imports time, labor costs and two dummies for time, one that attempted to determine whether 1975 was a watershed year, and a second that tested if significant changes had occurred beginning in 1980. Of the seven variables in the equation, three are significantly positive: domestic credit, time, and labor costs.

The regression results support the contention that increased credit availability increases nontraditional exports. In the case of Guatemala, a $1 million increase in domestic credit is associated with a $580,000 increase in nontraditional exports. The estimated domestic

credit elasticity of nontraditional exports is 1.61, meaning that a 1 percent increase in domestic credit is associated with a 1.61 percent increase in nontraditional exports.

A second factor that is positively associated with export growth in Guatemala is time. Market contacts and channels established in the past and export experience combine to increase Guatemalan nontraditional exports by some $23 million each year above the level estimated by the other determinants, other factors being equal.

Labor costs are also positively correlated with increases in exports. One would expect exports to fall as unit labor costs rise relative to other countries and exporters seek alternate low-cost sites. The econometric results do not dispute this conclusion, for the variable tested was absolute labor costs, not Guatemalan unit labor costs relative to those of other countries. The regression results are consistent with the proposition that productivity increases in Guatemala have probably outpaced dollar wage increases; thus unit labor costs are falling. This is very likely, given high unemployment and low labor union activity. Lower unit labor costs will induce higher production and export levels. Thus, rising dollar wages are positively associated with exports, because even as dollar wages rise unit labor costs fall.

Lagged nontraditional exports is significant and carries an unexpected negative sign. The negative sign can be misleading and is due to a combination of statistical phenomena such as the variable's importance being picked up by other variables, the lack of a 2-stage least squares procedure, and autoregression (the regression of a variable back on itself).

**Honduras**

The equation which best explains Honduran nontraditional export behavior contains only four variables since the addition of other factors cause variables already in the equation to become

insignificant. The four variables are Honduran merchandise imports, fixed capital formation, lagged exports, and time. The R-squared of this equation is 0.96.

In the Honduras equation, one variable, fixed capital formation, is strongly significant (t = 3.59). Time is negative, and a fourth factor, merchandise imports, is not signficant.

The coefficient of 0.25 on real fixed capital formation indicates that increases in real capital stock are correlated with increases in nontraditional exports. The regression results are consistent with the statement that a $1 million increase in capital stock is associated with an additional $250,000 in nontraditional exports. The positive sign on lagged nontraditional exports lends credence to the SRI Model by indicating that capacity and competitiveness, as captured by previous year exports, are positively correlated with nontraditional exports.

Time is significant and negative in the Honduran equation. The econometrics results suggest that each year, nontraditional exports fall by approximately $2 million below the level predicted by the combined effects of the other variables, other things being equal. The regression can be interpreted to mean that certain structural conditions in the Honduran economy consistently pull nontraditional exports down from where they would be otherwise. The identification of which factors are obstacles to exporting is too fine a task for econometrics to handle. One possible determinant is regional political instability. The country study included in Part I of this study also suggests that the overvalued exchange rate is probably a significant force keeping nontraditional exports below the level they would otherwise reach.

**Panama**

In addition to reaffirming several behavioral relationships that are contained in the equations of other countries, the results of the

SRI Model II of Panama provide insight into an additional policy area, that of domestic credit. The sign of the coefficient on domestic credit in the Panamanian equation is negative, the opposite of what normally would be expected. This might be explained by the following argument. Economists are fairly certain that, at least up to a certain point, domestic credit is positively correlated with export performance. The regression results for Guatemala support this view. However, after a certain point, domestic credit ceases to support business efforts and becomes inflationary. High and rising inflation without offsetting devaluation harms exporters by pricing their goods out of world markets. Thus, the negative sign on domestic credit in Panama could be interpreted as indicating that too much credit was pumped into the economy, producing inflation rather than growth. The coefficient of -0.02 indicates that every additional $1 million in additional credit reduces Panamanian exports by $20,000. The policy implication of this conclusion is that too much credit can damage a country's export drive.

Except for domestic credit, the significant variables in the Panama equation show the expected signs. U.S. imports are positively associated with nontraditional export performance; a one percent increase in the size of the U.S. import market is correlated with a 0.35 percent increase in Panamanian nontraditional exports. Exports in a given year are positively associated with higher exports the following year. Panamanian merchandise imports and time are both slightly significant and positive.

The slightly significant but negative sign on real exchange rate can be regarded as spurious. The negative sign on REER is similar to the statistical difficulties apparent in the SRI Model I, which included both U.S. imports and own-country merchandise imports, as does the equation for Panama.

**Dominican Republic**

The econometric analysis of the determinants of nontraditional exports from the Dominican Republic yield a number of interesting results. The analysis focuses on seven variables: U.S. imports, domestic credit in dollars, gross fixed capital formation, Dominican merchandise imports, labor costs, and two dummy variables, one measuring any noticeable change beginning in 1975, and the other measuring change beginning in 1980. Only two variables -- domestic credit and merchandise imports -- are insignificant. Each of the other variables yields insights for policymakers.

As expected, U.S. imports and capital formation are positively associated with nontraditional export growth. The coefficient of 0.37 suggests that a $1 billion increase in U.S. imports stimulates $370,000 in additional Dominican nontraditional exports. The U.S. import elasticity of Dominican nontraditional exports (0.89) indicates that a one percent increase in U.S. imports is correlated with a 0.89 percent increase in Dominican nontraditional exports. The coefficient of capital formation is significant but small, 0.04, indicating that capital formation is associated with export growth. On the margin, every additional $1 million in capital formation is associated with a $40,000 increase in nontraditional exports.

The coefficients of the two dummy variables show that nontraditional exports rose above trend from 1975 to 1979, but since then have fallen each year by some $17 million dollars below expected levels, all other factors being equal. An explanation for the apparent downturn since 1980 may lie in the methodology of the statistics rather than in the Dominican economy. Industrial free zone exports, which have grown rapidly since 1980, are not considered exports, but rather reexports, by the Dominican authorities. and hence are not included in official statistics. Resources have been flowing into the free zones, but since rapidly growing zone exports are not accounted for, nontraditional exports appear to fall below the trend line estimated by other variables.

Labor costs in dollars are significantly, positively correlated with nontraditional exports in a separate simpler regression equation. The econometrics results are consistent with the argument that as the labor force grows costlier it produces higher value added goods, and thereby increases nontraditional export value. A second interpretation of the econometric results is that the higher wage rates do not fully compensate for increased productivity, thus unit labor costs, after accounting for productivity increases, are actually falling. Lower unit labor costs could yield increased production and export levels. Thus, as in the case of Guatemala, the positive relationship between absolute dollar wage rates and exports may be reflecting the expected, negative relationship between unit labor costs and export value.

**Jamaica**

A disturbing time trend is apparent in the regression results from Jamaica. Other variables tested, such as U.S. imports, domestic credit, and Jamaican merchandise imports, yield positive, significant coefficients. The results suggest that a rise of $1 billion in U.S. imports increases Jamaican exports by $440,000. The U.S. import elasticity of nontraditional exports is estimated at 1.12. When domestic credit in dollars rises, so do nontraditional exports, by $30,000 for every additional $1 million in credit. Similarly, Jamaican merchandise imports are positively associated with nontraditional exports, although the coefficient is not strongly significant ($t = 1.36$).

The econometric analysis suggests that Jamaican nontraditional exports fall $6 million short each year from the level estimated by the other determinants, a worrisome trend for policymakers. Given this result, the important task is to determine exactly what policies, regulations, and conditions are keeping Jamaican exports down. One possible answer is that the period tested is one of considerable political and policy uncertainty in Jamaica.

## Aggregated Data

The pooled regression analysis of the data from all countries provides a larger number of observations for the econometric analysis, and thereby increases the degrees of freedom and the power of the analysis. In order to take advantage of the pooled data, the SRI team necessarily had to eliminate Belize from the aggregated study; the limited number of years of data on Belize would have severely limited the power of the analysis across countries.

The econometric analysis of the six remaining countries, Costa Rica, Guatemala, Honduras, Panama, Dominican Republic, and Jamaica, taken together, generally reconfirms the trends and associations noted in the individual country analyses. Ten independent variables are included in two equations: the real exchange rate, U.S. imports, domestic credit in dollars, fixed capital formation, own-country merchandise imports, time, own country GDP lagged one year, two dummies (one for 1975 and one for 1980), and membership in the Central American Common Market.

Three of the variables are positive, two are negative, and the others are insignificant. The positive variables are real exchange rates, lagged GDP, and CACM membership. The coefficients can be interpreted to mean that a one percent increase in the real exchange rate increases nontraditional exports by 0.26 percent, a substantial amount. This estimate could prove to be of assistance to AID policymakers as they attempt to calculate the effect of a devaluation on nontraditional exports, and advise cooperating governments as to what size devaluation is appropriate. Lagged GDP is also positive, suggesting that capacity is an important precondition for exporting.

The results concerning CACM membership are interesting, although given the significance level of the coefficient of only 0.12, they cannot be taken too far. The positive coefficient indicates that membership in the CACM boosts the exports of member countries, taken

as a group, by some $28 million over nonmember countries taken as a group, all other factors being equal. Thus, the formation of a common market indeed aided member countries to increase exports. Even despite the lackluster CACM performance since 1980, in general, membership boosts exports. The regression results suggest that creation of a common market, or promotion of an existing one, is a positive, feasible method of improving nontraditional export performance.

Two variables had negative coefficients in equations that used data aggregated across countries: a dummy variable for change beginning in 1980, and fixed capital formation. The coefficient on the dummy is significant at the .06 level, and suggests that, beginning in 1980, nontraditional exports in the seven countries are $45 million below the level estimated by the other variables. It is difficult to attribute the fall in exports to a single cause, because 1980 marks not only the beginning of the external debt difficulties, which were a factor in a serious decline in the intraregional CACM trade, but also recession in the United States and other industrialized countries, as well as an increase in Central American political instability.

Gross fixed capital formation also had negative coefficient, while domestic credit exhibited a positive sign in one equation, and a negative sign in a second, differently-specified one. As is discussed above, the negative signs result when the positive significant correlation between nontraditional exports and both fixed capital formation and domestic credit is picked up by other variables in the equation, leaving the incremental impact of capital formation and domestic credit to be negatively associated with increased nontraditional exports.

**Table 1**

**COEFFICIENT ESTIMATES**

**SRI Model I**

| Variable | Belize | Costa Rica | Guatemala | Honduras | Panama | Dominican Republic | Jamaica |
|---|---|---|---|---|---|---|---|
| Real Effective Exchange Rate | 293.80 (8.56) | -3.99 (2.72) | -1044.06 (2.81) | 51.74 (4.32) | | -16.00[1] (0.89) | -1.62[1] (0.09) |
| U.S. Imports | 0.58 (10.69) | 1.96 (3.87) | 9.37 (6.82) | 0.03[2] (1.90) | 0.06 (0.53) | 0.15 (1.55) | 0.38 (0.99) |
| Nontraditional Exports Lagged One Year | 0.22 (1.51) | 0.16 (0.65) | -0.17 (0.45) | 0.13 (1.48) | 0.72 (2.49) | 0.05 (5.71) | 0.35 (1.48) |
| Real Domestic Credit | 0.15 (1.76) | -2.55[3] (0.85) | -10.66[3] (0.37) | -1.5[3] (0.75) | -0.01 (1.60) | -0.03 (6.16) | -12.05[3] (0.99) |
| Real Capital Formati | -0.66 (1.11) | -0.01 (2.49) | -1.10 (7.11) | 0.12 (4.80) | -0.03 (1.23) | 0.11 (4.55) | 0.04 (0.63) |
| Merchandise Imports | | 0.21[4] (3.03) | | | 0.04 (2.84) | -0.05 (3.66) | 0.11 (1.76) |
| Time | | -2.59[4] (0.79) | -19.57 (1.61) | | 0.85 (0.87) | 1.07 (1.74) | -6.43 (1.43) |
| Foreign Direct Investment | | | | 1.17[4] (1.13) | | | |
| Real Wage | | | | -0.08[4] (2.63) | | | |
| Deg. of Freedom T sig. at .10 | 1 6.31 | 14 1.76 | 12 1.78 | 14 1.76 | 14 1.76 | 13 1.77 | 13 1.77 |
| $R^2$ | .99 | .98 | .96 | .99 | .98 | .99 | .76 |

[1] Real Exchange Rate
[2] CACM Imports
[3] Real Interest Rate
[4] Estimates from separate equation.
T-statistics in ( ).

**Table 2**

**CROSS-COUNTRY COMPARISON OF NONTRADITIONAL EXPORT DETERMINANTS**

**SRI Model I**

| Variable | Number of Countries in which Variable has Positive, Significant Regression Coefficient | Which Countries | Number of Countries in which Variable has Negative, Significant Regression Coefficient | Which Countries |
|---|---|---|---|---|
| U.S. Imports | 3 | Belize<br>Costa Rica<br>Guatemala | 0 | |
| Own-Country Merchandise Imports | 3 | Costa Rica<br>Panama<br>Jamaica | 1 | Dominican Republic |
| Real Capital Formation | 2 | Honduras<br>Dominican Republic | 2 | Costa Rica<br>Guatemala |
| Real Effective Exchange Rate | 2 | Belize<br>Honduras | 2 | Costa Rica<br>Guatemala |
| Previous Year's Nontraditional Exports | 2 | Panama<br>Dominican Republic | 0 | |
| CACM Import Demand | 1 | Honduras | 0 | |
| Real Domestic Credit | 0 | | 1 | Dominican Republic |

**Table 3**

**COEFFICIENT ESTIMATES**

**SRI Model II**

| Variable | Belize | Costa Rica | Guatemala | Honduras | Panama | Dominican Republic | Jamaica | All Countries |
|---|---|---|---|---|---|---|---|---|
| Real Exchange Rate in Local Currency/$ | -46.90 (0.10) | | | | -113.90 (0.14) | | | 12.47 (0.00) |
| U.S. Imports | 0.30 (0.03) | 0.53 (0.03) | | | 0.11 (0.24) | 0.37 (0.01) | 0.44 (0.02) | 0.25 (0.49) |
| Nontraditional Exports Lagged One Year, in mm$ | | 0.27 (0.04) | -3.04 (.00) | 0.21 (0.18) | 0.58 (0.02) | | | |
| Domestic Credit in mm$ | | -0.04 (0.17) | 0.58 (0.00) | | -0.02 (0.03) | 0.00 (0.60) | 0.03[1] (0.10) | -0.08 (0.00) |
| Fixed Capital Formation in mm$ | | 0.12 (0.28) | | 0.25 (0.00) | | 0.04[1] (0.08) | | -0.10[2] (0.03) |
| Country Merchandise Imports, in mm$ | | 0.16 (0.09) | 0.27 (0.12) | 0.00 (0.93) | 0.03 (0.17) | 0.02 (0.21) | 0.06 (0.19) | 0.03 (0.62) |
| Time | | -3.04 (0.31) | 22.99 (0.04) | -2.14 (0.06) | 2.49 (0.17) | | -6.00 (0.10) | -0.70 (0.90) |
| Country GDP in mm$ Lagged One Year | | | | | | | | 0.08 (0.00) |
| Labor Costs in $ | | | 1077.24 (0.05) | | | 60.87[1] (0.10) | | |
| Dummy 1 (1 from 1975 on) | | | 161.08 (0.13) | | | 16.76[1] (0.06) | | -18.63[1] (0.48) |
| Dummy 2 (1 from 1980 on) | | | -7.66 (0.96) | | | -16.71 (0.09) | | -44.72[1] (0.06) |
| Member of CACM | | | | | | | | 27.73[1] (0.12) |
| Degrees of Freedom | 2 | 14 | 11 | 17 | 14 | 15 | 17 | 117 |
| Adjusted $R^2$ | .87 | .99 | .95 | .96 | .98 | .97 | .71 | .56 |

[1] Separate equation.

Significance levels in ( ).

**Table 4**

**ELASTICITY ESTIMATES**

**SRI Model II**

| Variable | Belize | Costa Rica | Guatemala | Honduras | Panama | Dominican Republic | Jamaica | All Countries |
|---|---|---|---|---|---|---|---|---|
| Real Exchange Rate | -0.61 (0.10) | | | | -0.18 (0.14) | | | 0.26 (0.00) |
| U.S. Imports | 1.11 (0.03) | 0.36 (0.03) | | | 0.35 (0.24) | 0.89 (0.01) | 1.12 (0.02) | 0.15 (0.49) |
| Nontraditional Exports Lagged One Year | | 0.27 (0.04) | -2.06 (0.00) | 0.21 (0.18) | 0.57 (0.02) | | | |
| Domestic Credit in $ | | -0.20 (0.17) | 1.61 (0.00) | | -0.57 (0.03) | -0.12 (0.60) | 0.55 (0.10) | -0.42 (0.00) |
| Fixed Capital Formation in $ | | 0.26 (0.28) | | 1.08 (0.00) | | 0.66[1] (0.08) | | -0.25[1] (0.03) |
| Country Merchandise Imports in $ | | 0.45 (0.09) | 0.43 (0.12) | -0.03 (0.93) | 0.33 (0.17) | 0.26 (0.21) | 0.52 (0.19) | 0.09 (0.62) |
| Time | | -0.13 (0.31) | 0.44 (0.04) | -0.29 (0.06) | 0.47 (0.17) | | -0.96 (0.10) | -0.03 (0.90) |
| Country GDP in $ Lagged 1 Year | | | | | | | | 0.87 (0.00) |
| Labor Costs in $ | | | 0.88 (0.05) | | | 0.36[1] (0.10) | | |
| Dummy 1 (1 from 1975 on) | | | .26 (0.13) | | | 0.10 (0.33) | | -0.06[1] (0.48) |
| Dummy 2 (1 from 1980 on) | | | .01 (0.96) | | | -0.17 (0.09) | | -0.11[1] (0.06) |
| Member of CACM | | | | | | | | 0.08[1] (0.12) |
| Degrees of Freedom | 2 | 14 | 11 | 17 | 14 | 15 | 17 | 117 |
| Adjusted $R^2$ | .87 | .99 | .95 | .96 | .98 | .97 | .71 | .56 |

[1] Separate equation.

Significance levels in ( ).

**Table 5**

**CROSS-COUNTRY COMPARISON OF NONTRADITIONAL EXPORT DETERMINANTS**

**SRI Model II**

| Variable | Number of Countries in which Variable has Positive, Significant Regression Coefficient | Which Countries | Number of Countries in which Variable has Negative, Significant Regression Coefficient | Which Countries |
|---|---|---|---|---|
| U.S. Imports | 4 | Belize<br>Costa Rica<br>Dominican Republic<br>Jamaica | 0 | |
| Own-Country Merchandise Imports | 1 | Costa Rica | 0 | |
| Real Capital Formation | 2 | Honduras<br>Dominican Republic | 1 | Aggregated data |
| Real Exchange Rate | 1 | Aggregated data | 1 | Belize |
| Previous Year's Nontraditional Exports | 2 | Costa Rica<br>Panama | 1 | Guatemala |
| Domestic Credit | 2 | Guatemala<br>Jamaica | 1 | Panama |
| Time | 1 | Guatemala | 2 | Honduras<br>Jamaica |
| Country GDP Lagged 1 Year | 1 | Aggregated data | 0 | |
| Labor Costs | 2 | Guatemala<br>Dominican Republic | 0 | |
| Dummy 1 (1 from 1975 on) | 1 | Dominican Republic | 0 | |
| Dummy 2 (1 from 1980 on) | 0 | | 2 | Dominican Republic<br>Aggregated data |
| Member of CACM | 1 | Aggregated data | 0 | |

# BELIZE

## I. INTRODUCTION: THE ECONOMIC CONTEXT

Belize's economy is based primarily on agriculture, which currently accounts for about 25 percent of GDP and about 75 percent of exports. Approximately one third of Belize's 165,000 inhabitants are employed in agriculture. Manufacturing and construction account for about 15 percent of GDP. Approximately half of manufacturing output involves processing of agricultural products, primarily sugar and citrus. The service sector, which includes trade, public administration, tourism, and transportion, accounts for about 55 percent of GDP and about 45 percent of employment.

An important factor in Belize's national income is private remittances. Since 1970, some 30,000 Belizeans have found work outside the country, mostly in the United States. Remittances from these workers, which have averaged approximately U.S.$14 million per year over the past five years, have in some years accounted for as much as 15 percent of total foreign exchange receipts.

Belize's economy is highly dependent on foreign trade. Over the 1980-1985 period imports represented, on average, about 75 percent of GDP while exports represented about 55 percent of GDP. Despite abundant agricultural land, foodstuffs represent the largest category of imports. Other major import categories include manufactured goods, capital equipment, and oil.

The openness of Belize's economy, coupled with its narrow export base, makes the country highly vulnerable to external shocks. Following nearly a decade of strong economic growth, real GDP in Belize fell by nearly 5 percent in 1981-82 due to a decline in world demand for Belize's exports along with worsening terms of trade and a dropoff in re-exports to Mexico. A bumper sugar crop helped spur a modest 1.5 increase in real output during 1983, and in 1984 real growth accelerated to just under 4 percent as construction and

manufacturing picked up markedly while the country's terms of trade improved. In 1985, real GDP growth weakened to 1.8 percent due in large part to a decline in agricultural production and exports -- a trend which continued in 1986 as Belize faced further cuts in its sugar export quota to the United States.

## II. TRADE AND PAYMENTS PROFILE

The total value of Belize's exports has fluctuated over the past five years, driven by erratic shifts in both the volume and value of sugar exports. Overall, the value of domestic exports (total exports minus re-exports) dropped by nearly 22 percent from 1980 to 1985. Sales to the United States and the United Kingdom account for almost 90 percent of domestic exports. Re-exports, destined primarily for Mexico and Guatemala, have also fluctuated. Re-export trade amounted to U.S.$12 million, or 20 percent of total recorded exports in 1975. By 1981, re-exports had increased to over U.S.$44 million. Following a sharp drop-off in 1982-1983 due to deteriorating economic conditions in Mexico, the re-export trade recovered moderately in 1984 and 1985.

Table 1

FOREIGN TRADE: 1980-1985
(Millions of U.S. Dollars)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| Domestic Exports | 82.1 | 74.8 | 60.7 | 65.2 | 72.9 | 64.4 |
| Re-Exports | 28.8 | 44.3 | 31.2 | 12.6 | 32.1 | 25.7 |
| Total Exports | 110.9 | 119.1 | 91.9 | 77.8 | 105.0 | 90.1 |
| Total Imports | 149.8 | 162.0 | 128.0 | 111.8 | 130.2 | 128.2 |
| BALANCE | -38.9 | -42.9 | -36.1 | -34.0 | -25.2 | -38.1 |

SOURCE: Central Statistical Office

Despite a slight worsening of the trade balance, Belize's overall balance of payments shifted into surplus in 1985 for the first time since independence. The current account deficit narrowed to less than 2 percent of GDP, reflecting increases in service receipts and private

remittances. There was a marked improvement in the capital account due to increased inflows of official capital and U.S.$2.6 million in debt relief. This allowed for a clearing of external arrears, which had grown to about U.S.$6.3 million, and a replenishment of international reserves.

Table 2

BALANCE OF PAYMENTS: SUMMARY
(Millions of U.S. Dollars)

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Current Account | | | | | |
| Trade Balance[1] | -43.0 | -46.2 | -40.0 | -39.3 | -41.0 |
| Services Balance (net) | 14.1 | 10.5 | 9.3 | 4.1 | 7.6 |
| Official Transfers (net) | 5.7 | 7.4 | 6.9 | 11.0 | 11.5 |
| Private Transfers (net) | 18.5 | 10.9 | 11.2 | 12.5 | 17.5 |
| | -4.7 | -17.4 | -12.6 | -11.7 | -3.5 |
| Capital Account | | | | | |
| Public Sector (net) | 9.3 | 8.8 | 7.2 | 4.5 | 15.7 |
| Private Sector (net) | -6.6 | 9.3 | -7.2 | -10.0 | -3.1 |
| | 2.7 | 18.1 | 0.0 | -5.5 | 12.6 |
| Errors and Omissions | --- | -1.2 | 2.9 | 8.5 | 0.9 |
| Overall Balance | -2.0 | -0.5 | -9.7 | -8.7 | 10.0 |

SOURCE: International Monetary Fund

[1] Excludes re-export trade.

Belize's external public debt is relatively modest by regional standards. At the end of 1985, total external public debt outstanding stood at U.S.$88.0 million or 48 percent of GDP, up from U.S.$57 million at year end 1981. The ratio of debt service payments to exports of goods and services averaged less than 5 percent from 1982-1984, and currently stands at just below 10 percent.

## III. EXPORT PERFORMANCE

Belize's export sector is dominated by sugar and sugar-related products, primarily molasses. The country's other major traditional export is timber, although production and exports have been declining steadily for a number of years. Major nontraditional exports include citrus, garments, and fish. Bananas, formerly an important export crop, have once again begun to make a significant contribution to export earnings. A number of other nontraditional products, including fresh fruits and vegetables, cacao, and meat, are currently exported in small quantities, with several offering considerable potential for expansion.

Another important -- although unrecorded -- nontraditional export is marijuana. U.S. drug enforcement officials report that Belize is currently the fourth largest supplier of marijuana to the United States, following Colombia, Mexico, and Jamaica, with exports valued at as high as U.S.$75 million per year. Marijuana exports are estimated to have increased by more than 500 percent since 1982 as a result of income and employment losses in the sugar sector.

Table 3

MAJOR EXPORTS: 1980-1985
(Millions of U.S. Dollars)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| Sugar | 47.7 | 42.7 | 32.9 | 34.2 | 32.6 | 24.5 |
| Garments | 10.4 | 11.1 | 6.4 | 8.3 | 14.8 | 15.7 |
| Citrus | 6.4 | 6.5 | 7.1 | 6.9 | 9.8 | 12.1 |
| Fish | 4.1 | 7.2 | 6.3 | 7.2 | 5.9 | 7.4 |
| Wood | 1.1 | 1.2 | 1.8 | 1.4 | 1.1 | 0.6 |
| Bananas | 3.5 | 2.2 | 2.1 | 2.4 | 3.1 | 3.3 |
| Molasses | 2.2 | 1.2 | 0.9 | 0.9 | 1.2 | 0.9 |

SOURCE: Central Bank; Central Statistical Office



75

## A. Traditional Exports

**SUGAR.** The sugar industry has been the mainstay of the Belizean economy since the 1960s. Sugarcane production is carried out by some 5,500 farmers under a licensing system specifying the volume that each farmer can deliver for processing. These quotas are established each year by the Belize Sugar Board based on expected developments in Belize's export markets. While quotas themselves are not transferable, farmers whose production exceeds their allowed tonnage may sell their excess cane to growers who are unable to fulfill their quotas.

Table 4

TRENDS IN SUGAR EXPORTS: 1983-1985
(Thousands of Long Tons)

| Destination | 1983 | 1984 | 1985 |
|---|---|---|---|
| United States | 27.0 | 36.2 | 17.7 |
| (of which U.S. quota) | (27.0) | (28.2) | (12.1) |
| E.E.C. | 42.4 | 43.0 | 42.1 |
| Rest of World | 39.7 | 16.4 | 35.6 |
| Total Exports | 109.1 | 95.6 | 95.3 |
| (U.S. $MN) Value | 34.2 | 32.6 | 24.5 |

SOURCE: Central Bank; Central Statistical Office

Processing is undertaken by Belize Sugar Industries, Ltd. Total processing capacity has been reduced by about 25 percent following the closure of one of the country's two processing plants in 1985. Sugar is sold to the United States and the United Kingdom at preferential prices under special quota agreements. The remainder is sold on the free market at much lower prices.

While sugar and molasses continue to be Belize's most important exports, their share of total domestic exports has fallen from a peak of 61 percent in 1980 to 39 percent in 1985. The value of sugar



76

exports has fallen by more than 50 percent since 1980 as a result of reductions in average prices and limitations in Belize's access to the U.S. market. Since 1983, Belize's quota in the United States has been cut by more than 50 percent. As a result, Belize has been forced to sell an increased share of its production in the free market at a price which is currently about one-third of that commanded in the U.S. market.

**TIMBER.** Forestry was the main economic activity of Belize during the nineteenth century. Indeed, the exploitation of timber resources was one of the primary reasons for the establishment of a British colony in the region.

While large tracts of unexploited timber resources remain, the timber industry has declined substantially. Over the period 1980-1985, timber production contributed only 2.0 percent of GDP and 1.7 percent of domestic exports. Timber exports in 1985 totalled less that U.S.$1 million.

### B. Nontraditional Exports

**GARMENTS.** Garments have become Belize's second most important export, accounting for nearly 25 percent of 1985 domestic exports, up from less than 12 percent in 1982. The vast majority (over 90 percent) of garment exports are destined for the United States, with the remainder sold in Europe. Most garment production for export to the U.S. market involves assembly operations whereby garments are cut in the United States and finished in Belize. Under Section 807 of the U.S. Tariff Code, such garments are subject to U.S. import duties only on the value added in Belize. The largest garment manufacturer in the country, Williamson Industries Ltd. (an "offshore" subsidiary of a U.S. apparel manufacturer) is currently devoting 100 percent of its production to 807 assembly operations.

Because such a large share of Belize's garment exports is destined for the U.S. market, performance of this sector has tended to reflect demand conditions in the United States. Garment exports fell

by over 40 percent in 1982 but recovered strongly in 1983 and 1984. In 1985, production topped the 2 million piece mark for the first time as exports totaled just under U.S.$16 million, up about 7 percent from the previous year.

**CITRUS.** The citrus industry in Belize is based primarily on the production of orange and grapefruit concentrate. About half of the 9,000 acres under citrus cultivation are owned by the two existing citrus processing companies. Citrus exports of $12.1 million in 1985 accounted for about 19 percent of domestic exports, well over double the 1980 share.

The main market for citrus exports is the United States, with smaller markets in Trinidad and Tobago and Jamaica. The dramatic increase in the value of citrus exports since 1980 has been largely due to the opening of the U.S. market to citrus concentrates under the Caribbean Basin Initiative. Export volume has increased by an average of 14 percent per year since 1980. There was a temporary drop-off in volume in 1983 because of a labor dispute between growers and processors; however, export value diminished only marginally due to a 40 percent increase in price as a result of frost and insect infestation in Florida. Prices continued to rise in 1984 and the early part of 1985, resulting in substantial increases in export value.

Table 5

TRENDS IN CITRUS EXPORTS: 1981-1986

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986* |
|---|---|---|---|---|---|---|
| Value (U.S. $MN) | 6.5 | 7.1 | 6.9 | 9.8 | 12.1 | 10.9 |
| Volume (thousands of gallons) | 1170 | 1386 | 965 | 1066 | 1251 | 1401 |
| Unit Value (U.S. $ per gallon) | 5.6 | 5.1 | 7.1 | 9.2 | 9.7 | 7.8 |

*Preliminary

SOURCE: Central Statistical Office

Citrus earnings declined in 1986, despite increased production, as U.S. prices for frozen concentrate declined from U.S.$1.75 per pound in early 1985 to U.S.$1.00 per pound at the beginning of 1986. In addition, demand fell in Trinidad and Tobago for Belize citrus imports due to a major devaluation of the TT dollar and increased local production.

**FISH.** Fish and shellfish accounted for 11.5 percent of 1985 domestic exports. Lobster, conch, shrimp, and fresh and salted fish are currently exported. Processing and marketing are undertaken by four cooperatives.

Sharp export increases in 1981 and 1983 were temporarily reversed in 1984 as the lobster catch declined due to adverse aquatic conditions. Exports recovered in 1985, increasing by over 25 percent in value from U.S.$5.9 million in 1984 to U.S.$7.4 million. Lobster production expanded by 23 percent in 1985 and shrimp exports grew from 35,000 lbs. to 115,000 lbs. due to the introduction of new trawl-fishing activity. Shrimp exports are expected to expand further in the future as producers begin shrimp farming.

Both shrimp and lobster enjoy virtually guaranteed access to the U.S. markets. One of the two major fishing cooperatives currently sells nearly 100 percent of its lobster catch to the Red Lobster restaurant chain.

Demand and prices for Belizean conch have increased due to sharp drop-offs in production in the Bahamas and Turks and Caicos Islands, currently the two largest suppliers to the U.S. market. Despite growing demand in the U.S. market, exports of fresh fin fish remain minimal due to the unreliability of air transport.

**BANANAS.** Banana production increased markedly in 1986, after having remained relatively static over the previous 5 years. Exports are destined exclusively to the U.K. market where Belize enjoys preferential access under the European Community (EC) Lome Convention.

From 1981-1985, the Banana Control Board, a government statutory body, was virtually the sole producer of bananas in Belize. Bananas are exported through Fyffes, a U.K. subsidiary of United Fruit, which is the sole buyer of Belize bananas. Increases in export value during the early-mid 1980s resulted mainly from a renegotiation of the pricing formula used by Fyffes, as export volume remained virtually unchanged. In 1986, banana exports totaled U.S.$4.8 million, up 45 percent from 1985. This increase has resulted, in large part, from an expansion in land under banana cultivation, an expansion which has resulted from privatization of the industry.

Table 6

TRENDS IN BANANA EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| Volume (thousands of boxes) | 551 | 523 | 531 | 555 | 542 | 735 |
| Value (U.S. $MN) | 2.2 | 2.1 | 2.4 | 3.1 | 3.3 | 4.8 |
| Unit Value (U.S.$ per box) | 3.90 | 4.00 | 4.55 | 5.65 | 6.00 | 6.50 |

SOURCE: Central Bank, SRI Interviews

Nevertheless, current production levels still are insufficient to justify direct shipments to the United Kingdom, thus entailing extremely high transportation costs. Export shipments currently are routed via Puerto Cortes, Honduras. The Banana Control Board estimates that production would have to reach 1 million boxes per year to make direct shipments economically viable.

**CACAO.** While cacao currently accounts for less than 1 percent of recorded domestic exports, production has been expanding rapidly, from less than 12,000 pounds in 1980 to over 200,000 pounds in 1986. The bulk of current production emanates from a 600 acre estate owned by a local subsidiary of Hershey Foods Corporation. Hershey provides

seeds, technical assistance, and a guaranteed market to a growing network of private outgrowers. Many of these producers work at the Hershey estate and tend their own plots during their free time. The value of cacao exports, which topped U.S.$160,000 in 1985, is expected to increase markedly in the future as outgrower production increases.

**MEAT.** The livestock sector has long been identified as a source of considerable export potential. However, exports of live cows and horses to Guadeloupe and Martinique, which accounted for about U.S.$500,000 per year in the mid-1980s, have fallen to virtually zero due to a ban on exports of live animals. Exports of frozen and processed meat amounted to less than U.S.$250,000 in 1985, (approximately the same as the 1980 level) despite a major effort by a U.S. investor to rehabilitate the government-owned meat processing facility. Ninety percent of exported meat is currently destined for the United States, with the remainder sold to Caribbean Common Market (CARICOM) buyers. The company is currently seeking approval to ship to the EC market in an effort to increase exports.

### C. Export Outlook

The future outlook for Belize's exports is mixed. There is little doubt that the long-term health of the export sector will be dependent upon its ability to diversify away from its current dependence on sugar as the main source of export revenue. While sugar prices have recovered strongly in recent months, Belize's access to preferential markets is likely to continue to be constrained. Belize's 1986-1987 allocation under the U.S. import quota system again has been reduced following earlier cuts of 16 percent in the 1984-1985 year and 25 percent in the 1985-1986 year.

The outlook for citrus exports is extremely favorable, assuming that Belize will be able to retain duty-free access to the U.S. market. A number of major new investments, including a U.S.$100 million investment by Coca Cola, could increase acreage under

production more than five-fold by 1990. Coca Cola also plans to establish a citrus processing facility by 1995. However, the economic viability of these investments is largely dependent upon continued duty-free access to the U.S. market. Brazilian exports, which account for more than 80 percent of citrus concentrate imported into the U.S., currently are subject to a 34.5 cent/pound import duty. It is estimated that Coca Cola will save up to U.S.$40 million per year by shifting a portion of its citrus concentrate imports to Belize.

The outlook for garment exports is largely dependent upon U.S. demand. If demand in the U.S. market continues to be strong, exports are likely to remain at least at current levels. Significant increases in garment exports will require either new investment -- current producers are operating at or near maximum capacity -- or a shift away from assembly operations toward higher value-added production.

Increased exports of marine products will require diversification to additional species. Local fishermen report that the lobster catch is currently at or near maximum sustainable yield, while conch production has been falling steadily due to overfishing. On the other hand, largely untapped potential is said to exist for offshore shrimp and fin fish production. However, exploitation of these resources will require investment in more modern fishing techniques. One of the major fishing cooperatives has already entered into a joint venture for trawl-fishing for shrimp, while another cooperative is looking to follow suit. Investors remain optimistic about the potential of shrimp farming operations, although the technical and financial viability of shrimp farming in Belize remains unproven.

Investors hope that the recent privatization of banana production will lead to the rehabilitation of the industry and to production increases sufficient to justify direct export shipments. However, Belizean producers are likely to face strong competition in the market from other Central American producers, particularly Nicaragua, which has been seeking new sources of hard currency due to a U.S. trade

embargo. There is also strong pressure from African and Asian producers to gain preferential access to the U.K. market. If they succeed in gaining access, that could mean that U.K. imports of Belizean bananas would diminish.

The Belizean authorities are looking to new products, such as winter fruits and vegetables, to make up for some of the losses in sugar export receipts. While substantial new investment has been undertaken in winter vegetable production, exports have, thus far, been minimal. In 1985, exports of fresh produce totalled less than U.S.$100,000. While exact figures are not yet available for 1986, it is estimated that winter vegetable exports may have reached as high as U.S.$500,000. Producers are reportedly forecasting exports in excess of U.S.$3 million for 1987. However, Belize is likely to face strong competition from other regional producers, many of whom enjoy lower labor costs and superior transportation links with the U.S. market. In addition, U.S. demand for imported winter vegetables is subject to the vagaries of weather conditions in the southern and southwestern portions of the United States.

## IV. DETERMINANTS OF EXPORT PERFORMANCE

In an earlier section of this report, determinants of nontraditional exports from Central America and the Caribbean were discussed in some detail. This section of the report examines these determinants in the context of Belize, focusing on those factors -- both positive and negative -- which have the greatest impact on Belize's traditional and nontraditional export performance.

### A. Macroeconomic Determinants

**INTERNATIONAL DEMAND.** Perhaps the single most important element affecting the export performance of any country is the level of effective demand for its products. In the case of Belize, given the heavy concentration of exports destined for the United States and the United Kingdom, export performance tends to reflect economic performance in those countries.



93

Belize currently enjoys preferential treatment in both the U.S. and U.K. markets, under CBI and the Lome Convention, respectively. While this treatment opens these markets up to many Belizean products on favorable terms, policy-induced market access carries the risk of being extremely vulnerable to protectionist shifts in buyer countries.

**EXCHANGE RATE DEVELOPMENTS.** The Belize dollar has been pegged to the U.S. dollar at a rate of 2:1 since 1976. The IMF has estimated that the real effective value of the Belize dollar (the trade-weighted exchange rate adjusted for relative consumer price indices) rose by 23 percent from 1980 to 1985, reflecting the general increase in the external value of the U.S. dollar. There is little doubt that the deterioration of Belize's trade position over this period can be attributed, in large part, to the strong dollar. In particular, Belize's trade deficit with the U.K. has been strongly affected by the value of the U.S. dollar relative to the pound sterling. All of Belize's sugar and banana export contracts with the U.K. are denominated in sterling. While the relative value of the BZ$ has little to do with the volume of sugar and banana exports to the U.K., since both products are sold under guaranteed quantity purchase arrangements, BZ$ appreciation strongly affects export value. The Central Bank of Belize estimated in 1985 that the cumulative loss in sugar export revenue between 1980 and 1985 due to BZ$ appreciation exceeded BZ$60 million.

Dollar appreciation also has had a detrimental effect on Belize's exports of nontraditional products. Two garment manufacturers interviewed by SRI reported that they had lost their share of the EC market in 1983-1984, and have thus far been unable to resume exports to Europe despite a 15 percent decline in the real effective value of the BZ$ since 1985.

**CREDIT.** Working capital and long-term financing are essential elements of successful export growth. The lack of availability of local long-term financing, due in part to a relatively undeveloped capital market, is widely recognized as a major constraint to

investment in export-oriented ventures in Belize. The four commercial banks currently operating in Belize (three are branches of foreign banks) are oriented primarily toward low-risk, short-term credit operations. Investors and exporters report that it is virtually impossible to obtain financing for terms longer than 6-12 months, and banks require collateral -- in the form of real estate or deposits -- of up to 300 percent of the value of the loan. These requirements are a particularly strong deterrent to investments in manufacturing operations, since banks will not accept inventory or machinery as collateral.

In addition to difficulties in obtaining long-term credit, exporters are also constrained by the poorly-developed state of financial services. One exporter interviewed by SRI reported that he was unable to find a local bank that would honor a letter of credit from his U.S. buyer.

Central Bank statistics on domestic credit operations of the local banking sector confirm this picture. In 1985, commercial loans and advances to the private sector contracted by BZ$9.4 million or 7.2 percent. Lending to the agricultural and transport sectors was hardest hit, with respective declines of 11.2 percent and 30.8 percent in credit outstanding.

**LABOR RESOURCES.** Belize's population, and hence the size of its labor force, is quite small relative to the size of the country. Despite a major influx of refugees in recent years, the labor force currently stands at less than 50,000. Wage rates, while low by U.S. standards, are higher than those found in competitor countries in Central American and the Caribbean. Skilled labor is in particularly short supply. Furthermore, despite significant unemployment (17 percent in 1985), there is a seasonal shortage of agricultural labor with 1,500 imported workers from neighboring countries required each year to harvest the citrus and sugar crops. In order to ease this shortage, the government has encouraged the immigration of experienced agricultural workers from neighboring countries.



95

In addition to a shortage of workers in a number of skill categories, managers complain of low worker productivity and high turnover. For example, one major employer in the manufacturing sector reported that turnover among trainees is currently about 65 percent.

On the positive side, Belizean workers are English-speaking and tend to be relatively well educated. Many are bilingual in English and Spanish.

## B. Microeconomic Determinants

**TRANSPORTATION INFRASTRUCTURE.** Most of Belize's exports are currently transported by road or by ship, with limited quantities sent by air. The high cost and limited capacity of existing transportation facilities reduces the competitiveness of Belize's exports and makes export of certain types of products all but impossible.

Road shipment is currently the most reliable form of transport. Driving time from Belize City to the Southwestern United States is approximately 18 hours. A number of export companies own and operate their own trucks. A potential problem facing foreign companies that wish to follow this example is a provision of the Belize Investment Code which limits ownership of internal transport operations to Belizean companies.

While the port at Belize City is able to handle roll on-roll off container traffic, it is not deep enough to accommodate bulk transport vessels or large ocean-going ships. As a result, the majority of agricultural exports must be transshipped, thereby increasing transportation time and costs. Sugar is currently barged from Commerce Bight to Belize City where it is offloaded onto ships moored in deep water off Belize Harbor. Bananas are barged to Puerto Cortes, Honduras for shipment to the United Kingdom, while citrus is barged from Dangriga to Belize Harbor for transhipment.

The international airport 10 miles south of Belize City is served by TAN-SASHA (Honduras), TACA (El Salvador), and Challenge (United States). While all of these airlines operate regularly scheduled service, no flights originate in Belize or have Belize as their final destination. As a result, capacity for shipment of exports by air freight is limited and unreliable. This constraint makes it virtually impossible for producers to consider exporting highly perishable products such as fresh fish or cut flowers. Exporters are hoping that the recent introduction of freight and passenger service by Toucan Air, a newly-established, Belize-based airline, will help to improve air freight capacity.

Transport limitations also create difficulties in obtaining spare parts and other imported production inputs. Producers must be virtually self-sufficient since it can take as long as six months to get spare parts or new equipment.

**MANUFACTURING INFRASTRUCTURE.** An important requirement for successful export-oriented manufacturing is access to readily available, low-cost factory, storage, and office space as well as reliable sources of power and other utilities. There is currently very little factory or storage space available to accommodate manufacturing or processing operations in Belize. Potential exporters must count on building their own facilities -- a process which is complicated by the high cost and slow pace of local construction.

A related constraint is the high cost of electrical power. Consumers of electricity currently pay U.S.$0.21 per kilowatt hour, a rate which is three to four times higher than that paid by industrial consumers in competitor countries.

The government hopes to address these constraints through establishment of a free zone in the northern part of the country, near the Mexican border. Manufacturers would be given access to factory shells and lower-cost electricity (to be purchased from Mexico).



97

Labor would include migrants from Mexico as well as Belizeans unemployed by the closing of the Libertad sugar factory.

**MANAGEMENT SKILLS.** Like any other business, the success of nontraditional export operations requires sound management. As with a number of other skill categories, the number of experienced managers available in Belize is limited. Foreign investors interested in establishing export-oriented ventures have generally found that absentee management does not work, since it is difficult to locate local managers or entrepreneurs to whom day-to-day operations can be entrusted. To a certain extent, this shortage is a function of lack of export-oriented experience rather than a shortage of general management skills. Most local managers have traditionally been involved in domestic commerce, rather than in export-oriented production activities. As a result, many are not accustomed to doing business in a market where efficiency, timeliness, and quality control are of primary importance.

## C. Policy/Promotional Determinants

**POLITICAL STABILITY.** Political stability is a major determinant of export growth. Buyers of export products are generally unwilling to enter into long-term purchase contracts if they are afraid that changing political conditions could interrupt supply. By the same token, investors, both local and foreign, are unlikely to invest in new ventures in a politically unstable environment.

For the most part, investors and exporters rate political stability as one of the strong points of Belize's business climate, particularly relative to other countries in the region. However, a number of foreign investors have expressed concern over the failure of the current government to honor fully the provisions of development concessions granted by the previous government. Consistency and stability of government policies are as important to investors as the content of these policies. In order to feel secure in investing in long-term ventures, investors must feel confident that the "rules of the game" will remain the same over the life of their investments.

**POLICY/REGULATORY ENVIRONMENT FOR PRIVATE ENTERPRISE.** Belizean exporters report few of the "nuisance" constraints generally identified by exporters in other countries. Customs procedures are relatively efficient, although some exporters reported occasional delays in clearing imports of production inputs.

Licenses are required for export of most products, although export licensing is essentially a registration procedure, with licenses granted promptly and routinely in most cases. Export taxes of 2 to 5 percent are currently levied on several agricultural exports. Given the preferential market access and price Belize enjoys for most affected products, these taxes probably have little impact on export volume. However, they do lower the return to producers.

Local and foreign investors in both export and non-export oriented ventures are eligible for a number of types of investment incentives. These incentives, which are granted for periods of up to fifteen years, include tax holidays, relief from import duties on machinery, equipment and raw materials, and guaranteed repatriation of capital (including profits and capital gains). In addition, investors may be granted permission to carry forward net losses incurred during the tax holiday period for set-off against profits for up to five years following expiration of the tax holiday.

To be eligible for these incentives, investors must be granted a development concession by the Office of Economic Development, the Belize Government's investment approval agency. The Office of Economic Development reports that its review of applications for development concessions generally takes about six months. However, a number of investors reported that the process often takes much longer.

One disturbing aspect of the current investment incentive/approval system is the discretionary nature of available incentives. The term and provisions of the concessions granted to specific investments are determined on a case by case basis. In some cases, certain investors have reportedly been granted special concessions not



89

provided to other investments in the same sector. A related problem, noted earlier, has been the failure of the current government to honor certain provisions of development concessions granted by the previous government.

**PROMOTIONAL STRUCTURE.** Promotion of Belizean exports is undertaken mainly by the Belize Export and Investment Promotion Unit (BEIPU), a division of the Belize Chamber of Commerce and Industry. BEIPU is a relatively new organization and has not as yet undertaken any active promotion efforts. With financial and technical support from the U.S. Agency for International Development (AID), BEIPU is currently providing information and assistance to current and potential exporters and is seeking to identify new export opportunities.

**POLICY DEVELOPMENTS IN BUYER COUNTRIES.** Like other countries that depend on a relatively narrow export base, Belize's export performance is highly dependent upon continued access to key markets. This is especially true in the case of those products for which Belize enjoys preferential prices.

The impact of cuts in the U.S. sugar import quota on Belize's overall export performance has already been discussed, as has the spur provided to citrus exports by the granting of duty-free access to the U.S. market under CBI. Indeed, it can be strongly argued that policy developments in the United States which affect Belize's market access are the single most important set of factors governing the country's export performance.

A potential cloud on the horizon is the increased pressure being put on the U.S. government by domestic producers to limit the market access of Belize and other CBI countries. Florida citrus growers have already succeeded in persuading OPIC not to insure overseas investments in citrus ventures oriented toward production for export to the U.S. market. A recent AID administrative directive, adopted in response to Congressional pressure, instructs AID field missions to

refrain from supporting activities which may compete with U.S. producers or exporters. The result in Belize has been a "hands-off" attitude on the part of AID toward the citrus sector, despite the strong potential of citrus to replace sugar as the country's most important export.

## V. NONTRADITIONAL EXPORT OPPORTUNITIES

Belize's greatest comparative advantage for increased nontraditional exports seems to be concentrated in the agribusiness sector where producers can take advantage of the country's favorable climate and abundant arable land. Within this sector, citrus clearly offers the greatest opportunities for increased exports, subject to the caveat already discussed; namely, continued duty-free access to the U.S. market.

The export of winter vegetables destined for the U.S. market clearly offers potential for expansion. However, expectations for this sector should not be overblown. Exporters of winter vegetables from other countries in the region have learned -- in many cases from painful experience -- that the produce business can be very risky. Yields have often been below expectations, and a crop that ripens two weeks early or two weeks late can mean that an exporter misses a window of opportunity in the U.S. market. Furthermore, exporters have found that the cost of marketing winter vegetables can be as much as one and half times the cost of production, thereby reducing profit margins substantially. Profit margins are also being reduced as a growing number of Central American and Caribbean producers compete with each other in exporting to the United States, thereby driving down prices. As a result, projects which are highly touted one year -- such as an Israeli-Jamaican joint venture which was expected to generate as much as $50 million per year in exports -- may go bankrupt the next.

Exports of cacao seem to offer legitimate potential for stable growth, at least in volume terms. There also appears to be

considerable opportunity for increased exports from the fisheries sector through expansion into new species and use of more modern fishing techniques. Improvements in the capacity and reliability of air freight transport would also open up opportunities for export of fresh fin fish -- albeit on a limited volume basis.

Opportunities for expansion of garment production or introduction of other labor-intersive assembly operations are limited by the small size of the labor force. A careful analysis of Belize's long-term comparative advantage in this sector should be undertaken before resources are committed to the establishment of the proposed free zone discussed earlier. In the short term, however, it would take only the addition of one or two medium- to large-sized firms to generate a substantial percentage increase in production and exports, given the high concentration of current production.

## VI. ACTION RECOMMENDATIONS

While the primary objective of this chapter has been to report on and analyze the performance and prospects of Belize's nontraditional export sector, SRI has developed a number of action recommendations, which, if implemented, could improve substantially the prospects for nontraditional export growth. These recommendations, directed both to AID and the Government of Belize, are based on SRI's necessarily brief field visit to Belize as well as our experience -- in some two dozen other countries -- with the design, evaluation, and implementation of export and investment promotion programs.

### A. Increase Capital Availability

By far the biggest operating constraint facing existing and potential exporters is the lack of working capital and long-term financing at reasonable terms. USAID/Belize could address this problem both by making credit available to exporters, either directly or through a new or existing financial institution, as well as through support of the development of new capital market institutions and instruments.



92

## B. Standardize Investment Incentives

Under the current investment code, the term and specific benefits granted to recipients of development concessions is not automatic. Rather, concessions are granted on a case by case basis with the length and scope of individual concessions based on the extent of local value-added, as well as expected profitability, foreign exchange earnings, and employment creation.

The discretionary nature of the process creates perceptions -- whether or not justified -- of favoritism or discriminatory treatment. SRI's experience has been that automaticity and equal treatment are key elements of successful investment codes. If differential incentives are provided, they should be utilized to target investments toward priority industries or sectors, and the criteria for eligibility should be clearly set out in the investment code. Within a particular sector, all investments should be treated equally. The preference of investors for this type of system has been confirmed by a number of major surveys of international companies.

## C. Enhance Managerial Skills

AID should continue to support programs such as the Belize Management Institute which are aimed at increasing the pool of local managerial talent. In particular, training should be directed at imparting an understanding and appreciation of the requirements of managing export operations. Thus, training programs should focus on such topics as export marketing techniques and requirements, customs procedures, foreign exchange procedures, and quality control.

## LIST OF INTERVIEWS

Mr. Raymond Bradly, Executive Director
National Fishermen Producers Cooperative Society, Ltd.

Mr. John Briggs, Senior Economist
Belize Economic Development Department

Mr. Jerry Cattouse, Director of Marketing
Pyramid Island Resort

Mr. Jim Corvin, Project Director
Hummingbird Hershey, Ltd.

Mr. John Dyson, Economic/Commercial Officer
United States Embassy, Belize

Mr. Thomas Garrity, Managing Director
Caribe Farm Industries, Ltd.

Ms. Ann Hall
Belize Meats, Ltd.

Mr. Roger Hall
Belize Meats, Ltd.

Mr. Elton Jones, President
Screen Process Limited

Mr. Kimball Kennedy, Technical Advisor
Belize Export and Investment Promotion Unit

Ms. Maydia Luben, Research Officer
Central Bank of Belize

Mr. Larry McClaren, Manager
Williamson Industries, Ltd.

Mr. Sylvan Roberts, Chief Statistician
Central Statistical Office

Mr. Will Sjoberg, Private Sector Advisor
USAID/Belize

Mr. Robert Usher, Executive Secretary
Norther Fishermen Cooperative Society, Ltd.

Mr. Art Villanueva, Economist
USAID/Belize

BELIZE
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1980

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| | Total exports | 104,947 | 91,937 | 111,291 |
| 0 | Food and live animals | 59,503 | 53,223 | 70,647 |
| 01 | Meat and preparations | 1,409 | 597 | 648 |
| 02 | Dairy products and birds' eggs | 11,514 | 4,733 | 3,849 |
| 03 | Fish and preparations | 4,215 | 4,979 | 4,466 |
| 04 | Cereals and preparations | 1,182 | 597 | 369 |
| 05 | Fruit and vegetables | 4,600 | 8,232 | 10,778 |
| 06 | Sugar, honey and preps. | 35,344 | 33,723 | 50,199 |
| 07 | Coffee, tea, cocoa, spices | 703 | 273 | 207 |
| 09 | Misc. food preparations | 504 | 83 | 126 |
| 1 | Beverages and tobacco | 1,435 | 727 | 794 |
| 11 | Beverages | 1,278 | 653 | 777 |
| 2 | Crude matls. excl. fuels | 2,040 | 3,442 | 2,743 |
| 23 | Rubber, crude, syn., natl. | 784 | 602 | 228 |
| 24 | Wood, lumber and cork | 1,046 | 2,485 | 2,162 |
| 29 | Crude animal veg. mat. nes. | 83 | 130 | 84 |
| 3 | Mineral fuels etc. | 3,377 | 2,455 | 3,154 |
| 33 | Petroleum and products | 3,377 | 2,452 | 3,154 |
| 4 | Animal, vegetable oil, fat | 318 | 128 | 377 |
| 42 | Fixed animal oil, fat | 318 | 128 | 377 |
| 5 | Chemicals | 2,324 | 2,260 | 2,120 |
| 54 | Medicinal, etc., products | 364 | 364 | 360 |
| 55 | Perfume, cleaning, etc. prds. | 807 | 1,307 | 1,072 |
| 59 | Chemicals nes. | 1,152 | 562 | 700 |

BELIZE, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1980

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| 6 | Basic manufactures | 1,797 | 3,673 | 1,815 |
| 65 | Textile yarn, fabric, etc. | 250 | 1,036 | 222 |
| 66 | Nonmetal mineral mfs. nes. | 244 | 244 | 58 |
| 67 | Iron and steel | 57 | 47 | 5 |
| 69 | Metal manufactures nes. | 1,196 | 2,174 | 1,454 |
| 7 | Machines, transport equipment | 14,280 | 5,884 | 4,547 |
| 71 | Machinery, nonelectric | 12,376 | 4,341 | 2,652 |
| 72 | Electrical machinery | 2,001 | 1,200 | 837 |
| 73 | Transport equipment | 348 | 343 | 1,059 |
| 8 | Misc. manufactured goods | 19,561 | 19,477 | 24,611 |
| 84 | Clothing | 9,509 | 11,036 | 14,454 |
| 86 | Instruments, watches, clocks | 7,899 | 6,471 | 8,594 |
| 89 | Misc. manufactured goods nes | 1,869 | 1,627 | 1,269 |

## Quantifiable Determinants of Non-traditional Export
## BELIZE
## 1970-1986

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| TRADE STATISTICS | | | | |
| Domestic Exports | 23.2 | 24.7 | 31.8 | 42.2 |
| Traditional | | | | |
| Nontraditional | | | | |
| Re-exports | 8.1 | 7.0 | 9.1 | 10.5 |
| Total Exports | 31.3 | 31.7 | 40.9 | 52.7 |
| Imports | 55.6 | 58.6 | 69.3 | 72.3 |
| Trade Balance | (24.3) | (26.9) | (28.4) | (19.6) |
| CACM Exports | 0.1 | 0.2 | 0.0 | 0.0 |
| CACM Exports, % of Dom. Exp. | 0.4 | 0.8 | 0.0 | 0.0 |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 74.3 | 79.3 | 90.0 | 110.3 |
| GDP (1980 prices) | 217.9 | 225.5 | 239.7 | 248.9 |
| CAPITAL FORMATION | | | | |
| Commercial Lending Rate | | | | |
| Gross Fixed Capital Formation | | | | 27.0 |
| Foreign Direct Investment * | | | | |
| Dom. Credit | | | | |
| Commercial lending | | | | |
| to Private Sector | | | | |
| Agriculture | | | | |
| Manufacturing | | | | |
| Commerce | | | | |
| EXCHANGE RATE | | | | |
| Official Rate (Bz$/US$) | 1.7 | 1.6 | 1.6 | 1.6 |
| REER Index (1980=1.00) ** | | | | |
| FOREIGN DEBT | | | | |
| External Debt Outstanding | | | | 0.7 |
| Debt Service | | | | 0.1 |
| Debt Service Ratio | | | | |
| (% of Exports) | | | | |
| OTHER | | | | |
| M1 | | | | |
| Budget Deficit | | | | |
| GDP Deflator (1980 = 100) | 34.1 | 35.2 | 37.5 | 44.3 |

All figures in Belize dollars unless otherwise specified.
* Millions of U.S. Dollars
**Real Effective Exchange Rate Index



97

| | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|
| TRADE STATISTICS | | | | |
| Domestic Exports | 65.6 | 95.9 | 68.2 | 89.0 |
| Traditional | | | | |
| Nontraditional | | | | |
| Re-exports | 14.3 | 24.5 | 25.9 | 35.2 |
| Total Exports | 79.9 | 120.4 | 94.1 | 124.2 |
| Imports | 109.2 | 159.2 | 161.5 | 180.2 |
| Trade Balance | (29.3) | (38.8) | (67.4) | (56.0) |
| CACM Exports | 0.0 | 0.0 | 0.5 | 0.5 |
| CACM Exports, % of Dom. Exp. | 0.0 | 0.0 | 0.7 | 0.6 |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 154.2 | 188.8 | 183.2 | 211.6 |
| GDP (1980 prices) | 272.1 | 273.9 | 272.1 | 283.4 |
| CAPITAL FORMATION | | | | |
| Commercial Lending Rate | | | 11.5 | 11.3 |
| Gross Fixed Capital Formation | 38.6 | 53.0 | 58.0 | 62.9 |
| Foreign Direct Investment * | | | | |
| Dom. Credit | | | 64.4 | 64.5 |
| Commercial lending | | | | |
| to Private Sector | | | | |
| Agriculture | | | | |
| Manufacturing | | | | |
| Commerce | | | | |
| EXCHANGE RATE | | | | |
| Official Rate (Bz$/US$) | 1.7 | 1.8 | 2.2 | 2.0 |
| REER Index (1980=1.00) ** | | | | |
| FOREIGN DEBT | | | | |
| External Debt Outstanding | 2.0 | 3.9 | 6.8 | 15.9 |
| Debt Service | 0.0 | 0.1 | 0.1 | 0.1 |
| Debt Service Ratio (% of Exports) | 0.1 | 0.1 | 0.2 | 0.2 |
| OTHER | | | | |
| M1 | | | 21.3 | 24.7 |
| Budget Deficit | | | | |
| GDP Deflator (1980 = 100) | 56.7 | 68.9 | 67.3 | 74.7 |

All figures in Belizean dollars unless otherwise specified.
* Millions of U.S. Dollars
**Real Effective Exchange Rate Index



98

| | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|
| TRADE STATISTICS | | | | |
| Domestic Exports | 109.8 | 113.1 | 164.1 | 149.5 |
| Traditional | | | 97.5 | 87.7 |
| Nontraditional | | | 66.6 | 61.8 |
| Re-exports | 49.8 | 60.3 | 57.6 | 88.5 |
| Total Exports | 159.6 | 173.4 | 221.7 | 238.0 |
| Imports | 213.0 | 263.7 | 299.5 | 323.9 |
| Trade Balance | (53.4) | (90.3) | (77.8) | (85.9) |
| CACM Exports | 0.7 | 1.0 | 1.4 | |
| CACM Exports, % of Dom. Exp. | 0.6 | 0.9 | 0.9 | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 241.7 | 282.4 | 342.4 | 361.7 |
| GDP (1980 prices) | 305.8 | 323.7 | 340.2 | 345.5 |
| CAPITAL FORMATION | | | | |
| Commercial Lending Rate | 11.3 | 11.6 | 16.5 | 19.3 |
| Gross Fixed Capital Formation | 69.1 | 81.0 | 88.1 | 98.1 |
| Foreign Direct Investment * | | | | |
| Dom. Credit | 71.7 | 90.8 | 103.9 | 126.6 |
| Commercial lending | | | | |
| to Private Sector | | | 91.9 | 108.7 |
| Agriculture | | | 24.1 | 24.1 |
| Manufacturing | | | 12.5 | 11.9 |
| Commerce | | | 25.2 | 36.3 |
| EXCHANGE RATE | | | | |
| Official Rate (Bz$/US$) | 2.0 | 2.0 | 2.0 | 2.0 |
| REER Index (1980=1.00) ** | 0.96 | 0.89 | 1.00 | 0.87 |
| FOREIGN DEBT | | | | |
| External Debt Outstanding | 26.7 | 33.5 | 41.5 | 48.2 |
| Debt Service | 0.8 | 0.9 | 1.2 | 2.3 |
| Debt Service Ratio (% of Exports) | 1.0 | 1.0 | 1.1 | 1.9 |
| OTHER | | | | |
| M1 | 36.0 | 36.9 | 41.7 | 39.6 |
| Budget Deficit | 12.1 | 2.6 | 5.0 | 5.9 |
| GDP Deflator (1980 = 100) | 79.0 | 87.2 | 100.0 | 104.7 |

All figures in Belizean dollars unless otherwise specified.
* Millions of U.S. Dollars
**Real Effective Exchange Rate Index

| | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|
| TRADE STATISTICS | | | | |
| Domestic Exports | 121.4 | 130.3 | 145.7 | 128.8 |
| Traditional | 69.3 | 71.0 | 67.3 | 50.2 |
| Nontraditional | 52.1 | 59.3 | 78.4 | 78.6 |
| Re-exports | 62.4 | 25.2 | 46.2 | 51.4 |
| Total Exports | 183.8 | 155.5 | 191.9 | 180.2 |
| Imports | 256.0 | 223.6 | 260.4 | 256.3 |
| Trade Balance | (72.2) | (68.1) | (68.5) | (76.1) |
| CACM Exports | | | | |
| CACM Exports, % of Dom. Exp. | | | | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 330.9 | 347.8 | 364.7 | 385.1 |
| GDP (1980 prices) | 325.8 | 332.4 | 334.8 | 350.1 |
| CAPITAL FORMATION | | | | |
| Commercial Lending Rate | 18.8 | 16.4 | 14.8 | 16.1 |
| Gross Fixed Capital Formation | 72.7 | 65.6 | 69.1 | 68.7 |
| Foreign Direct Investment * | | | (3.7) | 3.7 |
| Dom. Credit | 161.2 | 187.5 | 205.2 | 207.1 |
| Commercial lending | | | | |
| to Private Sector | 132.3 | 141.4 | 151.9 | 141.5 |
| Agriculture | 22.7 | 17.2 | 16.7 | 14.3 |
| Manufacturing | 18.1 | 18.6 | 11.9 | 21.1 |
| Commerce | 41.3 | 42.7 | 44.0 | 45.9 |
| EXCHANGE RATE | | | | |
| Official Rate (Bz$/US$) | 2.0 | 2.0 | 2.0 | 2.0 |
| REER Index (1980=1.00) ** | 0.79 | 0.77 | 0.69 | 0.75 |
| FOREIGN DEBT | | | | |
| External Debt Outstanding | 51.5 | 55.7 | 67.3 | 86.0 |
| Debt Service | 5.8 | 8.0 | 10.1 | 13.5 |
| Debt Service Ratio (% of Exports) | 6.3 | 10.3 | 10.5 | 15.0 |
| OTHER | | | | |
| M1 | 39.4 | 42.4 | 50.0 | 58.6 |
| Budget Deficit | | | | |
| GDP Deflator (1980 = 100) | 101.6 | 104.6 | 108.9 | |

All figures in Belizean dollars unless otherwise specified.
* Millions of U.S. Dollars
**Real Effective Exchange Rate Index



100

## COSTA RICA

### I. INTRODUCTION: THE ECONOMIC CONTEXT

The average annual real rate of growth of the Costa Rican economy was in excess of 5.5 percent from 1960 through 1978. The 1976-78 coffee boom on top of the extended period of sustained growth, however, lifted expectations and borrowings to unrealistic levels. The coming of the world recession, high international interest rates, the collapse of the Central American market, as well as the gradual exhaustion of import substitution growth possibilities brought severe economic difficulties to Costa Rica by 1980. Falling export (mainly coffee) prices, a rapidly rising debt, and a sharp rise in debt service payments led to the suspension of such payments in mid-1981. (Partial debt service payments were resumed in July of 1982.) Ensuing fiscal and monetary austerity policies led to a severe recession during 1981 and 1982 with real GDP falling 2.3 percent and 7.3 percent respectively in those years. There has been a slow and somewhat erratic recovery since 1982, but in 1986 per capita GDP was still 9 percent below its 1977 level.

With her external debt approaching $4.5 billion, Costa Rica has the second highest per capita foreign debt in the world. Despite macropolicy restraint in the 1980s and export promotion efforts, Costa Rica's trade balance has been in deficit throughout this decade. However, when nonfactor services are added to the trade balance (basically the current account without debt service payments), the balance was positive in 1982 and is projected to be so again in 1986. Before rescheduling, Costa Rica's debt service payments were estimated to be 58.7 percent of exports of goods and nonfactor services in 1984 and 60.5 percent in 1985; after rescheduling, actual service payments came to 35.2 percent and 38.4 percent, respectively.



101

## II. TRADE AND PAYMENTS PROFILE

### A. Traditional Export Performance

A closer look at Costa Rica's post-1980 export performance, however, reveals many positive and promising signs. Of its four traditional export products (coffee, bananas, beef, and sugar in order of importance), only sugar experienced an appreciable decline in value. This decline is explained by the sharp drop in the U.S. sugar import quota, which has fallen from 52.4 to 17.6 thousand tons in the last three years alone. Sugar's declining contribution, however, has been more than offset by an increase in coffee exports, leading to a modest growth in traditional exports from $534.7 million in 1982 to $590.5 million in 1985. Based on the assumption of coffee prices being $2.00 a pound (fob), traditional exports for 1986 were projected to reach $758.1 million. Coffee prices averaged considerably below $2.00, however, with output recovering in Brazil. Current prices are near $1.25.

### B. Nontraditional Export Performance

Nontraditional exports grew from $334.3 million in 1981 to a (conservatively) projected $405.0 million in 1986. This growth is all the more impressive since the principal market for manufacturing exports had been Central America through 1983 and sales to this market first stagnated and then fell precipitiously from $193.0 million in 1984 to $130.2 million in 1985. This collapse is explained by the growing indebtedness (to over $300 million) of the other CACM countries to Costa Rica, and the Central Bank's mid-1985 decision to curtail all non-cash purchases through the CACM Clearinghouse. Since Costa Rica's CACM exports have an estimated 50 percent average import component, credit sales to other Central America countries were contributing to Costa Rica's growing foreign debt. But as its nontraditional exports to the CACM declined, those to the rest of the world increased rapidly from $167.1 million in 1982 to a projected $265.0 million in 1986. Value added from drawback exports is included

in this latter figure and is estimated to be $30.0 million. As we shall see below, the prospects for continued growth in the nontraditional sector are very good, provided international conditions remain supportive and certain domestic improvements are forthcoming.

## III. DETERMINANTS OF EXPORT PERFORMANCE

### A. Macroeconomic Determinants

The mild domestic economic recovery since 1983, the expanding U.S. economy, periodic mini-devaluations of the colon, ongoing political stability and relative labor peace, government export promotion efforts, a comparatively good supply of skilled labor along with other propitious conditions have all contributed to a healthy expansion of nontraditional exports in recent years. Nontraditional exports now comprise approximately 40 percent of Costa Rica's exports. This share must continue to grow if Costa Rica is to achieve both financial stability and stable economic growth. Nontraditional export growth, in turn, will be a function inter alia of international conditions, the rate of new domestic investment, and the removal of remaining infrastructural impediments.

**CAPITAL FORMATION/AVAILABILITY.** One such impediment lies in Costa Rica's banking structure. There is a small but growing private banking sector currently providing around 12 percent of all credit to the private sector. Private bank lending, however, still seems to be confined to greater San Jose. Credit allocations and interest rates are closely controlled by the Central Bank, although the system of credit allocation ("topes") has been gradually deregulated since 1984. Central Bank President, Eduardo Lizano, has stated that "topes" would be ended in 1987. Interest rates, albeit somewhat deregulated, are still largely controlled by the Central Bank. Tight monetary policy occasioned by Costa Rica's debt along with a large public sector deficit, Central Bank financial losses, and the need to retard capital flight have combined to produce nominal interest rates in the 27-30 percent range (as of late December 1986). This means that real rates



102

range from approximately 13 to 16 percent. Given the inherent riskiness of new export investments, these real rates approach prohibitiveness. The complaint of exhorbitant real rates was universal and seemed to impose a very serious obstacle to short run export financing and long-term capital expansion projects. Moreover, the small savings base and the historic regulation of the banking system, often result in loans being unavailable at any price to a large share of nontraditional exporters.

**TRANSPORTATION INFRASTRUCTURE.** Although the situation is improving and the problem is not grave, Costa Rica's infrastructure for international sea and air transport still leaves considerable room for improvement. Maritime shipping costs for most products are high, above the rates for larger ports in the region. The problem here, however, is largely one of volume and uneven demand. Competition from non-Conference shippers and increasing volume are driving rates down, in some cases appreciably, e.g., one company reported that container costs have dropped from $3,600 to $2,200 per container to Miami over the past year.

The situation with air freight is more problematic. First, airport installations in San Jose are inadequate. There is no protected area for palletizing or storing cargo. There are no chilling facilities. There have been many reported incidents of perishable products spoiling due to the absence of such facilities or due to improper, careless handling of the cargo by airport personnel. Improved packaging of perishable products would help to alleviate this problem. Second, air service is inadequate and irregular. Some perishable product producers claim that they are not allowed to make reservations and that they are sometimes notified a few hours before a flight that space will be available. Inadequate capacity promises to get worse in 1987 according to export projections and the cargo flight schedules of LACSA and Challenge. It seems that the Costa Rican Aviation Board has restricted cargo carrying by foreign airlines. According to one informant, LAN Chile was denied permission to make a cargo stopover. Lastly, many exporters complained that rates are too



104

high. Part of the problem is unbalanced cargo. The development of new perishable exports and import cutbacks have resulted in air shipments from San Jose to Miami weighing 150 percent of return shipments.

**CUSTOMS.** Costa Rican exporters are required by law to employ an outside customs agent to handle all dealings with Costa Rican Customs. One company reported that its agent, in league with customs officials, embezzled 3.2 million colones in early 1986. Even after detection of the incident, the company had to negotiate a settlement which cost it $55,000. Reportedly, this "penalty" was levied because the firm is responsible for its agent's behavior even though the agent is not a company employee. There was a shake-up in Customs in May 1986. Presumably, the reorganization will improve honesty and efficiency, but the customs agent law seems inappropriate. The company is lobbying for its repeal.

**OTHER.** There is another law which inhibits competitive pricing. Although the stipulations of the law were not available, according to the manager of the pineapple operation of Pindeco (Del Monte), Pindeco is required to purchase its insecticide from a distribution agency who has sole control over its marketing within Costa Rica. As a result, many agrochemicals are priced up to 50 percent above their world market price.

Finally, there are statutes that permit the Central Bank to oversee and, in some cases, set prices. The President of a seafood exporter reported that the Central Bank imposed a 75 cent per pound price for "minuta" exports (fish used to butterfly for sandwiches) when the domestic price is 20 cents and the export market would accept up to 40 cents. Through this policy, then, the Central Bank made minuta exports impossible, costing the country up to $40,000 per month in foreign exchange earnings.

## B. Microeconomic Determinants

Input prices in Costa Rica are generally very competitive. Abundant hydroelectric power supplies practically all of the country's electricity at prices that are low for the region. There is a modern and reasonably priced telecommunications network. There are a relatively large number of machine tool shops, providing a substantial and timely supply of parts (both metal and plastic) to local industry.

**LABOR FORCE.** Probably Costa Rica's greatest asset, however, is its labor force. Literacy is 93.1 percent, the highest in Central America. Longevity and health conditions are the highest among the beneficiaries of CBI. Higher education has provided an extremely skilled and technically able population. Traditional trade unions represent a small (the figure is unknown) and diminishing share of the work force. There is a growing movement of "solidarity associations," which emphasize a cooperative, as opposed to conflictive, approach to management. These associations represent approximately 15 percent of the economically active population. The labor force is hard working, stable, and certainly for the region, relatively peaceful.

Wage costs for production workers are approximately the same as elsewhere in Central America. Base wages appear to be slightly below average, but payroll taxes and benefits (roughly 40 to 50 percent of the base wage) are above the norm. According to a 1986 study by the Bobbin Consulting Group, the average hourly wage (without fringes) for textile operators (converted into dollars at the prevailing exchange rate) was $0.78 in Costa Rica, $0.83 in Honduras, $0.89 in Guatemala, $1.09 in Jamaica, $1.58 in Panama, and $4.28 in Puerto Rico. The ample supply of domestic skilled labor for technical and administrative positions in middle management, however, is Costa Rica's strongest drawing card. Companies generally do not have to import their skilled labor at higher foreign salary rates to the same extent as elsewhere in the region. This important advantage of the Costa Rican environment, however, is being threatened by the rapid growth of foreign investment and new exports which raise the demand



176

for such labor. Skilled personnel are in increasingly short supply and companies are finding their top engineers, technicians, accountants, and others being bid away by other companies in Costa Rica. Salaries for skilled labor, thus, are rising.

**MARKETING INFORMATION AND CONTACTS.** Local exporters of new products generally lack marketing information and contacts. This condition can lead to either the failure to identify available marketing outlets or the sale to such markets at unfavorable terms. The latter include consignment contracts, broken contracts without effective recourse, indiscriminately rejected shipments, high commissions, low prices, delayed payment, etc. One exporter, a new strawberry cooperative, has suffered virtually all of these difficulties in its dealings with a Miami broker. After losing its first shipment of strawberries in 1984 due to failure to meet quality specifications, the cooperative rushed into a contract, giving this Miami broker exclusive distribution rights until 1989. The broker charges a 13 percent commission on top of a 35.4 percent price mark-up. Other brokers have approached the cooperative and offered better deals with broader markets, but it is locked into its present contract for three more years.

A contrary experience at a furniture factory speaks to the same point. The president of this company, thanks to a U.S. college education and personal contacts, spent two years identifying and cultivating possible distribution agents and markets. Once developed, exports were begun. There have been no distribution problems. Such a protracted process, of course, requires financing beyond the means of most new ventures. The furniture company, as a longstanding successful producer for the domestic market, was able to use internal funds.

## C. Policy and Promotional Efforts

**EXPORT POLICY SHIFT.** Until recently, Costa Rica followed the protectionist policies of the CACM which provided a tariff structure favoring import substitution industries at the expense of export activities. Tariff reform took effect in 1986 with effective rates dropping from the 50 to 1600 percent range to the 50 to 150 percent range. Further, the post-1980 policy of exchange rate unification and periodic mini-devaluations of the colon have contributed to export growth. In addition, a number of explicit subsidy programs for exports have been implemented. Thus, the period of an anti-export biased economic policy has come to an end. Nonetheless, some maintain that the current incentive package merely puts nontraditional exports at a par with import substitution and further measures should be taken. Specific export promotion programs undertaken to date include the following.

In 1973, Costa Rica introduced export tax credits or CATs. CATs are negotiable and are granted to exports with a minimum of 35 percent local value added. They are equal to 15 percent of the FOB value of exports. In November 1984, the government put into effect two new pieces of legislation: The Export Contract and the Temporary Admission System (Drawback) bylaws. The former provides a series of tax exemptions (import, export, sales, income) through 1996, 100 percent profit repatriation through 1996 as well as repatriation of accumulated depreciation after four years, special port rates and other benefits negotiated with each company for exports outside of the CACM. Drawback offers similar tax benefits (without CATs) and streamlined paperwork and regulations for exports to the United States under the provisions TSUS 806.3/807 and super 807. Another piece of 1984 legislation established export processing or free zones, intended primarily for distribution and light industry assembly operations. Finally, a number of export financing and assistance programs, such as FOPEX, FODEIN, BCR/OFIPLAN, CINDE, PIC, and Banco Interfin, have been created with AID support. Despite these loan programs, the superb promotion work of CINDE, and the new accelerated depreciation



108

allowances, export financing is still woefully insufficient and extremely expensive.

### D. Other Determinants

International circumstances have been difficult. Increasing protectionism affects all of Costa Rica's markets to one degree or another. Trade within the CACM has been curtailed by unpaid debts and lack of foreign exchange. Other Latin American partners, also affected by foreign exchange shortages, are imposing new restrictions; and, the United States, with record trade deficits, is sending contradictory and protectionist signals. The drastically reduced U.S. sugar quota, as detailed above, and the imposition of a 46.5 percent flower duty by the International Trade Commission of the U.S. Department of Commerce in November 1986 have been antithetical to the spirit of the CBI. (The flower duty was reduced to 27 percent in December in exchange for the exporters' agreement to forego the subsidies provided by the Export Contract.) This ITC action not only points to the unreliability of CBI preferences but to the capriciousness of the process. Among other things, the ITC finding reportedly was based on information from only one of ten firms mentioned in the California flower growers complaint. The finding, which "suspected" the other nine firms to be similar to American Flowers S.A., overlooks the fact, according to the president of Flores del Cerro S.A., that a bunch of flowers as defined in Miami weighs 10-12 ounces while in Costa Rica the term refers to 16 ounces. The flower duty case is seen as symbolic of what happens to successful exporters under the CBI. It is a powerful deterrent to new export investments.

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

Nontraditional exports already constitute a dynamic sector of Costa Rica's economy. The list of successful products in this sector is long, diverse, and growing: fresh fish, shrimp, lobster, plantains, pineapple, cassava, chayote, chocolate paste, macadamia



104

nuts, berries, petunia seeds, electrical switches, clothing, footwear, canned meat, canned sardines, crackers, canned fruit juice and paste, paint, pharmaceutical and medical products, cosmetics, plastics, insecticides, leather, tires, plywood, paper products, synthetic fibers, glass products, cement, galvanized sheets, metal containers and caps, batteries, light bulbs, radio and TV sets, electrical cord and cables, records and tapes, refrigeration equipment, batteries, and wood furniture, among others. Some of these exports have suffered with the contraction of the CACM, but most continue or have the potential to grow.

Costa Rica's attributes make it one of the most attractive countries in the world for foreign investment. These same attributes, should financing and effective support programs become available, give Costa Rica a tremendous potential in nontraditional exports. The potential not only lies in labor-intensive activities, but, due to the ample supply of skilled labor and network of parts producers, also lies in goods of intermediate capital intensity. Moreover, Costa Rica's abundant hydroelectric resources mean cheap energy which is complementary to capital, implying a natural comparative advantage in more capital-intensive projects. From a long run perspective, it is important to develop some capital-intensive projects, not only for their potential to spawn indigenous technological development but because they involve greater labor productivity and, other things equal, the potential for higher standards of living. Many have referred to this approach, one followed by Japan, South Korea, and Taiwan, as being consistent with a dynamic comparative advantage perspective. That is, resource endowments to some degree are given, but they are also made by economic policy choices. Costa Rica is in an unusually good position, for the reasons outlined above, to promote a balance of labor and capital-intensive projects. As we shall detail in the next section, there are many viable projects which have already been identified by individuals in Costa Rica's private sector.



110

## V. ACTION RECOMMENDATIONS

Despite concern with political instability posed by the situation in Nicaragua, El Salvador, and Honduras, foreign investors have become increasingly attracted to Costa Rica in recent years. Through effective government incentives, superlative promotion efforts of CINDE, concern over the future of Hong Kong, new restrictions placed on Asian exports by the United States, and the CBI system of preferences, new investments in garments, electronic assembly, cosmetics, auto parts, pharmaceuticals, among others have been made by Asian, European, and American capital. Whereas this development will certainly contribute to loosening Costa Rica's short-term foreign exchange constraint, the facts that much of this investment is (a) drawback, (b) has a low local value added component, (c) benefits from tax holidays and unrestricted capital repatriation, and (d) offers few backward or forward linkages raise questions about its contribution to long term economic development. These questions become more pressing in light of the prohibitive cost of and lack of access to financing for domestic investors. Unless some balance between local and foreign investment is maintained, not only will this impact upon the country's development potential but it will likely engender eventual political difficulties.

### A. Expand Capital Availability

This circumstance argues for (a) the loosening of domestic monetary policy and perhaps further deregulation of the banking system and (b) extension of AID loan subsidy and loan guarantee programs for exporters. It is important that interest rate subsidies bring the real rate to reasonable levels, not currently the case. It is also important that recipients of AID program loans receive support during the gestation period of their project. That is, new exporters should receive extended loan grace periods as well as sustained technical support and marketing assistance. The promising strawberry cooperative project mentioned earlier is foundering. It has received support in some areas but not others. In December 1986, it had

resolved many of its technical production and packaging problems, but ongoing difficulties with transportation and marketing left it in a financial bind. Loans were unavailable to the cooperative from any source. Meetings with the Minister of Economics, AID officials, and others brought sympathy but no finance. The economics of the project are sound. The investment of capital in the project is large. The experience and knowledge gained in production, management, and marketing is enormous. Yet the cooperative is on the threshold of failure. Almost half of the members had already left it as of December 1986. Projects of this nature, no matter how sound they might be in theory, are often fragile. In order to avoid the loss of finance and human capital and the disillusionment associated with failed ventures, such projects should receive an ongoing, consistent, package of assistance. Such a commitment from AID and other agencies might imply fewer projects in the short run. But a greater success rate will mean more profitable projects in the long run.

### B. Encourage Joint Ventures

With a few exceptions, there have been few joint ventures between foreign and local capital. The President of the Costa Rican Chamber of Apparel Producers sees the potential for a perfect match (one side contributing experience with domestic conditions, the other contributing financing for expansion and knowledge of external markets) but laments that none of the new investors in drawback or export contract production have expressed an interest in joint ventures. Whereas it would be inadvisable to force joint projects, incentive programs might be initiated to promote them.

Two particular projects worthy of further study have been proposed by the Executive Vice President of a successful Costa Rican trading company. The trading company has experience in trading several dozen commodities, specializing in building materials and foodstuffs. It has identified over thirty specific products with a strong export potential. Projects in three areas (fruits and vegetables, flowers and plants, and cashews) require packaging plants.



112

Projects in the areas of wooden furniture contracting, metal mechanic contracting, and fish require working capital. Capital is also needed to set up an office in the United States. The trading company projects that, with an initial investment of $300,000, over one million dollars worth of exports could be generated after one year. Material on the trading company is appended to this report.

Mahogany furniture is a second example of an export opportunity. A successful exporter of mahogany furniture has a U.S. market for his product that is much larger than he can fill. He has recently undertaken a major investment in a new kiln. As President of the Costa Rican Furniture Chamber, he is aware of some 480 woodworking shops in the country with the necessary, basic equipment to do cutting and sub-assembly. He proposes to set up a network of subcontractors to expand capacity. The establishment of such a network requires (a) a public relations, information dissemination effort, (b) administrative personnel and an office, and (c) a laboratory for quality control. The exporter lacks the financing to launch the project.

### C. Assess Problems in Shellfish Yields

The President of the Fishermen's Chamber of Puntarenas reports a devastating drop in the shellfish catch since the Spring of 1986. Some companies are laying off over half their workforce; some are going under. In the past, there has been a shellfish cycle of good to bad conditions lasting approximately seven years. The last bad period, however, was two years earlier. The Chamber is at a loss to explain the problem, as is the Ministry of Agriculture. Theories have been proposed, ranging from overfishing, to currents, rain, use of pesticide, and marshland destruction. The Chamber President requested AID funding for a careful study of the problem. He asked that should such a study be forthcoming it be organized through the Fishermen's Chamber and not the Ministry of Agriculture.



113

## D. Improve Transportation Networks

The issue of irregularity and insufficient capacity of air cargo also merits attention. Costa Rican Aviation should consider opening up air cargo transport to additional foreign airlines. One entrepreneur has suggested that exporters come together to charter their own cargo planes. Separately, the imbalance of air cargo to and from Miami might be redressed by price incentives to encourage maritime traffic from Miami to switch to air transport.

## E. Assess the Value of the Colon

Finally, the persistence of current account deficits suggests that the colon might still be overvalued. The post-1980 policy of periodic mini-devaluations has helped, but many observers believe a real devaluation of some 5 percent annually would be desirable for the near future. Although such a policy might indeed be appropriate, three caveats should be issued. First, there is a danger in a small, open economy like Costa Rica's that excessive currency depreciation will be passed through in the form of excessive inflation, undermining the intention of devaluation. Second, due to the low domestic value added of most manufacturing exports, devaluation does not have the same, straightforward salutary effect on all exports. The larger the share of imported components, the larger will be the increase in input costs occasioned by any devaluation. The ultimate impact on profitability and sales will then depend on the elasticity of demand for the product. Third, devaluation raises the real value of debt (in domestic currency) to those companies holding foreign loans. In some cases, the magnitude of this effect can be rather large.

## LIST OF INTERVIEWS

Robert Nahrgang, President
Flores del Cerro S.A.

Luis Escalante, Minister of Economics
Government of Costa Rica

Minor Sagot, Program Economist
USAID/Costa Rica

Leonardo Garnier, Director
Master's Program in Economics, Universidad Nacional

Victor Hugo Cespedes, Economist
Academia de Centroamerica

Rodrigo Barzuna, President
Industrias Barzuna S.A.

Aurora Vidaurre, President
Copefresa S.A.

Valentin Quiros, Vice President
Pindeco S.A.

Rodrigo Ortiz
CINDE

Robert Burgess, President, GTE Sylvania S.A.

Augustin Penon, Executive Vice President
Muebleria Urgelles y Penon S.A.

Jamie Ligator, President
General Hybrid S.A.

Jerry Tem Brink, President
Talmana S.A.

Robert Woodbridge, Executive Vice President
Intersec S.A.

Jose Montero Sojo, Agronomist
Plantas Tropicales S.A.

Michelle Coffey
CINDE

intertec s.a.

AGENTES DE COMPRA DE
Montgomery Ward

# INTERTEC TRADING CO.

## OBJECTIVE:

INTERTEC is a private Costa Rican registered organization that trades with products and/or services from and to the Central American and the Caribbean markets, the United States and Canada as well as Europe.

## PRODUCTS TRADED:

### BUILDING MATERIALS

- Lumber (E)
- Cement (E)
- Concrete Products (E)
- Ceramic Tiles (E)
- PVC Pipes and Fittings (E)
- Wooden Doors and Moulding (E)
- Fiber/Cement Products (E)
- Sanitary Ware (E)
- Galvanized Metal Corrugated (E)
- Roofing Sheets (E)
- Galvanized Nail and Wire (E)
- Galvanized Metal Pipes (E)
- Re-Inforeed Bars (E)
- Prefabricated Houses (E)
- White Cement (I)

### FOODSTUFFS

- Fresh Products (E)
- Fruits and Vegetables (E)
- Canned Goods (E)
- Coffee (E)
- Cocoa (E)
- Salt (E)
- Meat and Fish (E)
- Basic Grains (I)
- Candies and Cookies (E)

### OTHERS

- Wooden Matches (E)
- Wooden Furniture (E)
- Polyethylene Products (E)
- Leather Products (E)
- Shoes and Bags (E)
- Wooden Toys and Baby Dolls (E)
- Apparel (E)
- Raw materials for Apparel Industry (I)
- Newsprint (I)
- Kraft Paper in Rolls (I)
- Sanitary Paper (E)

## ORGANIZATION:

### Board of Directors

| | |
|---|---|
| Mr. Edmond Woodbridge M. | - President |
| Mr. Rodrigo Madrigal Faith | - Vicepresident |
| Mrs. Marianela Ortuño Pinto | - Director |
| Mr. Jack S. Harris | - Director |
| Mr. Paul Woodbridge | - Director |

### Management

| | |
|---|---|
| Mr. Robert E. Woodbridge A. | - Executive Vicepresident |
| Mr. Rolando Romero S | - Administrative Manager |

(E) = EXPORTS
(I) = IMPORTS

INTERTEC S. A. (Tra ), Co.) Tels:(506) 21-7831 / 33-3039 P. O. Box 20-1150 San José Tlx. 3142 REWA-CR San José, Costa Rica



116

INTERTEC, S. A.

PAGE 2

TRADE REFERENCES :

| | |
|---|---|
| - CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY (Caribean Basin Promotion Center) | ( U. S. A. ) |
| - INDUSTRIA NACIONAL DE CEMENTO S. A. | ( Costa Rica ) |
| - PRODUCTOS DE CONCRETO S.A. | ( Costa Rica ) |
| - RICALIT S. A. | ( Costa Rica ) |
| - KATIVO S. A. | ( Costa Rica ) |
| - WOODWARD & DICKERSON INC. | ( U. S. A. ) |
| - EUROCAN | ( Canada ) |
| - GEEST INDUSTRIES | ( England ) |
| - LARSSON & SUNDQVIST PAPER | ( Sweden ) |
| - FPG WHOLESALE INC. | ( U. S. A. ) |
| - COX LUMBER INC. | ( U. S. A. ) |
| - KIRKCONNELL BROTHERS LTD. | ( G. Cayman ) |
| - A. STURMS & SONS INC. | ( U. S. A. ) |
| - CEMCO UNITED | ( U. S. A. ) |
| - COCA COLA TRADING | ( U. S. A. ) |
| - MONTGOMERY WARD | ( U. S. A. ) |

BANK REFERENCES :

| | |
|---|---|
| - BANCO DE COSTA RICA | ( Costa Rica ) |
| - BANCO NACIONAL DE COSTA RICA | ( Costa Rica ) |
| - THE FIRST NATIONAL BANK OF BOSTON | ( Panamá ) |
| - CITIZENS & SOUTHERN INTERNATIONAL BANK | ( U. S. A. ) |
| - BANCO BCT S. A. | ( Costa Rica ) |
| - COFISA | ( Costa Rica ) |
| - BANCO INTERFIN S.A. | ( Costa Rica ) |

OTHER REFERENCES :

COSTA RICAN / AMERICAN CHAMBER OF COMMERCE
COSTA RICAN / CHAMBER OF REPRESENTATIVES OF FOREIGN FIRMS
COSTA RICAN CHAMBER OF EXPORTS
MEMBERS OF UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION (United States)

REPRESENTATIONS :

Intertec, S. A. has formally been contracted by the following firms to act as their Agent in Costa Rica and Central America.

| | |
|---|---|
| - MONTGOMERY WARD | ( Chicago, Illinois - U.S.A. ) |
| - WOODWARD & DICKERSON INC. | ( Bryn Mawr, Pensylvania - U.S.A. ) |
| - RYAN INSTRUMENTS | ( Kirkland, California, U.S.A.) |

INTERTEC S. A. (Trading Co.) Tels:(506) 21-7831 / 33-3039 P. O. Box 20-1150 San José Tlx. 3142 REWA-CR San José, Costa Rica

## PRIORITY PROJECTS THAT CAN BE UNDERTAKEN BY INTERTEC, S. A.

| | |
|---|---|
| 1. Fruits and vegetables<br>Packing Plant | $250,000.00 |
| 2. Flower, foliage and live plants<br>Packing plant | $100,000.00 |
| 3. Marketing office in the United States<br>Working capital per year | $120,000.00 |
| 4. Fish exports<br>Working capital | $ 50,000.00 |
| 5. Wooden furniture contracting<br>Working capital | $ 75,000.00 |
| 6. Metal mechanic contracting<br>Working capital | $ 75,000.00 |
| 7. Cashew nut<br>Packing plant | $650,000.00 |

## SPECIFIC PRODUCTS

1. Fruits and vegetables
   - Strawberries and other berries (Fresh and frozen)
   - Citrus (Fresh)
   - Chayote squash
   - Ginger
   - Mango
   - Pineapples
   - Gourmet vegetables (Asparragus, artichokes, bell peppers, etc.)
   - Papaya
   - Melons

2. Flowers
   - Carnations
   - Red Ginger
   - Pompoms
   - Roses

   Folinge
   - Leather leaf

   Plants
   - Caña India (Dracaena Massangenna Cane B/C) - Warneki
   - Yucca Cane
   - Tips Yucca
   - Silver Queen
   - Tropic Snow
   - Janet Craig



118

Besides exporting the traditional flower is bunches. The plant will start packing bouquets.

3. To import only, all products exported by Intertec in the United States.

4. Products

- Grouper
- Snapper
- Corvina
- Dolphin
- Lobster tails
- Shrimp
- Shark meat
- Squid
- Octupus

5. Products

- Doors, frim
- Wooden furniture parts
- Other high quality general solid wooden furniture

COSTA RICA
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| | Total Exports | 919,396 | 934,314 | 1,031,524 | 1,010,527 | 876,826 |
| 0 | Food and live animals | 631,772 | 687,901 | 654,870 | 664,014 | 604,470 |
| 01 | Meat and Preparations | 62,659 | 84,729 | 75,498 | 79,623 | 56,259 |
| 03 | Fish and Preparations | 7,257 | 11,322 | 9,246 | 7,468 | 6,731 |
| 04 | Cereals and Preparations | 11,668 | 17,436 | 19,018 | 27,786 | 9,086 |
| 05 | Fruit and Vegetables | 173,282 | 206,287 | 229,782 | 241,753 | 257,478 |
| 06 | Sugar, Honey and Preps. | 17,227 | 18,898 | 42,700 | 43,814 | 14,587 |
| 07 | Coffee, Tea, Cocoa, Spices | 340,177 | 338,651 | 265,602 | 251,573 | 249,730 |
| 09 | Misc. food preparations | 6,783 | 7,789 | 10,220 | 7,498 | 7,159 |
| 1 | Beverages and Tobacco | | 3,503 | 1,058 | 1,069 | 1,504 |
| 2 | Crude matls. excl. fuels | 20,390 | 13,036 | 14,786 | 10,203 | 11,992 |
| 26 | Textile fibers | 9618 | | | | |
| 29 | Crude animal veg. mat. nes. | 8,021 | 9,117 | 10,702 | 9,299 | 10,495 |
| 3 | Mineral fuels etc. | | 819 | 6,189 | 12,536 | 8,013 |
| 33 | Petroleum and products | | 819 | 6,189 | 12,536 | 5,537 |
| 5 | Chemicals | 57,149 | 58,231 | 70,471 | 80,923 | 62,824 |
| 53 | Dyes, tanning, color prod. | | 2,337 | 3,534 | 3,018 | 1,953 |
| 54 | Medicinal, etc., products | 15,855 | 19,474 | 26,050 | 29,363 | 27,482 |
| 55 | Perfume, cleaning, etc. prd | 7,761 | 8,368 | 10,681 | 13,127 | 12,005 |
| 56 | Fertilizers manufacture | 10,994 | 9,327 | 10,058 | 15,631 | 7,864 |
| 58 | Plastic materials, etc. | 4,754 | 4,719 | 6,597 | 7,026 | 5,624 |
| 59 | Chemicals nes. | 15,769 | 13,632 | 12,852 | 12,286 | 7,516 |



72D

COSTA RICA
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| 6 | Basic manufactures | 64,820 | 77,559 | 117,263 | 116,897 | 81,951 |
| 61 | Leather, dressed fur, etc. | 4,405 | 7,557 | 9,704 | 7,836 | 4,419 |
| 62 | Rubber manufactures nes. | 6,676 | 6,686 | 10,981 | 11,451 | 11,443 |
| 63 | Wood, cork manufactures nes | 5,984 | 5,983 | 8,834 | 10,420 | 7,895 |
| 64 | Paper, paperboard and mfr. | 5,572 | 7,605 | 16,096 | 13,592 | 13,131 |
| 65 | Textile yarn, fabric, etc. | 17,298 | 20,613 | 33,203 | 26,176 | 18,465 |
| 66 | Nonmetal mineral mfs. nes. | 2,915 | 8,469 | 8,992 | 22,057 | 9,828 |
| 67 | Iron and steel | 10,203 | 10,891 | 17,152 | 12,426 | 5,827 |
| 69 | Metal manufactures nes. | 11,098 | 8,974 | 11,710 | 12,076 | 9,149 |
| 7 | Machines, transport equip. | 30,196 | 33,962 | 43,778 | 43,009 | 37,177 |
| 71 | Machinery, nonelectric | 3,923 | 3,672 | 3,682 | 3,585 | 3,166 |
| 72 | Electrical machinery | 25,456 | 29,684 | 36,098 | 37,122 | 33,294 |
| 73 | Transport equipment | | 605 | 3,998 | 2,299 | 718 |
| 8 | Misc. manufactured goods | 34,345 | 36,808 | 61,189 | 51,006 | 39,184 |
| 82 | Furniture | 3,519 | 3,178 | 3,874 | 3,857 | 2,208 |
| 84 | Clothing | 10,517 | 11,283 | 19,542 | 13,978 | 9,051 |
| 85 | Footwear | 2,373 | 2,789 | 27,179 | 23,768 | 16,883 |
| 89 | Misc. manuf. goods nes. | 15,441 | 17,209 | 27,179 | 23,768 | 16,883 |
| 9 | Goods not classified | 77,306 | 22,479 | 61,830 | 30,670 | 28,543 |
| 93 | Special transactions | 77,303 | 22,477 | 61,826 | 30,670 | 28,543 |

Quantifiable Determinants of Nontraditional Exports
COSTA RICA
1963 - 1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (fob) | 94.9 | 114.4 | 111.7 | 135.7 | 143.3 |
| Traditional Exports | 81.2 | 87.4 | 82.8 | 96.0 | 103.2 |
| Non-traditional Exports | 13.7 | 27.0 | 28.9 | 39.7 | 40.1 |
| Merchandise Imports (fob) | 112.7 | 125.8 | 160.9 | 162.1 | 173.7 |
| Trade Balance | (17.8) | (11.4) | (49.2) | (26.4) | (30.4) |
| Current Account Balance | (25.2) | (23.1) | (67.8) | (44.0) | (50.2) |
| CACM Exports (fob) | | | | | 26.9 |
| CACM Exports as % of Exports | | | | | 18.8 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Colones mm) | 3,404.0 | 3,608.0 | 3,929.0 | 4,288.0 | 4,634.0 |
| GDP Growth (Nominal) | | 6.0 | 8.9 | 9.1 | 8.1 |
| GDP (1980 prices) | 14,916.0 | 15,535.0 | 17,062.0 | 18.404.0 | 19,444.0 |
| GDP Growth (Real) | | 4.1 | 9.8 | 7.9 | 5.7 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Discount Rate | 5.0 | 5.0 | 4.0 | 5.0 | 5.0 |
| Fixed Capital Formation | 621.0 | 591.0 | 730.0 | 736.0 | 834.0 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 825.0 | 946.0 | 1,056.0 | 1,139.0 | 1,232.0 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| REER Index (1978 = 1.000) ** | | | 1.837 | 1.964 | 1.796 |
| FOREIGN DEBT (US $ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 535.0 | 568.0 | 598.0 | 622.0 | 832.0 |
| Wages (/mo., in 1975 colones) | | | | | |
| Budget Deficit () or Surplus | | | | | |
| GDP Deflator (1980=100) | 22.8 | 23.2 | 23.0 | 23.3 | 23.8 |

All figures in millions of Colones unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



122

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (fob) | 170.0 | 189.6 | 231.0 | 225.3 | 278.8 |
| Traditional Exports | 118.7 | 132.8 | 168.0 | 156.7 | 204.0 |
| Non-traditional Exports | 51.3 | 56.8 | 63.0 | 68.6 | 74.8 |
| Merchandise Imports (fob) | 193.7 | 221.5 | 286.8 | 317.2 | 337.1 |
| Trade Balance | (23.7) | (31.9) | (55.8) | (91.9) | (58.3) |
| Current Account Balance | (42.9) | (50.3) | (74.1) | (114.4) | (100.0) |
| CACM Exports (fob) | 36.2 | 37.7 | 46.1 | 47.1 | 51.4 |
| CACM Exports as % of Exports | 21.3 | 19.9 | 20.0 | 20.9 | 18.4 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Colones mm) | 5,127.0 | 5,655.0 | 6,525.0 | 7,137.0 | 8,216.0 |
| GDP Growth (Nominal) | 10.6 | 10.3 | 15.4 | 9.4 | 15.1 |
| GDP (1966 prices) | 21,092.0 | 22,250.0 | 23,920.0 | 25,541.0 | 27,630.0 |
| GDP Growth (Real) | 8.5 | 5.5 | 7.5 | 6.8 | 8.2 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Discount Rate | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Fixed Capital Formation | 882.0 | 1,024.0 | 1,270.0 | 1,579.0 | 1,800.0 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 1,260.0 | 1,284.0 | 1,420.0 | 1,910.0 | 2,223.0 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| REER Index, (1975 = 1.000) ** | 1.751 | 1.830 | 1.928 | 1.757 | 1.605 |
| FOREIGN DEBT (US $ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 849.0 | 959.0 | 1,006.0 | 1,317.0 | 1,501.0 |
| Wages (/mo., in 1975 colones) | | | | | |
| Budget Deficit () or Surplus | | | (66.1) | (284.8) | (356.0) |
| GDP Deflator (1980=100) | 24.3 | 25.4 | 27.3 | 27.9 | 29.7 |

All figures in millions of Colones unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (fob) | 344.8 | 440.2 | 493.1 | 592.4 | 827.8 |
| Traditional Exports | 238.2 | 281.8 | 315.9 | 362.0 | 502.8 |
| Non-traditional Exports | 106.6 | 158.4 | 177.2 | 230.4 | 325.0 |
| Merchandise Imports (fob) | 412.1 | 648.9 | 627.2 | 695.4 | 925.1 |
| Trade Balance | (67.3) | (208.7) | (134.1) | (103.0) | (97.3) |
| Current Account Balance | (112.2) | (266.1) | (217.7) | (201.5) | (225.6) |
| CACM Exports (fob) | 70.5 | 104.3 | 107.2 | 132.7 | 176.6 |
| CACM Exports as % of Exports | 20.4 | 23.7 | 21.7 | 22.4 | 21.3 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Colones mm) | 10,163.0 | 13,216.0 | 16,805.0 | 20,676.0 | 26,331.0 |
| GDP Growth (Nominal) | 23.7 | 30.1 | 27.2 | 23.0 | 27.4 |
| GDP (1980 prices) | 29,760.0 | 31,410.0 | 32,069.0 | 33,839.0 | 36,852.0 |
| GDP Growth (Real) | 7.7 | 5.5 | 2.1 | 5.5 | 8.9 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Discount Rate | 5.0 | 7.0 | 7.0 | 8.0 | 8.0 |
| Fixed Capital Formation | 2,252.0 | 3,175.0 | 3,965.0 | 4,846.0 | 5,889.0 |
| Foreign Direct Investment * | | | | | 53.5 |
| Domestic Credit | 2,439.0 | 3,645.0 | 5,291.0 | 6,244.0 | 8,175.0 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 6.6 | 7.9 | 8.6 | 8.6 | 8.6 |
| REER Index, (1978 = 1.000) ** | 1.626 | 1.790 | 1.601 | 1.312 | 1.182 |
| FOREIGN DEBT (US $ mm) | | | | | |
| Public External Debt | | 303.2 | 422.6 | 542.0 | 746.4 |
| Debt Service | | 51.5 | | 67.8 | |
| Debt Service Ratio (% of Exports) | | 11.7 | | 11.4 | |
| OTHER | | | | | |
| M1 | 1,874.0 | 2,146.0 | 2,771.0 | 3,408.0 | 4,504.0 |
| Wages (/mo., in 1975 colones) | | | | 1,061.0 | 1,219.0 |
| Budget Deficit () or Surplus | (380.2) | (88.9) | (370.5) | (703.7) | (818.3) |
| GDP Deflator (1980=100) | 34.1 | 42.1 | 52.4 | 61.1 | 71.5 |

All figures in millions of Colones unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



124

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (fob) | 863.9 | 942.1 | 1,000.9 | 1,002.6 | 869.0 |
| Traditional Exports | 527.5 | 587.7 | 559.0 | 604.7 | 534.7 |
| Non-traditional Exports | 336.4 | 354.4 | 441.9 | 397.9 | 334.3 |
| Merchandise Imports (fob) | 1,049.4 | 1,257.2 | 1,375.2 | 1,090.6 | 804.9 |
| Trade Balance | (185.5) | (315.1) | (374.3) | (88.0) | 64.1 |
| Current Account Balance | (363.2) | (558.2) | (663.9) | (409.1) | (271.1) |
| CACM Exports (fob) | 182.4 | 175.4 | 275 | 238.1 | 167.4 |
| CACM Exports as % of Exports | 21.1 | 18.6 | 27.5 | 23.7 | 19.3 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Colones mm) | 30,194.0 | 34,584.0 | 41,406.0 | 57,103.0 | 97,505.0 |
| GDP Growth (Nominal) | 14.7 | 14.5 | 19.7 | 37.9 | 70.8 |
| GDP (1980 prices) | 39,162.0 | 41,097.0 | 41,406.0 | 40,470.0 | 37,522.0 |
| GDP Growth (Real) | 6.3 | 4.9 | 0.8 | (2.3) | (7.3) |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | 25.0 |
| Discount Rate | 15.4 | 14.8 | 23.5 | 23.5 | 30.0 |
| Fixed Capital Formation | 6,952.0 | 9,050.0 | 9,895.0 | 13,738.0 | 19,809.0 |
| Foreign Direct Investment * | 37.5 | 32.8 | 37.0 | 56.1 | 24.0 |
| Domestic Credit | 12,137.0 | 17,531.0 | 22,304.0 | 24,952.0 | 31,180.0 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 8.6 | 8.6 | 8.6 | 21.8 | 37.4 |
| REER Index, (1978 = 1.000) ** | 1.000 | 0.908 | 0.886 | 1.854 | 2.056 |
| FOREIGN DEBT (US $ mm) | | | | | |
| Public External Debt | 950.8 | 1,304.7 | 1,700.9 | 2,251.9 | 2,469.3 |
| Debt Service | 238.5 | 255.4 | 204.9 | 196.6 | 137.6 |
| Debt Service Ratio (% of Exports) | 27.6 | 27.1 | 20.5 | 19.6 | 15.8 |
| OTHER | | | | | |
| M1 | 5,625.0 | 6,226.0 | 7,271.0 | 10,832.0 | 18,448.0 |
| Wages (/mo., in 1975 colones) | 1,294.0 | 1,386.0 | 1,330.0 | 1,126.0 | 800.0 |
| Budget Deficit () or Surplus | (1,506.5) | (2,341.4) | (3,062.1) | (1,639.7) | (863.8) |
| GDP Deflator (1980=100) | 77.1 | 84.2 | 100.0 | 141.1 | 259.9 |

All figures in millions of Colones unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



125

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | |
| Merchandise Exports (fob) | 852.5 | 955.9 | | |
| Traditional Exports | 526.3 | 574.5 | 579.7 | |
| Non-traditional Exports | 326.2 | 381.4 | | |
| Merchandise Imports (fob) | 897.8 | 995.3 | | |
| Trade Balance | (45.3) | (39.4) | | |
| Current Account Balance | (316.5) | (256.1) | (327.4) | |
| CACM Exports (fob) | | | | |
| CACM Exports as % of Exports | | | | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP (Colones mm) | 126,337.0 | 158,674.0 | 183,556.0 | |
| GDP Growth (Nominal) | 29.6 | 25.6 | 15.7 | |
| GDP (1980 prices) | 38,595.0 | 41,479.0 | 41,904.0 | |
| GDP Growth (Real) | 2.9 | 7.5 | 1.0 | |
| CAPITAL FORMATION | | | | |
| Nominal Lending Rate | 23.3 | 18.0 | 20.9 | |
| Discount Rate | 30.0 | 28.0 | 28.0 | |
| Fixed Capital Formation | 23,057.0 | 33,595.0 | 39,420.0 | |
| Foreign Direct Investment * | 51.7 | 52.6 | 65.7 | |
| Domestic Credit | 56,421.0 | 65,944.0 | 70,977.0 | |
| EXCHANGE RATE | | | | |
| Exchange Rate | 41.1 | 44.5 | 50.5 | |
| REER Index, (1978 = 1.000) ** | 1.734 | 1.972 | | |
| FOREIGN DEBT (US $ mm) | | | | |
| Public External Debt | 3,314.6 | | | |
| Debt Service | 595.3 | | | |
| Debt Service Ratio (% of Exports) | | | | |
| OTHER | | | | |
| M1 | 25,619.0 | 30,132.0 | 32,439.0 | |
| Wages (/mo., in 1975 colones) | 1,036.0 | 1,166.0 | 1,240.0 | |
| Budget Deficit (-) or Surplus | (2,950.7) | | | |
| GDP Deflator (1980=100) | 327.3 | 362.5 | 438.0 | |

All figures in millions of Colones unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



126

## GUATEMALA

## I. INTRODUCTION: THE ECONOMIC CONTEXT

Despite the stimulus to industrial growth provided by the creation of the Central American Common Market (CACM), agriculture remains the mainstay of the Guatemalan economy, accounting for about one-quarter of GDP, two-thirds of export value, and 60 percent of employment. Commerce and manufacturing contribute, respectively, 25 percent and 16 percent of GDP. The importance of the mining sector has grown considerably since the discovery of petroleum. However, mining still accounts for less than 3 percent of GDP.

While the GDP shares of agriculture, manufacturing, and commerce have remained relatively stable, the diversification and deepening of each of these sectors has increased the range of products suitable for export. Until recently, the manufacturing sector in particular enjoyed significant export growth, largely within the framework of the CACM.

Following relatively stable economic growth on the order of 6-7 percent per year throughout the 1960s and 1970s, Guatemala's economy has been buffeted by a series of external shocks since 1979. After recording near-zero growth in 1980 and 1981, the economy was plunged into a recession during 1982-1983 as regional political instability, deteriorating terms of trade, and weakened international demand combined forces to reduce production and trade. The economy recovered moderately in 1984, but again recorded negative growth in 1985 and zero growth in 1986 due to declining consumption and investment in the face of rising inflation and growing unemployment.



127

Table 1

KEY OUTPUT AND PRICE INDICATORS: 1981-1986
(Percentage Change)

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| Real GDP | 0.6 | -3.5 | -2.0 | 0.6 | -1.1 | 0.0 |
| Consumer Prices | 11.4 | 5.0 | 6.4 | 3.6 | 18.7 | 23.0 |

SOURCE: IMF, Central Bank

A new government, headed by democratically-elected President Marco Vinicio Cerezo, which came into office in early 1986, has initiated an adjustment effort aimed at setting the economy on a path toward stabilization and recovery. The program is centered around exchange rate reform coupled with measures of fiscal and monetary restraint.

## II. TRADE AND PAYMENTS PROFILE

Guatemala's balance of payments structure is typical of that of many developing countries, with chronic trade and current account deficits financed by inflows of private and official capital. Guatemala has posted a surplus in its trade balance only once since 1970.

Five major commodities -- coffee, cotton, sugar, bananas, and cardamom -- account for nearly 60 percent of Guatemala's export receipts, with coffee alone accounting for about 30 percent. The United States buys about one-third of Guatemala's exports, followed by the rest of Central America with a share of about one-fourth. Central America's share of total exports has declined sharply in recent years, from about 35 percent in 1980 to just over 20 percent in 1985.

Industrial inputs and consumer goods are the largest category of imports, followed by capital equipment and construction materials. The United States has historically been the largest supplier of



128

imports to Guatemala, accounting for about one-third of 1985 imports. As is the case with exports, imports from the rest of Central America have declined steadily since 1981, currently accounting for about 8 percent of the total. Mexico's and Venezuela's shares of Guatemala's imports have risen in recent years, mainly due to an increase in oil imports under a special financing agreement.

Table 2

BALANCE OF PAYMENTS SUMMARY: 1981-1985
(Millions of U.S. Dollars)

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Current Account | | | | | |
| Exports (f.o.b.) | 1,291 | 1,170 | 1,092 | 1,132 | 1,112 |
| Imports (c.i.f.) | 1,674 | 1,388 | 1,135 | 1,279 | 1,175 |
| Trade Balance | -383 | -218 | -43 | -146 | -63 |
| Net Factor Payments | -85 | -115 | -138 | -210 | -221 |
| Services and Transfers (net) | -105 | -72 | -95 | -30 | 45 |
| | -573 | -705 | -277 | -386 | -239 |
| Capital Account* | | | | | |
| Public Sector (net) | 109 | 108 | 124 | 21 | 24 |
| Private Sector (net) | -9 | -219 | 23 | 48 | 108 |
| Financial Sector (net) | 124 | 200 | 161 | 130 | -1 |
| | 224 | 89 | 308 | 199 | 131 |
| Overall Balance | -349 | -316 | 31 | -187 | -108 |

*Includes net errors and omissions

SOURCE: IMF

While the size of Guatemala's trade deficit has narrowed in recent years, the improvement has stemmed primarily from austerity-induced import compression, as declining commodity prices have kept exports relatively flat. These improvements in the trade balance have been offset by declining private foreign investment and increased capital flight, both in response to political and economic uncertainties in the region.



129

Despite a rapid buildup in foreign debt since 1980, Guatemala's debt burden remains well below that of most of its regional neighbors. Guatemala's current total outstanding external public debt of approximately U.S. $1.8 billion (year-end 1986) represents about U.S. $225 per capita, as compared to a per capita debt figure of U.S. $1,400 for Costa Rica. The ratio of debt service to exports of goods and services, which averaged under 8 percent from 1980-1983, has risen to about 25 percent.

## III. EXPORT PERFORMANCE

As noted previously, Guatemala's export sector is dominated by coffee, cotton, sugar, bananas, and cardamom, with coffee far outpacing any of the others. Other exports denominated as "traditional" by the government are meat and petroleum.

Nontraditional exports include a wide range of agricultural and manufactured products, a large percentage of which are destined for the Central American Common Market. Chemical and processed food products account for about one-third of nontraditional exports to CACM buyers, while fresh and frozen fruits and vegetables along with light manufactures assembled under "807" and other drawback schemes represent the largest categories of nontraditional exports to buyers outside of the region.

Table 3

TRENDS IN EXPORT PERFORMANCE: 1980-1985
(Millions of U.S. Dollars)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| TOTAL EXPORTS | 1,499 | 1,291 | 1,170 | 1,092 | 1,132 | 1,112 |
| Traditional | 819 | 727 | 698 | 660 | 706 | 726 |
| Nontraditional | 680 | 564 | 472 | 432 | 426 | 386 |
| Agricultural Products | 101 | 86 | 86 | 67 | 76 | 76 |
| Industrial Products | 488 | 408 | 344 | 324 | 311 | 280 |
| Other | 91 | 70 | 42 | 41 | 39 | 30 |

SOURCE: Central Bank

Following strong growth during the late 1970s, the value of traditional exports has remained relatively stagnant over the past five years. The value of nontraditional exports has declined steadily, after peaking at U.S. $680 million in 1980. This decline stems in large part from a 50 percent drop in exports to other Central American countries. However, nontraditional exports to countries outside the CACM have also fallen, due in part to a loss in competitiveness arising from the overvaluation of the quetzal.

## A. Traditional Exports

**COFFEE.** Coffee is Guatemala's most important export crop, typically providing about one-third of export earnings. Coffee's percentage share of total exports jumped to 40 percent in 1985 as export value increased by 25 percent over the previous year to a record U.S. $452 million. This increase resulted largely from a major drawdown of stocks prompted by a change in exchange rate regulations allowing exporters to exchange at the parallel rate 100 percent of proceeds from coffee sales to nonquota markets. Based on preliminary data, 1986 appears to have been another record year for coffee exports, with value exceeding U.S. $600 million.

Table 4

TRENDS IN COFFEE EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| Volume (thousands of quintals[1]) | 2,731 | 3,325 | 2,584 | 2,842 | 4,041 | 4,075 |
| Value (millions of U.S. $) | 325.3 | 374.6 | 308.8 | 360.6 | 451.5 | 502.3 |
| Unit Value (U.S. $/quintal) | 119.1 | 112.7 | 119.5 | 126.9 | 111.7 | 110.8 |

[1] One quintal = 101.5 pounds.

SOURCE: Central Bank

**COTTON.** Cotton remains Guatemala's second largest export, but cotton's share of total exports has fallen from 13 percent (1981) to about 7 percent. This decline reflects lower production, due in large



131

part to security problems in cotton-growing areas, coupled with depressed international prices and the high dollar-cost of pesticides.

Table 5

TRENDS IN COTTON EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Volume (thousands of quintals) | 2,679 | 1,731 | 1,210 | 1,154 | 1,258 |
| Value (millions of U.S. $) | 173.4 | 95.1 | 67.4 | 72.3 | 73.8 |
| Unit Value (U.S. $/quintal) | 64.7 | 54.9 | 55.7 | 62.6 | 58.7 |

SOURCE: Central Bank

1985 cotton export value of U.S.$74 million was up slightly from 1984, reflecting an increase in area under cotton cultivation due, in part, to a change in foreign exchange surrender requirements. Nevertheless, total acreage under cotton cultivation has declined since 1980 from about 129,000 hectares to less than 40,000 hectares.

**BANANAS.** Banana exports recovered strongly in 1985 to U.S. $71 million following two years of depressed production resulting from hurricane damage. Exports also benefited from a strengthening of international prices. About 70 percent of banana exports are destined for the United States, where Guatemala faces growing competition from other regional producers.

Table 6

TRENDS IN BANANA EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Volume (thousands of quintals) | 7,798 | 8,022 | 5,429 | 5,790 | 7,063 |
| Value (millions of U.S. $) | 57.1 | 74.0 | 53.5 | 54.9 | 70.9 |
| Unit Value (U.S. $/quintal) | 7.3 | 9.2 | 9.9 | 9.5 | 10.0 |

SOURCE: Central Bank



P7

**SUGAR.** Like other producers in the region, Guatemala has been seriously affected by reductions in U.S. sugar import quotas. Once the country's third most important export, sugar has dropped to fifth place, accounting for only 4 percent of total export value. Despite a 42 percent increase in volume since 1981, export receipts have declined by 45 percent, from U.S.$85 million to U.S.$47 million, as larger shipments are sold in the free market at prices about one-third those commanded in the United States.

Table 7

TRENDS IN SUGAR EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Volume (thousands of quintals) | 4,338 | 4,218 | 8,541 | 6,091 | 6,158 |
| Value (millions of U.S. $) | 85.2 | 47.1 | 95.3 | 71.3 | 46.5 |
| Unit Value (U.S. $/quintal) | 19.6 | 11.2 | 11.2 | 11.7 | 7.6 |

SOURCE: Central Bank

Sugar receipts declined by 35 percent in 1985, despite an increase in export volume, as Guatemala's U.S. import quota was reduced by 30 percent while the free market price of sugar fell by nearly one-half.

**CARDAMOM.** Guatemala is the world's second largest exporter of cardamom, a food additive widely used in the Middle East and Scandinavia. Cardamom exports have experienced strong growth since 1980, and currently constitute Guatemala's fourth largest export. In 1984, Cardamom exports nearly doubled, to U.S.$100 million due to an 80 percent price increase resulting from a fall in production in India, the world's largest producer. Exports fell back in 1985 and 1986, as production recovered in India, but remained at a level nearly double that of 1981.

Table 8

TRENDS IN CARDAMOM EXPORTS: 1981-1985

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Volume (thousands of quintals) | 96 | 131 | 170 | 160 | 144 |
| Value (Millions of U.S. $) | 34.3 | 44.2 | 59.4 | 100.3 | 61.3 |
| Unit Value (U.S. $/quintal) | 358.2 | 337.5 | 348.6 | 625.8 | 424.8 |

SOURCE: Central Bank

**MEAT.** Meat exports have declined steadily since 1981, from U.S.$29 million to less than U.S.$10 million. The decline reflects both a deterioration in Guatemala's competitive position, due to the poor quality of meat, as well as a loss in potential export earnings because of unregistered shipments of live animals to neighboring countries where sales are more profitable. Already declining meat exports are likely to be reduced even further by a ban, imposed in April 1986, on exports of live animals. The largest impact will be on sales to Mexico, which buys over 65 percent of Guatemala's meat exports.

**PETROLEUM.** Oil was discovered in Guatemala in the mid-1970s, and exports were initiated in 1980. Proven reserves are estimated at 14 million barrels. Exports peaked at U.S.$60 million in 1983, as production reached a level of 6,984 barrels per day. However, production and exports declined sharply in 1984 and 1985, due in part to legal disputes between the government and the two major foreign oil companies. Production capacity was increased by over 1,000 barrels per day in late 1985, as the result of new drilling in the Peten Region. However, the outlook for future oil exports is clouded by the sharp drop in international petroleum prices since 1986.



134

## B. Nontraditional Exports

As noted previously, Guatemala's nontraditional exports have declined steadily since peaking at U.S.$680 million in 1980. This decline stems primarily from a 53 percent decrease in sales to CACM buyers. However, nontraditional exports to other buyers, principally the United States and Europe, have also declined.

Table 9 illustrates the distribution and destination of nontraditional exports since 1981. Over two-thirds of nontraditional exports continue to be destined for CACM buyers despite the sharp dropoff in overall sales within the region. CACM buyers are the main markets for industrial products and consumer durables, whereas the largest share of nontraditional agricultural exports are destined for buyers outside of CACM.

Table 9

DISTRIBUTION AND DESTINATION OF
NONTRADITIONAL EXPORTS: 1981-1985
(Millions of U.S. Dollars)

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Total | 564.6 | 472.5 | 431.7 | 426.1 | 386.8 |
| CACM | 378.9 | 337.3 | 322.7 | 291.5 | 256.9 |
| Rest of World | 185.7 | 135.2 | 109.0 | 134.6 | 129.9 |
| Agricultural Products | 86.2 | 86.4 | 67.5 | 76.1 | 76.9 |
| CACM | 26.8 | 35.0 | 19.8 | 14.6 | 22.8 |
| Rest of World | 59.4 | 51.4 | 47.7 | 61.5 | 54.1 |
| Industrial Products | 408.2 | 344.3 | 323.6 | 310.9 | 280.2 |
| CACM | 325.8 | 285.3 | 272.4 | 246.9 | 216.7 |
| Rest of World | 82.4 | 59.0 | 51.2 | 64.0 | 63.5 |
| Other Products | 70.2 | 41.8 | 40.6 | 39.1 | 29.7 |
| CACM | 26.3 | 17.0 | 30.5 | 30.0 | 17.4 |
| Rest of World | 43.9 | 24.8 | 10.1 | 9.1 | 12.3 |

SOURCE: Central Bank, IMF

Guatemala exports several hundred products which fall into the "nontraditional" category. The largest group in terms of export value is chemical products. This category has experienced one of the largest declines in recent years, from total sales of 114 million quetzals in 1980 to 1985 sales of 76 million quetzals, primarily due to a 45 percent drop in sales within the region. As is the case with a number of other industrial products, most of the exporters of chemical products drew their initial success during the 1970s from their protected access to a relatively large regional market. And like most import substitution industries, they have found it difficult if not impossible to break out of this protected market and compete with other international producers.

There have, however, been some exceptions. A Guatemalan agrochemical company, originally established by a foreign investor to produce for the CACM market, but now Guatemalan-owned, has enjoyed some success over the past two and a half years in exporting to the United States. By exploiting an opportunity created by unusual supply conditions in the United States, the company has been able to export U.S.$2 million/year of a particular herbicide used in cotton production.

In general, however, industrial producers are likely to face declining exports, both inside and outside the region. This will result both from continued weak demand and an increase in the local currency cost of imported inputs due to the devaluation of the quetzal.

While exports of fresh and frozen fruits and vegetables still represent a relatively small share of nontraditional exports, this has been one of the more dynamic sectors in terms of extra-regional exports. Fresh and frozen produce exports, destined primarily for the United States, totalled in excess of 10 million quetzals in 1985, nearly double the level of 1980. Guatemala has been among the most successful countries in the CBI region in taking advantage of opportunities for export of winter vegetables to the United States. It has also become a major supplier of frozen vegetables.

Another relatively successful nontraditional export sector is fisheries, where exports - primarily shrimp -- have recovered from a major fall-off in 1980 and averaged in excess of 10 million quetzals over the past five years.

Other products that have performed relatively well in the face of overall decline within the nontraditional export category are flowers and ornamental plants, sesame seeds, and furniture. It is difficult to track the export performance of labor intensive assembly operations, since most of these goods are produced and exported under "drawback" schemes, and hence are classified as reexports under Guatemalan customs statistics. However, judging from import data collected by the U.S. Department of Commerce, exports of garments and other "807" products have grown rapidly, exceeding U.S. $10 million in 1985.

## III. DETERMINANTS OF EXPORT PERFORMANCE

The export performance of any country is the result of a range of macroeconomic, microeconomic, and policy-related variable. The relative importance of particular determinants varies from country to country, and over time within a particular country. The following discussion reviews those factors which are considered to exert the strongest impact on Guatemala's nontraditional export performance.

### A. Macroeconomic Determinants

**INTERNATIONAL DEMAND.** Probably the single most important element determining the export performance of any country is the level of effective demand for its products. Clearly the primary reason for the recent decline in Guatemala's nontraditional exports has been the sharp fall off in demand within the CACM market due to deteriorating economic and political conditions.

A related factor of considerable importance is access to international markets. U.S. sugar import quota cuts have cost

Guatemala nearly U.S. $40 million over the past three years. On the other hand, expanded duty-free access to the U.S. market under the CBI program has created opportunities for a number of nontraditional exports.

**EXCHANGE RATE DEVELOPMENTS.** Overvaluation of the quetzal almost certainly contributed significantly to Guatemala's declining export performance during the early 1980s. With the value of the quetzal fixed at parity with the U.S. dollar, Guatemala's competitiveness was eroded by the sharp appreciation of the dollar during 1983 and 1984.

The magnitude of the local currency's overvaluation was confirmed by the 62 percent nominal and 35 percent real depreciation of the quetzal during the 12 months following abandonment of dollar parity in November 1984. Unfortunately, the potential benefits of this action -- in terms of improved competitiveness -- were mitigated by the complexity and disorderly operation of the three-tier exchange market that was introduced in place of fixed dollar parity.

The system has since been simplified, with export transactions now handled through either the banking market or the regulated market. Rates in the former float within a range of 2.70 - 3.00 quetzals to the U.S. dollar while rates in the latter market are currently fixed at 2.50 quetzals to the U.S. dollar.

**CREDIT AND CAPITAL FORMATION.** Working capital and long-term financing are essential elements of successful export growth as are investments in increased production capacity. While credit availability was not identified as a major constraint by any of the Guatemalan exporters interviewed by SRI, Central Bank statistics show that the rate of credit expansion to the private sector has decelerated sharply by over the 10 percent per year from 1980 to 1984. In some sectors, most notably agriculture, the volume of credit outstanding has actually decreased in recent years. These figures confirm statements made by a number of exporters that there is little new investment being undertaken by Guatemalan businessmen.



138

**LABOR RESOURCES.** With a work force of about 2.2 million, about 40 percent of whom are unemployed, Guatemala has no shortage of labor. Furthermore, labor is of relatively low cost, with minimum wages averaging about 160 quetzals per month. Minimum wages have not been adjusted since 1980, and while no comprehensive data are available on wage trends, available information suggests that real wages have been declining in recent years.

On the other hand, many of the exporters interviewed indicated that labor shortages exist in many skill categories. Others complained of low productivity and even sabotage. One foreign garment manufacturer with broad regional experience reported that despite relatively low wage rates, the labor-related cost of production in Guatemala in much higher than in neighboring countries. His explanation for this apparent discrepancy is low productivity and frequent labor difficulties.

## B. Microeconomic Determinants

**TRANSPORTATION INFRASTRUCTURE AND COSTS.** Guatemala has an extensive road transport network, centered around the Inter-American highway. However, much of the road network, particularly the 300 Km road from the capital to the Atlantic, has fallen into disrepair in recent years. There are four major ports -- Puerto Barrios and Santo Tomas de Castilla on the Gulf of Mexico and Puerto Queztal and Champerico on the Pacific. The ports are connected with Guatemala city by rail. Aerolineas de Guatemala has a monopoly on scheduled domestic air transport, while the country is served by half a dozen international passenger carriers.

While transport costs are high, they are not out of line with those in other parts of the region. A more serious problem is capacity, particularly in the case of air freight. Several exporters interviewed by SRI reported that they are reluctant to export highly perishable products due to the unreliability of air freight capacity. This problem is exacerbated by a shortage of cold storage facilities.

**MANUFACTURING INFRASTRUCTURE.** An essential requirement for successful export-oriented manufacturing is ready access to suitable factory and storage space as well as utilities. The Guatemalan government has established a free zone at Santo Tomas de Castilla which is intended to provide facilities for labor-intensive assembly operations. However, all of the exporters interviewed by SRI reported that the physical infrastructure is inadequate, as is the local labor supply. Several also complained of the remote location and poor management of the zone. As of November 1986, only three export-oriented manufacturing companies had established operations within the zone.

**MARKET INFORMATION.** Success or lack of success in exporting nontraditional products is highly dependent on up-to-date knowledge and understanding of conditions and requirements in key export markets. Many of the exporters interviewed indicated that they rely on foreign agents or distributors to keep them abreast of international market conditions.

Exporters selling fruits and vegetables to the U.S. market stressed the importance of understanding U.S.D.A. inspection and labeling requirements. The agrochemical exporter discussed earlier indicated that his company's key hurdle was getting EPA approval for shipments of pesticides and herbicides to the United States.

**MANAGEMENT AND ENTREPRENEURSHIP.** Perhaps more than most other businesses, the production and sales functions of nontraditional export requires strong business management skills. For managers and entrepreneurs accustomed to producing for a protected local or regional market, exposure to international competition can be extremely sobering, given the real risks involved.

SRI found that in Guatemala, as in other countries in the region, nontraditional exporters tend to be young, well educated, and willing to invest their own capital. On the other hand, many have little if any previous management experience.

## C. Policy/Promotional Determinants

**EXCHANGE CONTROLS.** Government policies regarding access to and disposition of foreign exchange have been the single most important policy-related variable affecting export performance. In 1984, when the government temporarily allowed coffee exporters to exchange 50 percent of the proceeds of sales to nonquota markets at the banking rate rather than at the official rate, exports to nonquota markets jumped fivefold, despite a 5 percent decrease in coffee production that year.

The government gradually has been increasing the share of export receipts that can be exchanged at market rates. Since the middle of 1986, exporters of nontraditional products can exchange 100 percent of foreign exchange proceeds in the regulated market at Q2.50 per U.S. dollar. Previously, 50 percent of export proceeds had to be exchanged at the official rate of Q1.00 per U.S. dollar. Exporters view this new measure as a major incentive for nontraditional exports.

**REGULATORY ENVIRONMENT.** The regulatory environment faced by Guatemalan exporters is one which is still geared toward an import-substitution economy. There are a host of price controls, tariff barriers and licensing requirements that make exporting difficult and reduce the competitiveness of local producers. A flowchart prepared by the Guatemalan Nontraditional Exporters Guild lists over 25 steps and approvals that may be required to consummate an export transaction.

Exporters are presently up in arms over the government's decision to contract with the Swiss firm, Societe General de Surveillance (SGS) to manage import/export inspection. The justification for retention of SGS is the need to bring the widespread practice of under/over-invoicing under control. Under/over-invoicing is clearly a problem in Guatemala. A comparison of Guatemalan export statistics based on customs declarations with those based on foreign exchange receipts processed by the Central Bank shows major discrepancies. The



141

Central Bank estimates that since 1980, over U.S.$2 billion has been taken out of the country through faulty invoicing. Clearly, it is in the government's interest to control this practice.

On the other hand, overzealous inspection by SGS serves to discourage exports, and the country could suffer a net loss. A number of exporters of perishable goods have already suffered losses due to SGS- imposed delays. In other instances, SGS has refused to accept the validity of exporters' long-term f.o.b. contracts.

**INCENTIVES.** The only real incentive currently available to nontraditional exporters is eligibility for "drawback" of import duties on inputs used for production of export goods. A tax credit (CAT) scheme which was to be made available to nontraditional exporters in 1984 was never implemented. Some exporters view their eligibility to exchange 100 of foreign exchange proceeds at Q2.50/$ as an incentive.

**POLITICAL STABILITY.** Political stability is an important determinant of export performance. Overseas buyers are reluctant to enter into long-term purchase contracts in an environment where changing political conditions might interrupt supply. Similarly, both local and foreign investors are generally unwilling to invest in new ventures in a politically unstable environment.

Regional political instability has had a strong negative impact on Guatemala's nontraditional export performance. Much of the falloff in exports to Honduras, El Salvador, and Nicaragua stems from deteriorating political conditions in those countries. Political instability has also been a key factor behind declining private investment.

Aside from regional instability, investors are taking a "wait and see" attitude regarding the new administration in Guatemala. Exporters complain of mixed signals from the government; they are encouraged by exchange rate liberalization, but are angered by what



142

they see as increased government intervention in day-to-day business affairs.

**PROMOTIONAL STRUCTURE.** One of the brighter aspects of Guatemala's nontraditional export sector is the promotional efforts of the Nontraditional Exporters Guild. The Guild is one of the most effective private-sector promotion agencies encountered by SRI in work on investment promotion in over two dozen countries worldwide. A trade committee legally assigned to the Chamber of Industry of Guatemala, the Guild was founded in 1982 by Guatemalan businessmen for the purpose of representing the interests of exporters of nontraditional products to the government and overseas buyers. The Guild currently has over 150 members, exporting a wide variety of products. It acts both as an interest/lobbying group before the government and as a technical and marketing support service for its members. The Guild is currently receiving financial and technical support from USAID/Guatemala, and will receive additional assistance under a ROCAP agribusiness promotion project.

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

The greatest short-term opportunities for expansion of Guatemala's nontraditional exports lie in the agribusiness sector. The volume of exports of winter vegetables to the United States is likely to continue to expand, although profit margins may be reduced as producers face growing regional competition. Furthermore, many exporters have found that the notion of a "winter" vegetable market is something of a misnomer. Two vegetable exporters interviewed by SRI indicated that in order to be successful, it is necessary to export year-round, even if prices are favorable only during a few months of the year. They indicated that if they were to stop supplying during part of the year, their U.S. buyers would turn to other producers.

The recent depreciation of the quetzal should make it easier for Guatemalan exporters to be competitive in exporting processed agricultural products, which generally involve higher value-added than perishable foodstuffs.



143

A number of policy and infrastructural improvements will be required before Guatemala will be competitive in the area of labor-intensive manufacturing. However, over the medium to long-term, this sector clearly is one where Guatemala should enjoy a strong comparative advantage, given the size and low cost of the labor force. There may also be some potential for restructuring some regionally-oriented industrial activities toward extra-regional markets, although this will require considerable improvements in quality and efficiency.

## V. ACTION RECOMMENDATIONS

Guatemala lags behind many of its regional neighbors in gaining market shares in the United States and other industrialized countries for nontraditional exports. The proposed recommendations are oriented toward improving Guatemala's performance in this area.

### A. Streamline Government Regulations

The government's approach of "micro-managing" business activities may have been necessary and even appropriate during the era of import substitution, but it severely constrains the growth of nontraditional exports. A basic overhaul of government regulations should be a long-term objective. In the near-term, however, a program for exemptions or exoneration from specific regulations, provided exclusively for exporters, should be considered as an initial step. This strategy of creating "exceptions to the rules" has been successfully adopted in many East Asian countries as well as in nations in the region.

### B. Accelerate Customs Clearance

The need to enforce tariff policies more effectively is present throughout the region, due to the governments' requirements to raise government revenues and manage scarce foreign exchange. Once again, however, the ultimate solution lies in expanding export revenues,



144

which in Guatemala are hindered by delays in clearing needed inputs through customs. The adoption of some form of "fast track" clearance service for nontraditional exporters would greatly reduce the impact of this constraint.

### C. Establish Management Training Programs

As elsewhere in the region, middle-level managers are a scarce commodity in Guatemala. The country's long-term export potential would be enhanced significantly if programs were developed to provide management training and skills upgrading to young Guatemalan entrepreneurs.

### D. Provide Marketing Information

Given the country's historical orientation toward exporting to the CACM region, nontraditional exporters lack information and practical experience on ways to penetrate the U.S. market. This in turn has led to examples of unequal marketing arrangements with U.S. "partners," unaccepted shipments, and other distribution "horror stories." While much of this knowledge must come from experience, programs to provide information on U.S. market preferences, possible joint venture partners, and U.S. government rules and regulations would well serve the nontraditional exporters of Guatemala, particularly those in the agricultural sector.

## LIST OF INTERVIEWS

Mr. Sung Yul An, President
PINDU Garment Factory

Mr. Juan Carlos Bregni, General Manager
CamSa

Ms. Jandira Elias, Assistant Manager
Nontraditional Product Exporters Guild

Mr. Edwin Perez, Director
Statistical Section
Central Bank of Guatemala

Mr. Rodolfo Gordillo, President
Industrias de Transformacion y Exportacion

Dr. Thomas Ivers, Rural Development Office
USAID/Guatemala

Mr. Willi Kaltschmitt, Director
Agro-Quimicas de Guatemala

Mr. Julio Matteas, General Manager
CONISA

Mr. Ramon Martinez, President
Productos Hispanicos

Ms. Elaine Murphy, Project Economist
USAID/Guatemala

Dr. Mary Ott, Program Economist
USAID/Guatemala

Mr. Emilio Santano, General Manager
Industria Exportadora de Alimentos

Mr. Ricardo Santa Cruz, Director
Agroindustrial Development
Nontraditional Product Exporters Guild

Mr. Guillermo Springmuhl, President
Tesoro Trading

GUATEMALA
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1981

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|
| | Total exports | 1,111,602 | 1,195,174 | 1,486,136 | 1,114,842 |
| 0 | Food and live animals | 653,256 | 576,959 | 764,921 | 569,525 |
| 01 | Meat and preparations | 37,636 | 12,661 | 46,842 | 51,041 |
| 03 | Fish and preparations | 8,074 | 6,175 | 8,854 | 7,294 |
| 04 | Cereals and preparations | 7,080 | 7,961 | 11,752 | 7,386 |
| 05 | Fruit and vegetables | 42,245 | 26,602 | 100,851 | 93,955 |
| 06 | Sugar, honey and preps. | 56,100 | 66,051 | 95,199 | 107,029 |
| 07 | Coffee, tea, cocoa, spices | 487,151 | 442,671 | 483,471 | 274,491 |
| 08 | Animal feeding stuff | 5,461 | 4,199 | 4,762 | 3,257 |
| 09 | Misc. food preparations | 7,641 | 7,885 | 9,186 | 8,210 |
| 1 | Beverages and tobacco | 13,959 | 14,985 | 17,911 | 17,256 |
| 12 | Tobacco and mfrs. | 13,356 | 14,474 | 17,407 | 16,870 |
| 2 | Crude matls. excl. fuels | 205,493 | 280,920 | 259,803 | 179,935 |
| 22 | Oil seeds, nuts, kernels | 10,046 | 12,984 | 11,134 | 15,431 |
| 23 | Rubber, crude, syn., natl. | 5,584 | 6,921 | 9,000 | 10,600 |
| 24 | Wood, lumber and cork | 4,025 | 9,229 | 291 | 2,887 |
| 26 | Textile fibres | 141,743 | 187,624 | 172,544 | 111,472 |
| 29 | Crude animal veg. mat. nes. | 40,803 | 67,482 | 61,291 | 36,593 |
| 3 | Mineral fuels etc. | 322 | 371 | 15,628 | 21,822 |
| 33 | Petroleum and products | 320 | 370 | 15,594 | 21,817 |
| 5 | Chemicals | 79,134 | 89,607 | 128,961 | 124,151 |
| 54 | Medicinal, etc. products | 32,914 | 37,805 | 51,516 | 45,895 |
| 55 | Perfume, cleaning, etc. prd | 19,259 | 23,658 | 32,764 | 28,757 |
| 56 | Fertilizers manufacture | 72 | 153 | 4,873 | 5,174 |
| 59 | Chemicals nes. | 21,190 | 19,399 | 30,147 | 34,488 |

GUATEMALA, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1981

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|
| 6 | Basic manufactures | 104,413 | 136,471 | 216,894 | 138,433 |
| 62 | Rubber manufactures nes | 10,168 | 11,275 | 18,610 | 18,949 |
| 64 | Paper, paperboard and mfr. | 11,128 | 13,971 | 90,957 | 19,192 |
| 65 | Textile yarn, fabric, etc. | 35,467 | 49,543 | 63,780 | 49,807 |
| 66 | Nonmetal mineral mfs. nes | 24,145 | 20,471 | 22,243 | 21,869 |
| 67 | Iron and steel | 5,148 | 8,540 | 10,835 | 13,825 |
| 68 | Non-ferrous metals | 7,105 | 19,584 | 68,487 | 1,465 |
| 69 | Metal manufactures nes | 7,631 | 7,899 | 9,980 | 9,749 |
| 7 | Machines, transport equip. | 15,629 | 18,079 | 22,177 | 20,059 |
| 72 | Electrical machinery | 12,703 | 15,194 | 17,917 | 15,399 |
| 73 | Transport equipment | 2,296 | 2,037 | 2,202 | 3,825 |
| 8 | Misc. manufactured goods | 37,404 | 43,318 | 59,525 | 43,377 |
| 84 | Clothing | 15,713 | 16,971 | 21,903 | 11,494 |
| 85 | Footwear | 6,213 | 6,606 | 10,125 | 9,379 |
| 89 | Misc. manuf. goods nes | 13,363 | 16,444 | 23,005 | 19,309 |

Quantifiable Determinants of Nontraditional Exports
GUATEMALA
1963 - 1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 153.4 | 174.3 | 192.1 | 231.9 | 203.9 |
| Traditional Exports | 124.8 | 126.0 | 138.4 | 163.2 | 122.5 |
| Nontraditional Exports | 28.6 | 48.3 | 53.7 | 68.7 | 81.4 |
| Merchandise Imports (FOB) | 150.4 | 180.5 | 206.1 | 201.8 | 226.5 |
| Trade Balance | 3.0 | (6.2) | (14.0) | 30.1 | (22.6) |
| Current Account Balance | (17.3) | (37.9) | (34.6) | (12.2) | (62.0) |
| CACM Exports | | | | | 57.9 |
| CACM Exports as % of Exports | | | | | 28.4 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,263.0 | 1,294.0 | 1,331.0 | 1,391.0 | 1,454.0 |
| GDP Growth (Nominal) | | 2.5 | 2.9 | 4.5 | 4.5 |
| GDP (1960 prices) | 3,148.0 | 3,293.0 | 3,437.0 | 3,626.0 | 3,775.0 |
| GDP Growth (Real) | | 4.6 | 4.4 | 5.5 | 4.1 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Discount Rate | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Fixed Capital Formation | 125.0 | 159.0 | 175.0 | 167.0 | 192.0 |
| Bank Credit by Sector | 94.9 | 104.8 | 103.8 | 104.6 | 118.0 |
| Agriculture | 39.4 | 41.5 | 39.8 | 36.6 | 38.4 |
| Fishing | 1.6 | 1.0 | 1.3 | 0.9 | 2.2 |
| Industry | 16.4 | 17.7 | 17.9 | 19.4 | 28.2 |
| Textiles | 2.1 | 2.2 | 3.0 | 2.6 | 3.5 |
| Garments | 0.7 | 0.7 | 0.7 | 0.8 | 1.5 |
| Commerce | | 3.2 | 2.4 | 4.4 | 4.7 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 149.0 | 170.6 | 187.3 | 220.1 | 241.4 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| REER ** | | | 1.161 | 1.151 | 1.096 |
| FOREIGN DEBT (US$ mm) | | | | | |
| External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| Budget Deficit | (11.7) | (9.8) | (5.9) | (16.3) | (23.4) |
| GDP Deflator (1980=100) | 40.1 | 39.3 | 38.7 | 38.3 | 38.5 |
| Wholesale Price Index | 33.9 | 35.0 | 34.3 | 34.2 | 34.3 |

All figures in millions of Quetzales unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 233.5 | 262.5 | 297.1 | 286.9 | 335.9 |
| Traditional Exports | 143.5 | 156.8 | 172.8 | 172.6 | 209.9 |
| Nontraditional Exports | 90.0 | 105.7 | 124.3 | 114.3 | 126.0 |
| Merchandise Imports (FOB) | 237.6 | 240.9 | 266.6 | 290.0 | 294.8 |
| Trade Balance | (4.1) | 21.6 | 30.5 | (3.1) | 41.1 |
| Current Account Balance | (50.7) | (19.0) | (7.9) | (49.2) | (11.5) |
| CACM Exports | 70.8 | 83.7 | 102.3 | 92.1 | 98.7 |
| CACM Exports as % of Exports | 30.3 | 31.9 | 34.4 | 32.1 | 29.4 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,611.0 | 1,715.0 | 1,904.0 | 1,985.0 | 2,102.0 |
| GDP Growth (Nominal) | 10.8 | 6.5 | 11.0 | 4.3 | 5.9 |
| GDP (1980 prices) | 4,106.0 | 4,301.0 | 4,546.0 | 4,800.0 | 5,152.0 |
| GDP Growth (Real) | 8.8 | 4.7 | 5.7 | 5.6 | 7.3 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Discount Rate | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Fixed Capital Formation | 221.0 | 231.0 | 239.0 | 264.0 | 273.0 |
| Bank Credit by Sector | 138.1 | 164.8 | 168.4 | 193.1 | 192.1 |
| Agriculture | 40.6 | 44.5 | 44.5 | 36.4 | 42.1 |
| Fishing | 1.6 | 0.7 | 0.6 | 0.5 | 0.2 |
| Industry | 40.0 | 44.6 | 44.6 | 52.3 | 52.0 |
| Textiles | 5.0 | 4.3 | 7.3 | 7.6 | 8.7 |
| Garments | 1.6 | 2.8 | 3.0 | 3.9 | 3.4 |
| Commerce | 8.6 | 11.4 | 14.5 | 18.6 | 15.2 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 251.4 | 271.3 | 275.9 | 316.6 | 371.7 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| REER ** | 1.125 | 1.133 | 1.151 | 1.170 | 1.160 |
| FOREIGN DEBT (US$ mm) | | | | | |
| External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| Budget Deficit | (8.0) | 15.3 | (13.1) | (30.1) | (45.2) |
| GDP Deflator (1980=100) | 39.2 | 39.9 | 41.9 | 41.3 | 40.8 |
| Wholesale Price Index | 35.7 | 36.9 | 37.8 | 38.6 | 38.3 |

All figures in millions of Quetzales unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



150

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 442.0 | 582.3 | 640.9 | 760.4 | 1,160.2 |
| Traditional Exports | 268.7 | 348.8 | 408.8 | 496.6 | 837.1 |
| Nontraditional Exports | 173.3 | 233.5 | 232.1 | 263.8 | 323.1 |
| Merchandise Imports (FOB) | 391.4 | 631.5 | 672.4 | 950.7 | 1,087.0 |
| Trade Balance | 50.6 | (49.2) | (31.5) | (190.3) | 73.2 |
| Current Account Balance | 7.7 | (103.1) | (65.7) | (77.5) | (35.3) |
| CACM Exports | 130.0 | 163.2 | 169.0 | 189.0 | 222.5 |
| CACM Exports as % of Exports | 29.4 | 28.0 | 26.4 | 24.9 | 19.2 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 2,569.0 | 3,162.0 | 3,646.0 | 4,365.0 | 5,481.0 |
| GDP Growth (Nominal) | 22.2 | 23.1 | 15.3 | 19.7 | 25.6 |
| GDP (1980 prices) | 5,502.0 | 5,853.0 | 5,967.0 | 6,407.0 | 6,908.0 |
| GDP Growth (Real) | 6.8 | 6.4 | 1.9 | 7.4 | 7.8 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 8.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Discount Rate | 4.0 | 5.0 | 5.0 | 5.0 | 7.0 |
| Fixed Capital Formation | 357.0 | 468.0 | 571.0 | 900.0 | 1,039.0 |
| Bank Credit by Sector | 218.9 | 349.9 | 380.4 | 434.4 | 507.0 |
| Agriculture | 51.2 | 92.4 | 90.5 | 85.5 | 84.6 |
| Fishing | 0.2 | 0.5 | 0.4 | 0.8 | 0.4 |
| Industry | 64.1 | 122.6 | 122.9 | 129.3 | 145.0 |
| Textiles | 9.3 | 19.5 | 19.8 | 24.1 | 29.9 |
| Garments | 4.5 | 5.3 | 5.3 | 5.9 | 8.0 |
| Commerce | 15.0 | 17.8 | 9.0 | 10.1 | 12.1 |
| Foreign Direct Investment * | | | | | 83.4 |
| Domestic Credit | 408.1 | 526.7 | 597.1 | 668.8 | 755.7 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| REER ** | 1.142 | 1.138 | 1.089 | 1.003 | 0.972 |
| FOREIGN DEBT (US$ mm) | | | | | |
| External Debt | 206.2 | | 267.7 | | 635.2 |
| Debt Service | 19.8 | | 14.1 | | 17.1 |
| Debt Service Ratio (% of Exports) | 4.5 | | 2.2 | | 1.5 |
| OTHER | | | | | |
| Budget Deficit | (38.0) | (45.6) | (30.6) | (111.2) | (51.2) |
| GDP Deflator (1980=100) | 46.7 | 54.0 | 61.1 | 68.1 | 79.3 |
| Wholesale Price Index | 43.8 | 53.8 | 60.4 | 66.8 | 75.5 |

All figures in millions of Quetzales unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index



151

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 1,092.4 | 1,221.4 | 1,519.8 | 1,291.3 | 1,170.4 |
| Traditional Exports | 740.6 | 768.3 | 812.1 | 620.3 | 575.7 |
| Nontraditional Exports | 351.8 | 453.1 | 707.7 | 671.0 | 594.7 |
| Merchandise Imports (FOB) | 1,283.8 | 1,401.7 | 1,472.6 | 1,540.0 | 1,284.3 |
| Trade Balance | (191.4) | (180.3) | 47.2 | (248.7) | (113.9) |
| Current Account Balance | (270.5) | (205.6) | (163.3) | (572.7) | (399.1) |
| CACM Exports | 255.0 | 311.0 | 404.6 | 356.8 | |
| CACM Exports as % of Exports | 23.3 | 25.5 | 26.6 | 27.6 | |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 6,071.0 | 6,903.0 | 7,879.0 | 8,608.0 | 8,728.0 |
| GDP Growth (Nominal) | 10.8 | 13.7 | 14.1 | 9.3 | 1.4 |
| GDP (1958 prices) | 7,253.0 | 7,595.0 | 7,879.0 | 7,932.0 | 7,652.0 |
| GDP Growth (Real) | 5.0 | 4.7 | 3.7 | 0.7 | (3.5) |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 11.0 | 11.0 | 11.0 | 15.0 | 12.0 |
| Discount Rate | 5.0 | 9.0 | 8.0 | 12.0 | 9.0 |
| Fixed Capital Formation | 1,218.0 | 1,286.0 | 1,295.0 | 1,443.0 | 1,314.0 |
| Bank Credit by Sector | 579.5 | 663.5 | 777.2 | 810.7 | 828.7 |
| Agriculture | 92.6 | 88.4 | 150.5 | 161.5 | 153.4 |
| Fishing | 2.7 | 1.7 | 2.4 | 2.5 | 4.1 |
| Industry | 149.5 | 195.0 | 247.8 | 242.2 | 251.9 |
| Textiles | 16.8 | 22.0 | 23.1 | 30.0 | 24.0 |
| Garments | 7.7 | 8.1 | 8.0 | 7.1 | 7.6 |
| Commerce | 20.7 | 26.2 | 24.9 | 225.0 | 33.0 |
| Foreign Direct Investment * | 101.8 | 90.6 | 85.1 | 108.2 | 69.1 |
| Domestic Credit | 919.5 | 1,130.4 | 1,608.8 | 2,259.8 | 2,636.2 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| REER ** | 0.997 | 1.058 | 1.133 | 1.045 | 0.956 |
| FOREIGN DEBT (US$ mm) | | | | | |
| External Debt | 744.6 | 820.4 | 1,050.4 | 1,383.6 | 1,510.4 |
| Debt Service | 26.1 | 37.3 | 44.8 | 60.3 | 87.9 |
| Debt Service Ratio (% of Exports) | 2.4 | 3.1 | 2.9 | 4.7 | 7.5 |
| OTHER | | | | | |
| Budget Deficit | (71.2) | (149.1) | (307.3) | (535.4) | (416.9) |
| GDP Deflator (1980=100) | 83.7 | 90.9 | 100.0 | 108.5 | 114.1 |
| Wholesale Price Index | 78.2 | 86.2 | 100.0 | 111.7 | 105.3 |

All figures in millions of Quetzales unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | |
| Merchandise Exports (FOB) | 1,091.7 | 1,132.2 | 1,059.7 | |
| Traditional Exports | 600.0 | 580.8 | | |
| Nontraditional Exports | 491.7 | 551.4 | | |
| Merchandise Imports (FOB) | 1,056.0 | 1,182.2 | 1,076.7 | |
| Trade Balance | 35.7 | (50.0) | (17.0) | |
| Current Account Balance | (223.9) | (377.4) | (246.3) | |
| CACM Exports | | | | |
| CACM Exports as % of Exports | | | | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 9,035.0 | 9,397.0 | | |
| GDP Growth (Nominal) | 3.5 | | | |
| GDP (1980 prices) | 7,446.0 | | | |
| GDP Growth (Real) | (2.7) | | | |
| CAPITAL FORMATION | | | | |
| Nominal Lending Rate | 12.0 | 12.0 | 14.0 | 14.0 |
| Discount Rate | 9.0 | 9.0 | 9.0 | |
| Fixed Capital Formation | 954.0 | 920.0 | | |
| Bank Credit by Sector | 977.4 | 1,197.7 | | |
| Agriculture | 179.6 | 187.6 | | |
| Fishing | 2.9 | 5.9 | | |
| Industry | 276.4 | 342.7 | | |
| Textiles | 31.3 | 31.2 | | |
| Garments | 9.0 | 12.7 | | |
| Commerce | 46.8 | 68.0 | | |
| Foreign Direct Investment * | 42.0 | 37.1 | 60.3 | |
| Domestic Credit | 3,010.3 | 3,519.5 | 3,829.3 | |
| EXCHANGE RATE | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | |
| REER ** | 0.957 | 1.036 | | |
| FOREIGN DEBT (US$ mm) | | | | |
| External Debt | | | | |
| Debt Service | | | | |
| Debt Service Ratio (% of Exports) | | | | |
| OTHER | | | | |
| Budget Deficit | (318.0) | | | |
| GDP Deflator (1980=100) | 121.3 | | | |
| Wholesale Price Index | 106.2 | 112.2 | 138.3 | |

All figures in millions of Quetzales unless otherwise specified.
* Million SDRs
** Real Effective Exchange Rate Index

## HONDURAS

## I. INTRODUCTION: THE ECONOMIC CONTEXT

The Honduran economy is driven by agriculture. The agricultural sector generated 31.4 percent of gross domestic product (GDP) in 1985, while manufacturing generated 14.1 percent; commerce, 12.4 percent; and services, 10.7 percent. An estimated 51.0 percent of the Honduran labor force of 1.1 million people is employed in agriculture, forestry, hunting, and fishing.

Honduran real GDP rose by 2.9 percent per year from 1984 to 1986, indicating recovery from the 1981-1983 recession, during which GDP fell by 2.2 percent. The recent real GDP increases have kept pace with the 2.9 percent annual population growth, resulting in a GDP per capita of $832 per year that has remained fairly steady over the past 3 years.

In contrast to the high inflation experienced by many Caribbean and Latin American nations, Honduran inflation has remained below 5 percent for the past several years; it was estimated at 4.5 percent in 1984, 3.6 percent in 1985, and 4.4 percent in 1986.

The Honduran lempira is slightly overvalued but stable. Officially worth $0.50, the lempira was being traded on the illegal but tolerated parallel market for approximately $0.43 in December 1986. Although the Agency for International Development Mission (USAID) to Honduras has conditioned Economic Support Fund (ESF) availability on devaluation, to date its efforts have not resulted in a broad movement of the official exchange rate.

Soon after his inauguration in early 1986, Honduran President Jose Azcona outlined an economic program to stimulate Honduran economic growth and development by setting and meeting fiscal and monetary targets and by implementing several structural reforms, including:

1. Promoting the private sector by encouraging investment with tax loss carry forward provisions and other incentives, and reducing bureaucratic obstacles;

2. Increasing exports by providing incentives, such as export processing zones;

3. Rationalizing public sector operations, by improving tax administration to increase revenues without raising tax rates and by privatizing certain companies to reduce the budget deficit without cutting out essential services; and

4. Restoring internal and external confidence in the Honduran economy by refinancing the external debt, and establishing a career judicial system to reduce the probability of arbitrary, unfair decisions on business disputes and other matters.

It remains to be seen whether Azcona can successfully implement his policies and maintain them long enough to convince the local and world business community that Honduras is a profitable place to do business. A 1981 World Bank study of the Colombian textile industry indicates that entrepreneurs do not react immediately to policy initiatives, but rather wait two to three years to assess the longevity of the policy reform. Usually only after this lag, once they are convinced that the changes are lasting, will entrepreneurs make investments.

## II. TRADE AND PAYMENTS PROFILE

In 1985, Honduras experienced the largest trade deficit in its history, $365 million. The vast majority, 76.0 percent, of Honduran imports in 1985 were capital goods and raw materials; only 24.0 percent of imports was consumer goods. Two commodities -- bananas and coffee -- comprised 58.8 percent of Honduran exports.



155

Traditionally dependent on imports, Honduras ran a trade surplus only once in the last 25 years -- in 1965. More alarming than the existence of a trade deficit is its growing size. From 1983 to 1985, imports rose by an average of 17.6 percent annually, while exports only increased by 7.7 percent per year. Honduran exports actually fell from 1980 to 1982, and then rose by 1985 to 95.0 percent of their 1980 value. Resurgence has been confined to traditional exports, however; 1985 nontraditional exports had reached only three-quarters of their 1980 value.

Foreign exchange reserves reached a low of $98 million in mid-1983, enough for 6 weeks of imports, increased to $132 million in May 1986 and fell to $107 million in August 1986. In addition to covering the mounting trade deficit, these hard currency reserves are needed to repay the foreign debt. The sum of annual amortization and interest charges on the foreign debt increased by 17.1 percent over the 5 years from 1980 to 1985, from 23.5 percent to 29.0 percent of annual export revenue.

The destination of Honduran exports has shifted slightly toward Japan and the European Economic Community since 1980, and away from the United States, Central America, and the Caribbean. One reason for the change is government encouragement to ship to countries that pay in hard currency, in order to ease the foreign exchange shortage. Exports to the United States declined from $460 million in 1984 (64 percent of total Honduran exports) to $438 in 1985 (56 percent of total exports). Nonetheless, the United States continues to be Honduras' most important trading partner.

The 1983 Export Promotion law classifies exports as traditional or nontraditional as a function of their value and/or the number of years they have been exported. Based on this definition, the Honduran government considers 16 products to be traditional exports. In descending order of export value in 1985, they are bananas, coffee, zinc, lobster, wood, unrefined sugar, refrigerated meat, silver, shrimp, tobacco, lead, cotton, petroleum derivatives, furs and skins,

metal products, and standing cattle. These traditional exports represent 84.4 percent of total export earnings, a percentage that has increased slowly but steadily over the last six years, up from 82.0 percent in 1980.

The 15 products mentioned can be classified into three tiers based on export earnings. The top tier, consisting of bananas and coffee, represents two-thirds of all traditional exports, and three-fifths of all exports. A one percent increase in banana exports alone brings in $5 million in additional foreign exchange.

A second tier of traditional exports includes zinc, lobster, and wood. Each of the other 10 categories generated less than $25 million in export revenue in 1985 and can be considered in the third tier.

Exports classified as nontraditional by the Honduran government totaled $122 million in 1985 or 16 percent of total exports. Of the hundreds of products considered to be nontraditional, pineapples, palm oil, fruit jellies, and wood products head the list, each generating $5-10 million in export earnings in 1985.

## A. Traditional Export Performance

The value of Honduran traditional exports fell slightly, by 0.2 percent, from 1980 to 1985. Over that five year period, of the tier 1 and tier 2 exports, the value of banana, zinc, and lobster exports increased, while the value of coffee and wood exports diminished.

Honduran banana exports rose by an average of 4.2 percent per year from 1980 to 1985. This increase appeared to be due in part to an upswing in the price paid for the fruit, which increased from $4.81 per 40 lb. box to $5.87 over the five year period.

The average growth rate hides the rapid expansion that occurred in 1983 and 1984, when the value of exports rose by 13.7 and 18.4 percent, respectively. More recently, however, a 15.7 percent price



159

drop from April 1985 to April 1986 contributed to a 19.2 percent reduction in the volume of bananas exported, and a 31.9 percent decrease in export value over this period.

Rising prices and increasing export volume resulted in a 34.4 percent annual growth in the value of zinc exports from 1980 to 1985, but a downturn is expected in 1986. Volume exported tripled from 32,000 pounds in 1980 to 104,000 pounds in 1984, and prices received rose from $0.30 per pound to $0.45. However, a price decrease since 1984 has reduced producers' interest in exporting and hence has resulted in a slight cutback in volume exported. Only 24,000 pounds were exported from January to April of 1986, down from the 26,000 pounds exported during the same period in 1985. The April, 1986 zinc price was back down to $0.31 per pound, nearly as low as the 1980 price.

The rapid rise in the value of zinc exports from 1980 to 1985 was nearly equalled by the 33.1 percent yearly growth rate in lobster exports. Export volume doubled from 1980 to 1984 and then doubled again during 1985. Increasing export volume was offset by price decreases, with the result that the value of lobster exports increased by 38.4 percent in 1985, to U.S.$35.5 million. The value of lobster exports is expected to taper off somewhat in 1986 as export volume diminishes in response to the falling price.

The value of Honduran coffee exports fell by 25.0 percent from 1980 to 1983, then recovered slightly in 1985, stimulated by increases in prices received and export volume, to only 9.2 percent below the 1980 level. Coffee prices fell and then rose over the period, beginning at $215 per 60 kilo sack, slipping to $122 in 1983, and then increasing to $253 in April 1986. Given coffee's position as the nation's second most important export, the higher coffee price could significantly boost the value of total Honduran exports for 1986.

According to the Honduran Forestry Development Corporation, COHDEFOR, five million hectares, 45.0 percent of the total area of



138

Honduras, is covered by producing forests. This vast natural resource has provided Honduras with her fifth most important export, wood.

The value of wood exports rose steadily from 1980 to 1982, from $36.2 million to $44.6 million, then fell to $34.1 million in 1985. The variation in export value stemmed primarily from changes in export volume, since prices have remained fairly constant since 1981.

### B. Nontraditional Export Performance

Honduras' most important nontraditional exports are, in order, pineapple, palm oil, fruit conserves, and manufactured wood products. Together these four goods comprise 26.7 percent of nontraditional exports and 4.2 percent of total exports.

The performance of nontraditional exports has been mixed. Of the four most important nontraditional exports, palm oil has exhibited stunning growth, pineapple and conserves have increased more slowly, and manufactured wooden goods have experienced a dramatic decrease.

The value of palm oil exports has soared over the past 4 years. As late as 1982, Honduras did not export any palm oil, but in 1985 exported $10 million. Because of Congressional concern about potential injury to U.S. producers, USAID is prohibited from directly or indirectly assisting palm oil exporters, as well as exporters of sugar and citrus, as stated in USAID Policy Determination 71. Both palm oil and citrus are considered to have very high export potential, but PD71 prohibits USAID involvement in their promotion. Given that the value of palm oil exports exceeded the value of every nontraditional export product except pineapples, and brought in more foreign exchange in 1985 than did 7 of the 16 traditional export products, the PD71 restriction on aid to palm oil producers can be considered a serious restriction on AID's ability to promote exports. A second obstacle to increased palm oil exports is low price; the price in world markets is reported to have collaped in 1986, and is expected to remain low in 1987.

Price increases spurred pineapple production and pushed the value of pineapple exports to $14 million in 1984, nearly double its 1980 value. From its 1984 high of $0.42 per kilo, the price fell to $0.37 in April of 1986, resulting in an 18.7 percent decrease in export value during 1985, to $11.5 million. Nineteen eighty six export value is expected to fall 22 percent from 1985 export value.

The value of fruit conserve exports has also risen over the last 5 years, although not as much as the value of pineapple exports. Jam and jelly exports rose from their 1980 level of $4.5 million to $5.8 million in 1985. The value of 1986 exports is expected to top the 1985 value by 35 percent. A steadily rising conserves price, from $0.31 per kilo in 1982 to $0.55 per kilo in April of 1986, is expected to encourage exporters to boost the amount they export.

In contrast to the other three important nontraditional exports, the value of manufactured wooden products exports declined steadily from 1980 to 1985, to $5.7 million, one-third of their 1980 value. The volume of wooden goods exported slumped by nearly half over the 5 year period. A knowledgeable observer attributed part of the decrease to poor domestic economic conditions and a high level of government regulation of the wood products industry, but went on to suggest that part of the fall may be illusory, due solely to under-invoicing. It is interesting to note that the Honduran government is the only licensed exporter of unprocessed wood, but the private sector is free to export processed wooden products. This situation has reportedly led to the export of low-value items such as broom handles made from high-value types of wood.

In addition to the four important nontraditional exports, Honduras exports hundreds of other items in small quantities. Nine of these nontraditional exports are discussed below, in order of value of 1985 exports. They are cigars, cacao, citrus, melons, plantains, gum rosin, textiles, ornamentals, and cardamom. These nine were chosen because they represent both successes and failures among nontraditional exports, and therefore may be able to indicate the determinants of nontraditional export growth.

Honduras exported cigars worth $4.5 million in 1985, up 32.4 percent from their 1980 value but down 30.8 percent from their 1984 high of $6.5 million. The rise and fall in part resulted from upturns and downturns in the market price for the product; the price climbed until 1982 and in general has declined since then.

The value of cacao exports more than tripled from 1980 to 1985, to $3.2 million. Part of this spectacular growth was due to an AID-sponsored cacao research and extension project that is educating farmers in how to ferment their cacao, and the importance of doing so, since the resulting product commands a higher price that boosts both Honduran foreign exchange earnings and farm income.

Honduran grapefruit exports varied from 1980 to 1985, reaching a high of $3.6 million in 1983, then contracting to $2.6 million in 1985. The government does not collect statistics on orange exports, but the nation's only concentrated citrus juice plant estimated 1986 exports at $1.25 million, 80 percent from orange juice.

Melon exports expanded from $0.8 million in 1980 to $1.8 million in 1985. Export volume continued to increase in 1986; the volume of melon exports from January through April 1986 was 81.4 percent higher than during the same period the previous year. Increases in volume will be slightly offset by price decreases, but melon export value is expected to rise in 1986 to 39.4 percent above its 1985 value.

The value of plantain exports to countries outside Central America jumped from $0.2 million to $1.5 million from 1984 to 1985, and is expected to double in 1986. The upswing resulted from increasing export volume, which grew eight-fold during 1985 and is estimated to double in 1986.

In contrast to most of the other nontraditional exports, gum rosin exports have dropped. From $6.7 million in 1981, the value of gum rosin exports slumped steadily to $1.5 million in 1985. Exports in 1986 are expected to increase by 12.5 percent over their 1985

value, but will remain far below the value exported in the early 1980s. One reason cited by a Honduran gum rosin exporter for the reduction is increased production from other countries, primarily the People's Republic of China, that has flooded the world market and brought the price down from $650 to $300 per metric ton. Lower revenues forced his firm to cancel its advertisements in foreign magazines; in December 1986, his firm was operating at 40 percent of capacity.

Garment assembly is experiencing a boom in Honduras as local and joint venture manufacturers take advantage of 807 legislation under which goods assembled abroad pay duty only on value added when they re-enter the United States. Although the Honduran Central Bank does not collect export statistics on this particular category, one shirt assembly firm reported 40 percent annual growth in export value over the last several years. In contrast, corset and brassiere assembly has shown a marked fall, from $2.6 million in 1980 to $0.7 million in 1985, and no turnaround is expected. The volume of corset and brassiere exports from January until April 1986 was half the volume during the same four-month period in 1985. The downturn appears to be the result of internal management difficulties. One large lingerie exporter interviewed reported increasing inventories and difficulties locating buyers.

Ornamental plants is another category which the Central Bank does not yet disaggregate from its export statistics, but if growth continues, it might have to in the future. One exporter of 45 varieties, including dracinia and palms, estimated a 50 percent increase in export value during 1986, to $900,000, and a 12 percent increase during 1987. The nursery, which now employs approximately 100 people, nearly went bankrupt in the early 1980s as increasing fuel costs pushed up the prices of petroleum based inputs such as fertilizer and plastic bags, but was saved by sound strategic decisions and diversification.

Cardamom, a last nontraditional export to be discussed, is not widely used in the United States, but is an ingredient in ice creams

and breads in Scandinavia, and is used as a spice and in rituals in India and throughout the Middle Eastern and Arabian countries. Using working capital and storage space provided by FEPROEXAAH, 35 cardamom producers formed a Cardamom Exporting Association in Honduras, and released their first shipment of 10,000 kilos destined for Jordan in early December 1986. Although the value of the first shipment is negligible, cardamom exports could reach $10 million in 1990, according to AID. Since cardamom producers also tend to be small coffee farmers, a cardamom export takeoff could have very positive income generation and equity effects.

## III. DETERMINANTS OF EXPORT PERFORMANCE

A host of determinants of nontraditional exports have been identified in an earlier section of this report. In this section, we examine each determinant in the Honduran context, and indicate the degree to which the condition is present in Honduras, and the extent to which it has contributed to nontraditional export growth.

### A. Macroeconomic Determinants

Low Honduran wages are attractive to labor-intensive industries, but two difficulties, an overvalued currency and high-cost credit, constrain Honduran exports.

**WAGE RATE.** Low Honduran wage rates are very attractive for labor intensive industries. The Honduran minimum wage varies from $2.30 to $3.55 per day, depending on activity and location within the country. The base wage for employees in light manufacturing in the larger Honduran cities is $3.30 per day.

**EXCHANGE RATE.** The Honduran government maintains the local currency, the lempira, at an overvalued rate. The offical rate, 2.00 Lempiras to U.S.$1.00, was set by decree in 1918 and never modified. An illegal but tolerated parallel market has sprung up, on which the

dollar is worth 2.30 Lempiras. The premium in the parallel market was as high as 30 percent in 1984 and 1985, but it has since fallen.

**CREDIT AVAILABILITY AND COST.** Both working capital and long-term credit at affordable rates are necessary to allow exporters to function and expand. Although inflation is low in Honduras (presently it is 4.4 percent), interest rates have remained high as a result of tight monetary policy. The business community finds the present 17 percent lending rate too high, and funds expansion with internally-generated funds whenever possible. As one exporter explained, "Given the high market rates, I'll use my own funds and expand more slowly. What I could do in 1 or 2 years if I could borrow at a lower rate, I'll do in 10 years with my own money." The pace of export expansion could be increased by targeting low-interest funds to the sector. However, with AID's interest in increased dependence on market forces, this strategy has fallen into disfavor.

## B. Microeconomic Determinants

In addition to macroeconomic determinants, several firm-specific, or microeconomic. factors also affect export performance. In general, Honduran firms have good foreign market contacts and information, and a high level of quality control. However, poor internal management and risk-avoiding behavior both constrain export growth.

**CONTACTS.** A first step in exporting is contact between a Honduran businessman and a potential investor or buyer. This is fairly easy for an exporter of a traditional good, for the product is a proven one, and the Honduran producer and foreign buyer are probably reasonably familiar with its production and transport.

Because of a lack of information on both sides, initial contact with new markets is more difficult for nontraditional exporters. In Honduras, the AID-financed, non-profit Federation of Honduran Agricultural and Agroindustrial Producers and Exporters, FEPROEXAAH, and the Foundation for Entrepreneurial Research and Development, FIDE,

assist Hondurans to make contacts by coordinating visits by potential investors. One such visit, by Mr. Harry Brandt of the Citrus Development Corporation, resulted in the construction of a multi-million dollar orange juice concentration plant that created 133 jobs and will export an estimated $1.25 million in 1986.

The USAID Mission to Honduras estimated that through the initiative of FEPROEXAAH, U.S. affiliates and the private agribusiness sector, from 1984-1986, 12 ventures were undertaken or expanded, resulting in $8 million in investment, $3 million in export earnings from nontraditional commodities, and 1,400 jobs in agriculture and agribusiness.

**MARKET INFORMATION.** To export successfully, the Honduran business community must know the regulations concerning market entry. Not knowing can be costly. The value of Honduran exports denied entry into the U.S. markets due to poor condition, a high pesticide level, or improper labelling totaled $1,189,504 in 1983, $563,322 in 1984, and $561,650 in 1985, according to FIDE.

Contacts, mentioned above, are one of the best sources of this information, but FIDE has also successfully used indirect methods to inform Honduran exporters. In 1986, FIDE participated in conferences on textile and food imports to the United States with the goal of familiarizing its staff on import regulations in order to inform the Honduran exporters.

**QUALITY CONTROL.** Quality control does not appear to be a problem for Honduran exporters. High quality is achieved through thorough knowledge of market standards, and careful checks of the products. FIDE offers quality assurance technical assistance to exporters.

**INTERNAL MANAGEMENT.** As in any business activity, the success of nontraditional exporting depends on the quality of its management. The generally low educational level in Honduras, combined with the lack of an in-country post-graduate business management program, means that many managers will be unprepared for their tasks.

Several nontraditional export firms interviewed had experienced serious setbacks as a result of poor management. For example, to fill an order for Spain, a tobacco firm redirected all its output there, thus alienating its other customers, and began an expensive expansion, only to have Spain buy nothing the following year. The annoyed "traditional" customers were unwilling to accept the following year's production, and the tobacco company has not yet recovered. A second example of an export company suffering from poor management is an apparel firm that has found itself with a large and growing inventory, but seems unable to locate new customers.

To prepare managers in the technical aspects of business, as well as to make strategic business decisions, training programs could be targeted directly at nontraditional export firms. Some training is now offered: FIDE provided scholarships to three Honduran businessmen to attend a 2-week course on Marketing Strategies at the World Trade Center in New York.

**RISK TAKING.** Nontraditional exporters are taking on an inherently risky operation -- one that is untried. Several observers of the Honduran economy commented that Honduras has a notable lack of risk takers.

There are several reasons for the Honduran business community's risk-avoidance behavior. From an economic perspective, lower income units are less likely to take risks, because a negative outcome would place them in a bad, even untenable, position. From a sociological perspective, the Honduran culture discourages risk-taking. Especially in rural areas, the Honduran society is still essentially a peasant society that ostracizes deviants. Foreigners, such as the Palestinian immigrants who arrived at the turn of the 20th century, have become very successful entrepreneurs, but Hondurans typically have not.

AID is trying to overcome this cultural barrier by supporting the entrepreneurs that come to its attention with invitational travel and in-country seminars. This seems to be an effective method for slowly wearing down the cultural constraints on risk-taking.

## C. Policy and Promotional Determinants

Honduran exporters benefit from professional, efficient export promotion efforts of two previously mentioned organizations, FIDE and FEPROEXAAH. In addition, exporters gain some measure of benefit from the several laws Honduras has on the books to promote exports, specifically nontraditional exports. However, the effectiveness of incentives is diminished by the manner in which the government bureaucracy implements the regulations.

**PROMOTIONAL ASSISTANCE.** Both FIDE and FEPROEXAAH promote Honduran exports. One of the organizations' main purposes is to create a network of business contacts for Honduran producers and exporters.

Both organizations send and receive information on investment and export opportunities through four specialized networks in the United States. These networks are the International Resource Center, IRC, which deals with agroindustries in the western United States; the International Planning and Analysis Center, IPAC, which specializes in wood; the Chicago Association of Commerce and Industry, CACI, for apparel and textile inquiries; and the Inter-America's Group, IAG, which also handles agroindustrial suppliers, buyers and investors. Each issue of FIDE's monthly newsletter, published in both English and Spanish, describes export opportunities that FIDE learned of through the networks and other informal contacts, and provides interested businessmen with the name, address and phone number of the person to contact.

Using specialized marketing intermediaries seems to have brought a certain degree of success. At least two contracts were signed in 1986 between parties initially brought together by the specialized networks, one for $1.0 million of wooden table legs, and one for 12,100 dozen T-shirts and turtleneck shirts. In addition, by using the networks to locate additional marketing channels for Honduran plantains, FEPROEXAAH was able to break the monopoly the intermediary

had maintained and greatly enhance the producers' profitablility. The new marketing strategy is one reason that plantain exports have increased from $0.2 million in 1980 to $2.0 million in 1985.

FIDE also represents Honduran industries in trade shows. During the summer of 1986, FIDE and AID assisted Honduran businesses to exhibit at trade shows for sporting goods, cigars, and furniture. Each event served to increase visibility of Honduran products in world markets, and introduce Honduran businessmen to potential buyers. However, one businessman who did not attend the trade fair expressed the concern that the FIDE representative did not sufficiently know the product, cigars in this case, to answer potential buyers' questions adequately.

In addition to coordinating trade visits, FEPROEXAAH also sends out trial containers to assess market response. The Federation has successfully used this strategy with potatoes and pineapples.

**EXPORT INCENTIVES.** Three decrees offer incentives to Honduran exporters. The Puerto Cortes Industrial Free Zone, created by Decree No. 356 in 1976, offers exporters duty-free importation of machines and raw materials, no federal, state, or local income or corporate taxes, unrestricted repatriation of profits and capital, and exemption from export controls and duties. Decree No. 220-83, the 1983 Export Promotion Law, creates fiscal, financial and promotion mechanisms for nontraditional exports, rebating (using Export Certificates, CEFEX) the indirect taxes such as customs duties or sales taxes that exporters incur. Decree No. 87 of 1984, the Temporary Import Regime, suspends import taxes on raw materials and equipment and eliminates the income tax for 10 years for producers who export outside Central America.

**GOVERNMENTAL REGULATIONS.** An impediment to exporting in Honduras is the government workers who process export and import licenses and forms. Exporters unilaterally complained about their attitude, their slowness, and the painstaking detail they demand. Undoubtably, some

of the delays in processing are due to the foreign exchange shortage discussed above. But even given structural problems that cause delays, the attitude of the civil servants remains a problem that perhaps a training program or incentives could correct.

### D. Other Determinants

Several other factors affect Honduran exporters, some positively, some negatively. On the positive side, exporters have fairly good access to decisionmakers on political and economic matters that affect them. They can benefit from research on new agricultural products and techniques and from an excellent transportation infrastructure, and they can receive assistance in locating and adapting modern production techniques. However, an overriding issue, regional political instability, constrains Honduran exports.

**POLITICAL VOICE.** Exporters need to lobby effectively in their home country and to a lesser extent in the countries to which they export, in order to promote their interests. Investment laws, tax laws, and quotas directly affect them, and they must be organized to protect themselves.

Effective coalitions of exporters have been established in Honduras, in large part by AID, and have benefitted their members. FIDE was invited to participate in the Super 807 negotiations regarding textile imports into the United States. FEPROEXAAH organized cacao producers into a coalition that applied for and received more than $1 million from AID for cacao research and extension. Establishing and initially maintaining the organizations that can give voice to exporters' needs and acquire resources from host country private and public sectors is perhaps one of the most beneficial uses of AID's scarce resources. In creating such organizations, AID leverages its resources to bring about short-term improvements in conditions for exporters and at the same time create lasting channels through which exporters can continue to have an impact on public policy over the long term.

**AGRICULTURAL RESEARCH AND EXTENSION.** Just as industry needs technical assistance to improve upon its products and production techniques, so does agriculture. The technical assistance need not come from the government, since private seed and machinery companies often impart new product ideas or technologies. But those groups not well served by the private sector, mainly smaller farmers and producers of crops grown in smaller quantities, tend to depend on the government for assistance.

Honduras responded to the challenge of keeping its farmers up to date in 1984, when the Government of Honduras and AID opened the Honduran Agricultural Research Foundation, FHIA, in facilities donated by United Brands Company in La Lima, Honduras. FHIA's mandate is to conduct laboratory and on-farm research on priority problems and opportunities in four nontraditional areas: Cacao, citrus, plantains, and vegetables. The Institute is currently screening over 200 nontraditional crops to identify the most promising alternatives. It is too early to assess FHIA's impact on Honduran agricultural exports, although there have been several instances, one involving cucumbers, where FHIA studies revealed and solved the problems causing low-quality, nonexportable fruits and vegetables.

**TRANSPORTATION INFRASTRUCTURE.** Honduras boasts an excellent transportation infrastructure, but air cargo service is unpredictable, and maritime container service is expensive. There are three international airports in Honduras: Tegucigalpa, San Pedro Sula, and La Ceiba. They are serviced by TAN-SAHSA (Honduras), TACA (El Salvador), LACSA (Costa Rica), Iberia, Pan-Am, Japan Airlines, KLM, Lufthansa, Eastern, British Airways, Varig, Air France, Alitalia, and Challenge, but only TAN-SAHSA can carry cargo into and out of Honduras. Cargo service is unpredictable, with delays sometimes resulting when certain cargo is given preference over others.

Several international shipping companies service Honduras, and dock in the main ports of Puerto Cortes, La Ceiba, Tela and Puerto Castilla on the Caribbean Sea, and Henecan on the Pacific Ocean.



170

Shipping rates from Honduras are high; the per pound, per mile rate is reportedly one of the highest in the world, and is due in large part to low volume.

Overland transportation is not a constraint to exporting. Throughout the country, there are 16,351 kilometers of highways and roads linking the major cities and production centers. In addition, there is a railroad system serving the north coast, mainly for the transportation of export-bound bananas.

**TECHNOLOGY TRANSFER OF MODERN PRODUCTION TECHNIQUES.** Nearly always, foreign buyers and investors introduce new, efficient production techniques. Thus, contacts with foreign markets and investors are doubly important, for they not only increase sales, they can also increase profitability per unit produced.

FIDE encourages technology transfer both indirectly, by increasing Honduran contacts with foreign markets, and directly, by contracting for technical assistance for Honduran enterprises. As an example of the latter, FIDE contracted with a U.S. textile industry consulting firm to train Honduran employees to sew and to operate a computerized financial control system. FIDE lent the Honduran-American joint venture training funds at a slightly subsidized rate.

**POLITICAL STABILITY.** A fundamental constraint on Honduran exports is the political instability Central American is experiencing. Presently, few investors are interested in the area; private investment fell by 69 percent over the 1981-1984 period and increased by only 2 percent in 1985. Capital flight is estimated at $100 million a year.

Shrimp provides an example of the dampening effect regional instability has on Honduran exports. Shrimp export potential is estimated at $100 million annually, but the most appropriate shrimp farming sites are located on Honduras' short southern coast between El

Salvador and Nicaragua, a potentially unstable, vulnerable region. Although a Honduran-U.S. consortium did make a $4 million investment in shrimp production in 1986, the consortium has reportedly postponed two investments worth a total of $12.5 million pending resolution of the region's political difficulties. Thus, significant export growth is stymied by the uncertain political situation in the region.

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

This study identified three sources of nontraditional export opportunities. One area in which growth opportunities exist is additional investment in exports that have begun to "take off." The preceeding discussion illustrated that a number of products fall into this category, among them fruit conserves, palm oil, cacao, citrus fruits, melons, and plantains. The following table contains AID Mission estimates of export growth of these commodities.

Table 1

TOTAL EARNINGS FROM NONTRADITIONAL EXPORTS STIMULATED BY THE CBI AND/OR MISSION EXPORT DEVELOPMENT PROGRAM FOR 1987-1990

| | 1987 | 1988 | 1989 | 1990 | Total |
|---|---|---|---|---|---|
| Vegetables[1] | .8 | 1.5 | 2.5 | 3.0 | 7.8 |
| Ornamentals | 2.0 | 2.5 | 3.0 | 3.0 | 10.5 |
| Spices[2] | .7 | 1.0 | 1.5 | 2.0 | 5.2 |
| Cacao[3] | 1.0 | 2.0 | 3.0 | 4.0 | 10.0 |
| Sesame[4] | 1.0 | 1.5 | 2.0 | 3.0 | 7.5 |
| Pineapples | .5 | 1.0 | 1.5 | 2.0 | 5.0 |
| Plantains | 2.5 | 3.0 | 3.5 | 4.0 | 13.0 |
| Shrimps | .5 | 1.0 | 2.0 | 3.0 | .8 |
| Fruit Concentrates[5] | 1.0 | 2.0 | 2.0 | 3.0 | 8.0 |
| Others[6] | 1.0 | 1.0 | 1.0 | 1.0 | 4.0 |
| Agroindustrial Exports | --- | .5 | 1.0 | 2.0 | 2.5 |
| Total | 11.0 | 17.0 | 23.0 | 29.0 | 80.0 |



- 17

Table 1 (Continued)

TOTAL EARNINGS FROM NONTRADITIONAL EXPORTS STIMULATED BY THE CBI AND/OR MISSION EXPORT DEVELOPMENT PROGRAM FOR 1987-1990

[1] As of 1986, the following vegetables are targeted for the winter market: melon (cantaloupes, honeydews, mayan sweet, others); cucumbers; zucchini; summer squash; okra; and snow peas.

[2] Cardamom will contribute approximately 90 percent of this line. Processed chile cayenne and other "hot" chiles make up the difference.

[3] Assumes that long term financing will be available for tree crops.

[4] Based on identified production and market potential, exporters are estimating potential exports for 1990 at $8 million, but independent observers believe that such a figure may be overly optimistic.

[5] Frozen concentrate orange juice (FCOJ) will be the most important export. Although AID does not support citrus, the CBI provides extremely good incentives. AID policy dialogue, however, will benefit producers and exporters of citrus products.

[6] On-going studies are analyzing potential for expansion in cashew, honey, allspice, and ethanol exports. This line also includes citrus exports (i.e., Persian limes, grapefruit) which will only benefit from policy dialogue and Mission support to facilitate investments in agriculture. Although U.S. investors have demonstrated interest in citrus production, no Development Assistance funds will support this highly promising export due to regulations imposed by Policy Determination 71.

A second source of opportunities is new products or spin-offs from present exporters. These new products can be classified as horizontal spin-offs, which are new but related products, vertical spin-offs, which are inputs into the present production processes, and unrelated spin-offs.

Horizontal spin-offs often result once an entrepreneur makes contacts and exports successfully, and receives orders for additional products, or spots opportunities on his own initiative. For example, a nursery owner interviewed in conjunction with this study showed a great deal of enthusiasm and interest in beginning to export new

products in addition to the plants he already sold. He identified viable markets for leather leaf (a fern often used in flower arrangements), tropical flowers such as bird of paradise, dried flowers, and herbs. The banana industry's move into exporting banana paste is a second example of a horizontal spin-off. Possible horizontal spin-offs are numerous and include banana chips and additional winter vegetables and spices.

An example of a vertical spin-off comes from the textile industry. Several years ago, when the Honduran government was considering taxing elastic imports in order to appease the local elastic industry, a joint venture lingerie firm began to produce its own elastic. In addition to meeting its own elastic needs, the firm now exports elastic.

Another vertical spin-off is packaging materials, such as cartons, used in exporting. The volume of Honduran box exports more than quadrupled in the first four months of 1986, compared with the first four months of 1985. One factor that may slow carton exports is the protection the carton industry has received from the Honduran government, which has resulted is low-quality, high-priced locally-produced cartons. Presently, Honduran manufacturers need the permission of the local box manufacturer before they can import cartons. A representative of the local carton firm said that the firm routinely approves such requests if the firm is unable to produce the product specified.

Additional potential vertical spin-offs include plastic pots for plants, chemicals, and garment pieces cut in-country rather than imported. An example of an unrelated spin-off is provided by a Honduran family that has very successfully exported shirts, and recently began manufacturing and exporting plastic items such as pens and drinking straws. The family's new venture illustrates that nontraditional export growth is facilitated by the presence of individuals already knowledgable about risk-taking, manufacturing, and exporting, who already have contacts in foreign markets and start-up and working capital.

A third source of nontraditional export opportunities is the export promotion institutions that elicit and disseminate market information. As of December 1986, Honduran export promotion institutions had received inquiries from potential buyers and joint venture partners in the following areas: Baked goods, ceramic toilets, wooden products, chemicals, electronic circuit assembly, brushes, wire products, shellfish, fruits and vegetables, artesanry, textiles, and sesame oil.

## V. ACTION RECOMMENDATIONS

Based on interviews held in-country in late November, there are a series of actions that, if implemented, could improve the prospects for nontraditional export growth. In general, Honduran firms and organizations have been successful in making contacts with foreign markets, disseminating information on foreign markets, assuring quality control, instructing in efficient, modern production techniques, creating the channels that give the Honduran exporters an effective voice in domestic politics and international decisionmaking on issues that directly affect them, and developing improved agricultural practices and varieties and making them available to farmers.

Less has been accomplished toward fulfilling other requirements. The lack of the following conditions is constraining Honduran nontraditional exports: A good public-sector environment, a correctly-valued exchange rate, access to foreign exchange, regional political stability, the presence of risk-takers, minimal export red-tape, good internal firm management, competitive transport costs, and affordable credit.

Of this list of areas for action, two policy areas stand out clearly as the most important: Devalueing the lempira and improving the functioning of the Honduran capital markets to offer new financing mechanisms to those sectors of the business community that are unable to provide real estate as collateral.

## A. Devalue the Lempira

The overvalued Lempira harms exporters in two ways. Most important, overvaluation creates artificially high unit costs for exports and thus reduces price competitiveness. In addition, the overvalued rate creates a shortage of foreign exchange at the Central Bank. The Bank responds by slowing down issuance of import permits to delay foreign exchange disbursements. In the words of one exporter, "Exporting is easy. I can get an export permit in one day. But I have waited up to 3 months for an import permit. They (the Central Bank) just don't understand that a delay like that is crippling."

President Jose Azcona has declared 1987 the "Year of the Export." However, until the lempira is devalued by approximately 10 percent, it is unlikely that Honduras will experience any sizeable increase in exports.

## B. Improve Capital Markets

One of the most frequent complaints voiced by the exporters was the unavailability and high cost of credit. The Cardamom Association alleged that the Central Bank guarantee of 60 percent of loans received through a program set up by FEPROEXAAH is not sufficient; the commercial banks required a real asset, that the group was unable to provide, as collateral on the remaining 40 percent. And several manufacturers noted that they were unwilling to pay the going rate of 16-17 percent to finance expansion.

A review of Honduran capital markets would indicate a dearth of financial instruments and financing mechanisms that would facilitate business borrowing. For larger, more-established firms, issuance of commercial paper might lower their borrowing costs. For smaller, newer firms and agricultural associations, perhaps the solidarity group concept of pooling micro-enterprises to reduce risks could be expanded upon to include groups that are larger than the micro-enterprises but too risky to fulfill bank lending requirements.

Risk or venture capital could be made more available. Equity markets could be strengthened by increasing minority stockholder rights.

In addition to or perhaps as an alternative to the creation of new financial instruments and institutions, one possibility would be to establish a training and strategic planning program with the banks operating in Honduras, to begin to identify the benefits and risks associated with accepting additional assets, such as inventory or letters of credit, in place of real assets as collateral.

## Appendix A

### LIST OF INTERVIEWS

Mr. Jerry Lapittus, Mission Economist,
USAID, Tegucigalpa

Mr. Randy Peterson, Economic Officer,
USAID

Mr. Joseph Kwiatkowski, Deputy for Agribusiness,
USAID

Mr. Felipe Manteiga, Agricultural Officer,
USAID

Mr. James Grossman, Director,
USAID

Ms. Mary Likor, Deputy Director,
USAID

Mr. Carlos R. Cerrato C., Information and Communication Officer,
Foundation for Business Research and Development (FIDE),
Tegucigalpa

Mr. Luis Felipe Molina, Institutional Support Manager, FIDE

Ing. Ismael Rapalo R., Vice President,
Honduran Federation of Honduran Agricultural and Agroindustrial
Producers and Exporters (FEPROEXAAH), San Pedro Sula

Sr. Arnod Jueso, Coordinator,
Center for Agricultural Productivity, FEPROEXAAH

Sr. Jorge Castellano, Director,
Department of Economic Studies, Central Bank

Sra. Elena Callejas Euceda, Economist,
Department of Economic Studies, Central Bank

Lic. Orlando Vasquez Tejeda, Economist,
Department of Commercial Policy, Ministry of Economy

Sra. Blanca de Guzman, Director of Personnel,
Fundacion Hondurena de Investigaciones Agricolas

Sr. Nestor Fugon, General Manager,
Tabacalera Nacional (cigars), Tegucigalpa

Sra Suyapa de Gomez, President,
Asociacion de Productores de Cardamomo (cardamom), San Pedro Sula

Juan Rosales, Treasurer, Asociacion de Productores de Cardamomo (cardamom)

Mr. Andy Cole Valle, General Manager,
Viveros Tropicales (ornamental plants), San Pedro Sula

Sra. Kathy de Sosa, Asociacion de Productores de Cacao (cacao), San Pedro Sula

Mr. Dennis A. Dube, General Manager,
Citrus Development Corporation (concentrated orange juice), San Pedro Sula

Sr. Jacabo Gabriel Kattan, General Manager,
Manufacturas Industriales S.A. (shirts), San Pedro Sula

Sr. Canajuate, General Manager,
Lovable, S.A. (lingerie), San Pedro Sula

Mr. Joel A. Heyer, Sales Director,
Cartonera Nacional (corrugated cartons), San Pedro Sula

Mr. Roger Osorto, Administrative Manager,
Derivativos de Madera, S.A. (furniture), Tegucigalpa

Sr. Jose Murillo, Assistant to the Manager,
Quimica Interamericana (turpentine, gum rosin, gum styrax),
Tegucigalpa

HONDURAS
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| | Total exports | 601,877 | 720,890 | 813,444 | 712,529 | 655,682 |
| 0 | Food and live animals | 432,199 | 515,651 | 585,853 | 521,403 | 497,772 |
| 01 | Meat and preparations | 38,861 | 61,129 | 60,924 | 46,641 | 34,242 |
| 03 | Fish and preparations | 15,886 | 24,984 | 23,703 | 26,441 | 28,227 |
| 04 | Cereals and preparations | 1,459 | 3,697 | 4,289 | 3,752 | 4,938 |
| 05 | Fruit and vegetables | 156,595 | 209,172 | 254,534 | 225,800 | 245,478 |
| 06 | Sugar, honey and preps. | 7,847 | 17,679 | 34,083 | 44,743 | 28,260 |
| 07 | Coffee, tea, cocoa, spices | 209,713 | 196,590 | 208,678 | 171,916 | 155,391 |
| 1 | Beverages and tobacco | 10,577 | 14,833 | 18,873 | 20,704 | 17,701 |
| 12 | Tobacco and mfrs. | 10,577 | 14,830 | 18,861 | 20,652 | 17,701 |
| 2 | Crude matls. excl. fuels | 97,213 | 108,932 | 99,753 | 84,057 | 81,341 |
| 21 | Hides, skins, furs, undrssd | | 3,255 | 1,682 | 1,420 | 1,826 |
| 22 | Oil seeds, nuts, kernels | 2,127 | 3,103 | 2,814 | 1,360 | 787 |
| 24 | Wood, lumber and cork | 42,291 | 41,226 | 24,482 | 26,879 | 42,572 |
| 26 | Textile fibres | 15,745 | 11,569 | 13,775 | 12,578 | 6,630 |
| 28 | Metalliferous ores, scrap | 31,120 | 44,842 | 51,916 | 36,735 | 25,613 |
| 29 | Crude animal veg. mat. nes. | 4,208 | 4,057 | 3,542 | 3,425 | 3,053 |
| 3 | Mineral fuels etc. | | 292 | 3,846 | 2,394 | 582 |
| 33 | Petroleum and products | | 291 | 3,846 | 2,394 | 582 |
| 5 | Chemicals | 21,345 | 25,969 | 35,471 | 29,202 | 20,655 |
| 51 | Chemical elements, compds. | 1,162 | 1,572 | 2,987 | 3,390 | 2,073 |
| 55 | Perfume, cleaning, etc. prd | 14,801 | 18,536 | 22,539 | 14,689 | 11,354 |
| 59 | Chemicals nes. | 3,625 | 4,450 | 7,878 | 9,074 | 5,621 |

HONDURAS, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| 6 | Basic manufactures | 30,259 | 43,788 | 50,313 | 38,921 | 26,144 |
| 61 | Leather, dressed fur, etc. | | 2,751 | 2,032 | 1,591 | 428 |
| 63 | Wood, cork manufactures nes | 13,905 | 21,746 | 20,045 | 15,217 | 11,880 |
| 64 | Paper, paperboard and mfr. | 2,333 | 2,495 | 4,349 | 3,766 | 2,967 |
| 65 | Textile yarn, fabric, etc. | 5,328 | 9,065 | 13,508 | 10,763 | 6,342 |
| 66 | Nonmetal mineral mfs. nes. | 280 | 16 | 784 | 2,587 | 896 |
| 69 | Metal manufactures nes. | 4,782 | 5,066 | 6,726 | 3,968 | 2,657 |
| 8 | Misc. manufactured goods | 8,342 | 10,321 | 15,718 | 14,609 | 9,593 |
| 82 | Furniture | 3,472 | 4,099 | 5,059 | 5,290 | 2,876 |
| 84 | Clothing | 1,940 | 2,960 | 6,158 | 5,969 | 4,342 |
| 89 | Misc. manuf. goods nes. | 2,175 | 2,591 | 3,448 | 2,739 | 2,092 |

HONDURAS
EXPORTS FOB, BY CATEGORY
IN MILLIONS OF LEMPIRA
January, 1982 - April, 1986

| Description | 1982 | 1983 | 1984 | 1985 | Jan.-April 1986 | Jan.-April 1986 |
|---|---|---|---|---|---|---|
| Total exports | 1,319.2 | 1,343.6 | 1,450.7 | 1,560.1 | 541.2 | 544.7 |
| Traditional exports, total | 1,088.5 | 1,107.1 | 1,215.5 | 1,316.7 | 469.2 | 485.3 |
| Banana | 436.6 | 406.3 | 462.0 | 547.0 | 1,191.0 | 130.0 |
| Coffee | 306.2 | 302.4 | 338.2 | 370.4 | 153.8 | 263.0 |
| Wood | 89.3 | 80.8 | 69.7 | 68.2 | 20.6 | 14.4 |
| Refrigerated meat | 67.8 | 62.7 | 42.4 | 36.3 | 13.9 | 13.8 |
| Silver | 18.6 | 35.1 | 31.0 | 32.0 | 8.5 | 3.6 |
| Lead | 8.5 | 9.3 | 12.6 | 14.4 | 4.0 | 2.4 |
| Zinc | 23.9 | 40.4 | 63.5 | 79.4 | 20.0 | 15.1 |
| Shrimp | 30.5 | 40.0 | 48.5 | 31.7 | | |
| Lobster | 25.4 | 32.0 | 51.1 | 70.7 | | |
| Cotton | 13.3 | 8.4 | 15.4 | 13.6 | 5.5 | 9.2 |
| Unrefined sugar | 43.2 | 55.7 | 51.4 | 42.8 | 12.3 | 8.9 |
| Tobacco | 21.5 | 21.6 | 16.7 | 17.3 | 7.8 | 3.1 |
| Standing cattle | | | 0.9 | 0.4 | 0.2 | 0.0 |
| Skins and furs | 2.7 | 4.5 | 2.6 | 0.7 | 0.2 | 0.2 |
| Metal parts | | | 0.2 | 0.5 | 0.1 | 0.0 |
| Petroleum derivatives | 1.2 | 7.9 | 12.5 | 15.7 | 6.9 | 0.7 |
| Nontraditional exports | 220.7 | 236.5 | 235.2 | 243.4 | 72.0 | 59.4 |
| Bananas to Central America | 1.4 | 1.3 | 0.9 | 0.2 | 0.1 | 0.1 |
| Soap | 19.5 | 22.1 | 12.0 | 4.7 | 2.4 | 0.9 |
| Fruit conserves | 9.4 | 7.8 | 10.1 | 11.6 | 3.3 | 4.5 |
| Organic compounds | 3.1 | 5.7 | 2.6 | | | |
| Beans | 3.4 | 3.1 | 3.3 | 0.8 | 0.8 | 0.0 |
| Corn | 2.8 | 1.3 | 2.8 | 7.9 | 7.8 | 0.0 |
| Gum rosin | 8.5 | 3.1 | 3.3 | 2.9 | 0.8 | 0.9 |
| Wooden manufactured goods | 19.6 | 19.7 | 17.2 | 11.4 | 4.3 | 3.5 |



18

HONDURAS, continued
EXPORTS FOB, BY CATEGORY
IN MILLIONS OF LEMPIRA
January, 1982 - April, 1986

| Description | 1982 | 1983 | 1984 | 1985 | Jan.-April 1985 | Jan.-April 1985 |
|---|---|---|---|---|---|---|
| Barbed wire | 1.4 | 1.9 | 1.2 | 0.6 | 0.2 | 0.3 |
| Cigars | 11.4 | 12.5 | 13.0 | 9.0 | 2.9 | 2.6 |
| Pineapples | 17.5 | 24.5 | 28.3 | 23.0 | 12.2 | 10.0 |
| Honey | 1.9 | 1.2 | 1.0 | 0.6 | 0.2 | 0.1 |
| Cooked or toasted grains | 2.0 | 1.6 | | | | |
| Grapefruit | 5.2 | 7.2 | 6.3 | 5.2 | 1.4 | 2.1 |
| Plantains outside C.A. | 0.3 | 0.3 | 0.4 | 3.0 | 0.5 | 1.1 |
| Treated plantains | 4.1 | 2.4 | 1.1 | 1.0 | 0.3 | 0.2 |
| Melons | 1.4 | 2.8 | 2.6 | 3.7 | 3.3 | 4.6 |
| Coconuts | 1.1 | 1.1 | 1.1 | 0.8 | 0.2 | 0.2 |
| Fruit extracts | 1.6 | 1.4 | 2.9 | 4.7 | 1.4 | 1.0 |
| Corn products | 4.5 | 4.9 | 5.1 | 2.5 | 1.7 | 0.7 |
| Nonedible molassas | 5.5 | 5.1 | 6.2 | 6.3 | 2.4 | 1.5 |
| Cacao | 3.6 | 3.7 | 6.2 | 6.3 | 1.7 | 1.9 |
| Processed tobacco | 2.4 | 4.8 | 2.2 | 0.9 | 0.6 | 0.1 |
| Palm almonds | 0.4 | 1.3 | 1.3 | 0.9 | 0.9 | 0.1 |
| Sesame seeds | 1.2 | 1.0 | 1.8 | 2.8 | 0.8 | 0.8 |
| Paper, used and waste | 1.3 | 1.2 | 1.9 | 1.4 | 0.4 | 0.2 |
| Seeds, bulbs, roots | 5.6 | 4.2 | 4.6 | 4.5 | 1.5 | 1.2 |
| Palm oil | | 8.4 | 20.2 | 18.9 | 6.0 | 6.1 |
| Medicines | | | 1.7 | 2.1 | 1.5 | 0.5 |
| Liquidambar oil | 0.8 | 1.1 | 1.1 | 1.5 | 0.7 | 0.4 |
| Plywood | 1.5 | 1.4 | 2.6 | 2.9 | 1.1 | 0.5 |
| Doors, windows | 2.4 | 2.5 | 1.8 | 1.0 | 0.4 | 0.6 |
| Paper bags | 1.1 | 2.2 | 1.1 | 0.7 | | |
| Cardboard boxes | 3.8 | 3.1 | 1.6 | 1.1 | 0.2 | 0.2 |
| Bottle caps | 0.8 | 1.2 | 1.4 | 0.9 | 0.4 | 0.2 |
| Nonelectric domestic utensils | 0.9 | 1.0 | 1.3 | 1.0 | | |
| Wooden furniture | 3.3 | 2.2 | 2.4 | 2.6 | 0.6 | 0.3 |
| Bamboo furniture | 2.5 | 3.2 | 5.0 | 4.4 | 1.4 | 1.3 |
| Corsets, bras | 4.9 | 4.9 | 2.9 | 1.4 | 0.3 | 0.4 |
| Cellophane bags | 1.8 | 1.6 | 1.1 | 0.8 | 0.3 | 0.1 |
| Other | 116.8 | 119.6 | 107.0 | 116.2 | 6.6 | 10.1 |

## Quantifiable Determinants of Nontraditional Exports
## HONDURAS
## 1963-1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 83.3 | 93.8 | 126.6 | 142.9 | 158.1 |
| Traditional Exports | 58.3 | 63.3 | 88.5 | 104.0 | 112.7 |
| Nontraditional Exports | 25.0 | 30.5 | 38.1 | 38.8 | 45.4 |
| Merchandise Imports | 95.1 | 101.7 | 122.0 | 148.1 | 164.8 |
| Trade Balance | (11.8) | (7.9) | 4.6 | (5.2) | (6.7) |
| Current Account Balance | (13.8) | (11.2) | (7.0) | (19.2) | (28.6) |
| CACM Exports | 14.6 | 19.1 | 23.5 | 22.2 | 23.4 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Nominal) | 820.0 | 914.0 | 1,017.0 | 1,100.0 | 1,196.0 |
| GDP Growth (Nominal) | 11.5 | 11.3 | 8.2 | 8.7 | 8.6 |
| GDP (1980 prices) | 2,142.0 | 2,270.0 | 2,504.0 | 2,651.0 | 2,774.0 |
| GDP Growth (Real) | 6.0 | 10.3 | 5.9 | 4.6 | 7.3 |
| CAPITAL FORMATION | | | | | |
| Borrowing rate | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| Fixed Capital Formation | 122.0 | 123.0 | 132.0 | 159.0 | 213.0 |
| Private | 90.0 | 98.0 | 108.0 | 132.0 | 173.0 |
| Public | 32.0 | 24.0 | 24.0 | 27.0 | 40.0 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 127.1 | 140.6 | 161.5 | 173.6 | 152.6 |
| Investment by Sector | | | | | |
| Agriculture | 19.0 | 26.1 | 36.2 | 38.1 | 35.6 |
| Cattle | 6.3 | 6.3 | 7.7 | 10.2 | 14.2 |
| Industry | 11.4 | 16.4 | 24.8 | 31.1 | 47.3 |
| Commerce | 30.5 | 37.8 | 45.1 | 54.4 | 73.8 |
| Services | 5.8 | 8.0 | 13.0 | 15.7 | 17.3 |
| Housing | 8.0 | 10.2 | 13.9 | 17.1 | 26.4 |
| EXCHANGE RATE | | | | | |
| Exchange Rate, Official | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Exchange Rate, Parallel | | | | | |
| Real Effec. Excn. Rate Index | | | 1.408 | 1.367 | 1.337 |
| FOREIGN DEBT | | | | | |
| Public External Debt (US$ mm) | | | | | |
| Amortization | 2.0 | 3.0 | 3.0 | 3.0 | 4.0 |
| Debt Service | | | | | |
| Debt Service Ratio | | | | | |
| OTHER | | | | | |
| M1 | 79.1 | 89.8 | 104.6 | 106.9 | 114.3 |
| Minimum Wage (L/day) ** | | | | | |
| Budget Deficit | (5.7) | (6.7) | 0.6 | (5.0) | (4.1) |
| Consumer Price Index | 53.3 | 54.0 | 55.5 | 56.8 | 57.9 |

All figures in millions of Lempiras unless otherwise specified.
* Millions of US$
** Honduras instituted a minimum wage in 1980.

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 179.0 | 171.2 | 181.4 | 194.2 | 209.5 |
| Traditional Exports | 119.5 | 116.9 | 127.1 | 150.5 | 160.6 |
| Nontraditional Exports | 59.5 | 54.3 | 54.3 | 43.7 | 48.9 |
| Merchandise Imports | 184.7 | 184.3 | 220.7 | 193.4 | 193.3 |
| Trade Balance | (5.8) | (13.1) | (39.3) | 0.8 | 16.2 |
| Current Account Balance | (24.7) | (30.6) | (63.8) | (22.7) | (12.7) |
| CACM Exports | 30.3 | 22.1 | 18.0 | 5.4 | 5.8 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Nominal) | 1,299.0 | 1,348.0 | 1,446.0 | 1,551.0 | 1,683.0 |
| GDP Growth (Nominal) | 3.8 | 7.3 | 7.3 | 8.5 | 12.6 |
| GDP (1980 prices) | 2,976.0 | 2,986.0 | 3,125.0 | 3,294.0 | 3,427.0 |
| GDP Growth (Real) | 0.3 | 4.7 | 5.4 | 4.0 | 5.6 |
| CAPITAL FORMATION | | | | | |
| Borrowing rate | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| Fixed Capital Formation | 226.0 | 244.0 | 268.0 | 253.0 | 245.0 |
| Private | 178.0 | 159.0 | 174.0 | 182.0 | 186.0 |
| Public | 48.0 | 85.0 | 94.0 | 71.0 | 57.0 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 177.0 | 237.2 | 304.6 | 369.3 | 406.5 |
| Investment by Sector | | | | | |
| Agriculture | 35.9 | 50.1 | 64.0 | 61.9 | 61.0 |
| Cattle | 18.3 | 24.8 | 40.0 | 47.3 | 68.6 |
| Industry | 51.9 | 75.3 | 104.0 | 103.9 | 102.4 |
| Commerce | 61.9 | 72.2 | 85.0 | 71.0 | 109.0 |
| Services | 20.9 | 28.0 | 28.9 | 34.9 | 27.8 |
| Housing | 31.8 | 41.0 | 56.9 | 60.3 | 65.2 |
| EXCHANGE RATE | | | | | |
| Exchange Rate, Official | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Exchange Rate, Parallel | | | 2.0 | 2.2 | 2.4 |
| Real Effec. Exch. Rate Index | 1.306 | 1.167 | 1.124 | 1.114 | 1.102 |
| FOREIGN DEBT | | | | | |
| Public External Debt (US$ mm) | | | | | |
| Amortization | 4.0 | 4.0 | 7.0 | 7.0 | 10.0 |
| Debt Service | | | 21.7 | 26.8 | 33.8 |
| Debt Service Ratio | | | 12.0 | 13.8 | 16.1 |
| OTHER | | | | | |
| M1 | 127.4 | 148.1 | 158.9 | 169.4 | 192.9 |
| Minimum Wage (L/day) ** | | | | | |
| Budget Deficit | (5.4) | (27.8) | (39.4) | (44.6) | (45.4) |
| Consumer Price Index | 58.9 | 59.6 | 61.9 | 63.2 | 65.2 |

All figures in millions of Lempiras unless otherwise specified.
* Millions of US$
** Honduras instituted a minimum wage in 1980.

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 261.4 | 294.3 | 303.2 | 397.2 | 518.6 |
| Traditional Exports | 199.7 | 179.7 | 182.0 | 275.6 | 371.0 |
| Nontraditional Exports | 61.7 | 114.6 | 121.2 | 121.7 | 147.7 |
| Merchandise Imports | 262.3 | 380.1 | 404.3 | 453.1 | 579.4 |
| Trade Balance | (0.9) | (85.9) | (101.1) | (55.9) | (60.8) |
| Current Account Balance | (34.6) | (104.0) | (112.1) | (104.8) | (128.7) |
| CACM Exports | 10.0 | 23.7 | 26.6 | 35.7 | 43.4 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Nominal) | 1,895.0 | 2,114.0 | 2,241.0 | 2,626.0 | 3,321.0 |
| GDP Growth (Nominal) | 11.6 | 6.0 | 17.2 | 26.5 | 14.8 |
| GDP (1980 prices) | 3,619.0 | 3,615.0 | 3,506.0 | 3,788.0 | 4,222.0 |
| GDP Growth (Real) | (0.1) | (3.0) | 8.0 | 11.5 | 7.4 |
| CAPITAL FORMATION | | | | | |
| Borrowing rate | 9.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Fixed Capital Formation | 325.0 | 433.0 | 476.0 | 550.0 | 711.0 |
| Private | 237.0 | 311.0 | 314.0 | 360.0 | 445.0 |
| Public | 88.0 | 122.0 | 162.0 | 100.0 | 266.0 |
| Foreign Direct Investment * | | | 7.0 | 5.3 | 8.9 |
| Domestic Credit | 499.0 | 554.1 | 670.7 | 815.8 | 951.9 |
| Investment by Sector | | | | | |
| Agriculture | 71.5 | 74.1 | 105.0 | 137.6 | 308.0 |
| Cattle | | 0.7 | 34.9 | 24.2 | 33.8 |
| Industry | 137.3 | 128.7 | 147.0 | 172.9 | 256.0 |
| Commerce | 147.0 | 170.0 | 203.9 | 271.3 | 323.6 |
| Services | 31.5 | 65.3 | 86.6 | 81.2 | 121.7 |
| Housing | 70.7 | 71.0 | 84.7 | 70.0 | 112.2 |
| EXCHANGE RATE | | | | | |
| Exchange Rate, Official | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Exchange Rate, Parallel | 2.4 | 2.4 | 2.3 | 2.3 | 2.5 |
| Real Effec. Excn. Rate Index | 1.096 | 1.088 | 1.091 | 1.022 | 0.996 |
| FOREIGN DEBT | | | | | |
| Public External Debt (US$ mm) | | 171.2 | | 344.0 | |
| Amortization | 18.0 | 19.0 | 30.0 | 45.0 | 63.0 |
| Debt Service | 54.7 | 63.8 | 96.8 | 151.0 | 209.5 |
| Debt Service Ratio | 20.9 | 21.7 | 31.9 | 38.0 | 40.4 |
| OTHER | | | | | |
| M1 | 238.4 | 242.4 | 262.7 | 361.0 | 411.3 |
| Minimum Wage (L/day) ** | | | | | |
| Budget Deficit | 116.0 | (5.6) | (48.0) | (31.2) | 2.7 |
| Consumer Price Index | 68.2 | 76.9 | 83.1 | 87.3 | 94.6 |

All figures in millions of Lempiras unless otherwise specified.
* Millions of US$
** Honduras instituted a minimum wage in 1980.

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 612.8 | 733.6 | 850.3 | 782.8 | 676.5 |
| Traditional Exports | 439.8 | 508.4 | 558.4 | 522.3 | 471.6 |
| Nontraditional Exports | 173.0 | 225.3 | 291.9 | 260.5 | 204.9 |
| Merchandise Imports | 699.2 | 825.8 | 1,019.3 | 960.0 | 700.5 |
| Trade Balance | (86.5) | (92.2) | (169.0) | (177.2) | (24.0) |
| Current Account Balance | (157.2) | (192.1) | (316.8) | (302.7) | (228.3) |
| CACM Exports | 49.2 | 60.0 | 83.9 | 65.9 | 51.9 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Nominal) | 3,814.0 | 4,378.0 | 4,976.0 | 5,293.0 | 5,582.0 |
| GDP Growth (Nominal) | 14.8 | 13.7 | 6.4 | 5.5 | 5.5 |
| GDP (1980 prices) | 4,535.0 | 4,843.0 | 4,976.0 | 5,034.0 | 4,945.0 |
| GDP Growth (Real) | 6.8 | 2.7 | 1.2 | (1.8) | (0.5) |
| CAPITAL FORMATION | | | | | |
| Borrowing rate | 14.0 | 16.0 | 16.0 | 16.0 | 16.5 |
| Fixed Capital Formation | 941.0 | 1,004.0 | 1,235.0 | 1,051.0 | 968.0 |
| Private | 586.0 | 634.0 | 758.0 | 597.0 | 437.0 |
| Public | 355.0 | 370.0 | 477.0 | 405.0 | 531.0 |
| Foreign Direct Investment * | 13.2 | 9.9 | 5.8 | (3.6) | 13.8 |
| Domestic Credit | 1,103.5 | 1,243.1 | 1,421.9 | 1,650.2 | 1,943.0 |
| Investment by Sector | | | | | |
| Agriculture | 265.0 | 283.6 | 209.8 | 191.0 | 229.4 |
| Cattle | 38.7 | 61.4 | 51.8 | 80.3 | 93.5 |
| Industry | 271.2 | 294.0 | 262.8 | 287.6 | 411.4 |
| Commerce | 473.0 | 439.8 | 376.4 | 401.0 | 400.2 |
| Services | 131.2 | 203.5 | 224.7 | 157.5 | 162.9 |
| Housing | 112.6 | 137.8 | 123.0 | 142.5 | 137.3 |
| EXCHANGE RATE | | | | | |
| Exchange Rate, Official | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Exchange Rate, Parallel | 2.6 | 2.6 | 2.4 | 2.2 | 2.1 |
| Real Effec. Exch. Rate Index | 1 | 1.045 | 1.106 | 1.073 | 0.969 |
| FOREIGN DEBT | | | | | |
| Public External Debt (US$ mm) | 594.6 | 759.8 | 985.3 | 1,227.7 | 1,379.9 |
| Amortization | 80.0 | 137.0 | 113.0 | 133.0 | 105.0 |
| Debt Service | 272.5 | 394.8 | 386.7 | 454.8 | 461.1 |
| Debt Service Ratio | 44.5 | 53.3 | 45.5 | 58.1 | 68.2 |
| OTHER | | | | | |
| M1 | 480.4 | 545.6 | 610.3 | 637.4 | 716.9 |
| Minimum Wage (L/day) ** | | | 5.7 | 5.7 | 6.6 |
| Budget Deficit | (29.7) | (79.2) | (140.2) | (144.5) | (379.6) |
| Consumer Price Index | 100.0 | 112.1 | 132.4 | 144.8 | 157.8 |

All figures in millions of Lempiras unless otherwise specified.
* Millions of US$
** Honduras instituted a minimum wage in 1980.



187

| | 1983 | 1984 | 1985 | 1986 | |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 698.7 | 745.7 | 780.1 | | |
| Traditional Exports | 453.9 | 483.1 | | | |
| Nontraditional Exports | 244.8 | 262.6 | | | |
| Merchandise Imports | 822.7 | 953.7 | 1,144.5 | | |
| Trade Balance | (124.0) | (208.0) | (364.4) | | |
| Current Account Balance | (219.2) | (301.9) | (262.8) | | |
| CACM Exports | 85.0 | 70.0 | 45.0 | | |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP (Nominal) | 5,891.0 | 6,297.0 | 6,719.0 | | |
| GDP Growth (Nominal) | 6.9 | 6.7 | | | |
| GDP (1980 prices) | 4,921.0 | 5,058.0 | 5,210.0 | | |
| GDP Growth (Real) | 2.8 | 3.0 | | | |
| CAPITAL FORMATION | | | | | |
| Borrowing rate | 17.0 | 17.0 | 17.0 | 17.0 | |
| Fixed Capital Formation | 1,060.0 | 1,193.0 | 1,177.0 | | |
| Private | 450.0 | 463.0 | 502.0 | | |
| Public | 610.0 | 730.0 | 662.0 | | |
| Foreign Direct Investment * | 21.0 | 20.5 | 27.5 | | |
| Domestic Credit | 2,346.5 | 2,653.3 | 2,883.7 | | |
| Investment by Sector | | | | | |
| Agriculture | 286.9 | 9.6 | 357.9 | 216.4 | Jan-July |
| Cattle | 117.0 | 135.5 | 159.1 | 102.6 | " |
| Industry | 466.8 | 465.7 | 579.1 | 348.4 | " |
| Commerce | 413.6 | 604.4 | 748.9 | 628.6 | " |
| Services | 225.0 | 195.9 | 206.8 | 119.8 | " |
| Housing | 158.1 | 150.8 | 148.8 | 83.6 | " |
| EXCHANGE RATE | | | | | |
| Exchange Rate, Official | 2.0 | 2.0 | 2.0 | 2.0 | |
| Exchange Rate, Parallel | 2.1 | 2.0 | | 2.3 | |
| Real Effec. Exch. Rate Index | 0.854 | 0.836 | | | |
| FOREIGN DEBT | | | | | |
| Public External Debt (US$ mm) | 1,570.3 | | | | |
| Amortization | 112.0 | 174.0 | | | |
| Debt Service | 454.2 | 410.8 | 452.8 | | |
| Debt Service Ratio | 65.0 | 55.1 | 58.0 | | |
| OTHER | | | | | |
| M1 | 814.9 | 846.0 | 855.6 | | |
| Minimum Wage (L/day) ** | 6.6 | 6.6 | 6.6 | 6.6 | |
| Budget Deficit | (370.4) | (279.8) | (386.6) | | |
| Consumer Price Index | 170.9 | 178.9 | 184.9 | | |

All figures in millions of Lempiras unless otherwise specified.
* Millions of US$
** Honduras instituted a minimum wage in 1980.

# PANAMA

## I. BACKGROUND: THE ECONOMIC CONTEXT

After growing at an average annual rate of 8.0 percent during the 1960s and 4.5 percent during the 1970s, real GDP in Panama has slowed to a growth rate of approximately 3.0 percent in this decade. Given the absence of a Central Bank and independent monetary policy, all public debt must be financed by dollar-denominated borrowing. As the economy slowed, the government deficit grew, as did foreign borrowing. The government deficit reached 10.8 percent of GDP in 1982.

To rectify this imbalance, in 1983 and 1984 the authorities implemented a severe austerity program, supported by an IMF Standby Agreement. Together with the gradual closing of the Central American market and the inauspicious international economic conditions, real GDP in 1983 stagnated for the first time in over twenty years. Growth has been modest since then, but it has occurred primarily in services (i.e., the transoceanic pipeline and the Colon Free Zone) and not in goods production. As a result of the economic downturn, unemployment has growth to record levels (the official rate, regarded widely as an underestimate, is around 12 percent) as labor force participation has declined.

## II. EXPORT PROFILE

Panama has traditionally run a sizeable merchandise trade deficit. Over the past five years, this deficit has averaged $920 million yearly (f.o.b.) or 19.3 percent of Panama's GDP in 1985. This merchandise deficit has been substantially offset by large surpluses in current account services (excluding factor payments). However, with slow growth in Panama Canal transit revenue and growing debt service payments, Panama's overall current account has been in serious deficit in recent years, averaging $244 million over the 1982-86 quinquennium. Panama's external debt exceeded $3 billion at the end

of 1984, amounting to some 73 percent of GDP. This ratio is larger than that of either Brazil or Mexico.

### A. Traditional Export Performance

Panama's traditional merchandise exports (bananas, shrimp, sugar, coffee, and refined petroleum) fell from a value of $353.4 million in 1980 to $301.2 million in 1985. Of these five products, only shrimp offers the potential for substantial growth in the near future. Panama's coffee exports have not reached the quota assigned by the International Coffee Agreement since the mid-seventies. Panama's sugar exports have been decimated by drastic cuts in the U.S. sugar quota as well as very low world prices. The drop in world sugar prices is in part attributable to the European Community's subsidy program which converted the EC from a net sugar importer of 1.1 million tons in 1974 to a net exporter of 3.4 million tons in 1983. Banana exports, subject to fluctuating world market prices, have stabilized while petroleum exports have fallen to practically zero in the context of the world oil glut. Given these conditions, the development of new, nontraditional export products is an urgent necessity if Panama is to service her external debt and restore the economy to a trajectory of steady growth.

### B. Nontraditional Export Performance

In fact, nontraditional exports, starting from a miniscule base, have experienced a marked expansion since the early seventies, growing from $7.3 million in 1971, to $76.0 million in 1979, to $101.0 million in 1985 and $66.4 million during the first six months of 1986. Panama's leading nontraditional exports have been in the following categories: in agriculture, melons, watermelons, okra and scallops; and, in industry, textiles, food processing, paper products, chemicals (particularly pharmaceuticals) and non-ferrous metals. There is significant potential for further expansion in these categories if a variety of serious obstacles can be overcome.



190

## III. DETERMINANTS OF EXPORT PERFORMANCE

**ECONOMIC CONDITIONS.** Apart from drawback-type operations and primary product exports, the typical life cycle for new exports involves an initial period of production for the domestic market; however, with the domestic market stagnating, conditions in Panama are not propitious for new product development. Furthermore, rising unemployment and cutbacks in public expenditures, most recently in social security, have engendered a less stable political environment. Together with widespread cynicism and distrust for the government, the macroeconomic situation is not encouraging for new investments.

**PUBLIC SECTOR ENVIRONMENT.** The government has introduced a number of export promotion laws since the mid-1970s. These efforts have been helpful but they are generally perceived by the private sector to lack coherence and consistency. Given the historical lassitude engendered by protectionism and import substitution, piecemeal government policies are unlikely to provide the requisite "big push" needed to launch a major program of nontraditional exports. Below we shall detail what aspects of the economic environment must be addressed by government policy before Panama can enter a period of export-led growth. First it is important to review the individual legislative attempts at export promotion.

In December of 1974, effective 1975, the government created a tax credit certificate (CAT) for all non-traditional exports. The amount of the CAT is equal to 20 percent of local value added and is granted to products with a minimum of 20 percent local content. Since 1977, the CAT has been transferable. Despite its success, CAT's impact has been weakened by unpredictable and often lengthy administrative delays as well as by their concentration in certain product groups and enterprises. Nearly half the value of all CATs has been received by six enterprises.

The second attempt to encourage new exports was a January 1979 decree granting duty-free import of machinery, raw materials and

intermediate products, and exemption from sales, export and corporate income tax to companies that export their entire output of finished products. They are also granted a three-month exemption from the restrictive provisions of Panama's Labor Code (to be discussed below). As of January 1984, only seven firms employing a total of 700 workers were functioning under this program. Among other problems, the program was inadequately advertised, especially to foreign investors.

In 1982, the Investment Promotion Council (CNI) was established. Its function was to advertise investment possibilities in Panama and to facilitate foreign investors' application procedures by unifying a maze of bureaucratic steps. It appears that the CNI has carried out this second function more successfully than the first.

It should be noted that the Government has taken a number of measures in recent years at the urging of the International Monetary Fund (IMF), the World Bank, and the U.S. Agency for International Development (AID) to dismantle policies supporting the development strategies of import substitution and food self-sufficiency. By eliminating quantitative import quotas, reducing tariff barriers and removing food price supports, the intention was to generate a reallocation of resources toward those sectors in which Panama has an international comparative advantage. Non-competitive items would cease to be produced, freeing resources for new export production. Although some success from these new policies appears to be forthcoming, it must be stressed that removing price controls in a small economy like Panama's does not always lead to competitive prices. New price distortions often emerge because of the market power of producers, distributors or other interested parties.

In March of 1986, the government passed several new pieces of legislation with a bearing on imports. The new Industrial Law establishes a five-year process for the further reduction of import tariffs. This law also reduces tax exonerations for companies producing for the domestic market and it extends the 1979 decree to cover that share of company output which is exported. Amendments to

the Labor Code were also passed that, while introducing some new flexibility, are unlikely to affect employment practices or labor costs significantly. Finally, with AID support, the government has appreciably simplified the red tape necessary for exporting most products. We shall return to this point in discussing AID's programs below.

**INFRASTRUCTURAL IMPEDIMENTS.** Panama's infrastructure corresponds to that of a service, not of a goods, exporting economy. Bureaucratic practices and managerial mentality, although changing, still reflect the vestiges of a noncompetitive, protected, import substituting and services-oriented economy. As international exigencies and domestic economic policy choices lead to a new orientation, Panama's infrastructure lags behind. In a sense, as a country Panama is at the beginning of an export life cycle. Major infrastructural investments are certainly called for, as are interim subsidies to exporters in order to bring costs to competitive levels and permit rational export development.

Transportation -- land, air, and sea -- stands out as the overriding infrastructural impediment. Costs are high, service is irregular, practices are inefficient, and installations are inadequate. The problem is sufficiently important to merit a detailed discussion.

International maritime shipping primarily occurs through two ports: Balboa, at the Pacific end of the Canal, and Cristobal, at the Atlantic end. Both ports are poorly equipped with inefficient lay-outs, suffer from serious rigidities in their labor organization and are encumbered by Panama's central government control. The result is excessively high port charges and unreasonable, very costly delays.

In the early seventies, many other regional ports invested in container equipment and handling space. Balboa and Cristobal, then run by the U.S. Canal Zone Administration, did not invest in modernization. Only at the end of the decade did two private shipping

lines set up their own container gantries in Palboa. With World Bank support, the Cristobal port has invested in a container area and is scheduled to purchase two gantries. Until now, it has relied on the service of smaller container carriers, either of the roll-on/roll-off variety or vessels equipped with their own gear.

The crane of U.S. Lines at Balboa has a picking capacity of 24 containers per hour, but Balboa's poor layout and facilities reduce maximum picking to 15. One major problem is the absence of adequate container storage facilities at the port. Unloaded containers must be driven by "hustlers" several kilometers through often heavy traffic and stoplights to a storage area. At the storage area, the hustler relies upon a forklift to empty the container. The hustler must then travel an additional several kilometers on roads frequently in disrepair to pick up a new container to return to port, again depending upon the operation of a forklift for loading. A second problem is inadequate equipment maintenance machinery at the port. The hustlers, toplifters, forklifts, and other machinery all require maintenance. These services, however, are woefully deficient. The head of U.S. Lines, Pon Holloman, reported that his toplifters experienced a 60 percent downtime.

A third problem is that vehicle operators often report to work inebriated or are absent without warning. The Panamanian Labor Code, to be discussed below, makes it impossible or impractical to dismiss such workers. Among other obstacles, Holloman reported that workers routinely purchase Doctor's excuses for a small fee. Thus, not only is there insufficient equipment but, that which is available is often idle due to absenteeism or shirking. The labor system is rigid in other ways. For instance, stevedores must be hired in groups of 16 for periods of 8 hours, whether this number of labor hours is needed for a particular vessel or not.

A fourth problem pointed out by Holloman is that ships are often damaged in port. Although ships pay a separate $3,000 docking fee at Balboa, the standard dock buffers to protect the ship's side have worn

down and not been replaced. These and other problems raise port charges and unduly extend the ships' stay in port. Extra fuel costs alone from an extra day in port are estimated to total $15,000.

When Panama concentrated on import substitution and was under little competitive pressure, higher transportation costs were simply passed along in the form of higher prices with minimal complaints. As an aspiring goods exporting country, these inefficiencies can no longer go ignored.

A universal complaint of Panamanian exporters was exhorbitant shipping costs. Exporter after exporter showed me receipts comparing shipping costs per container with similar contents from Panama to Miami with shipping costs from Venezuela (or another neighboring country) to Miami, the latter being invariably cheaper by a good margin. An exporter of tiles and building materials, for example, claimed that he paid $1,560 per container while his Venezuelan competitors paid only $600 per container to Miami. This shipping cost differential amounted to 10 percent of the output price. The President of the Panamanian Association of Exporters told me that his friend imported a car from Miami through the Costa Rican Atlantic port of Puntarenas and then drove the car overland to Panama City. This circuitous route saved him several hundred dollars.

Part of the explanation of Panama's transportation difficulties certainly lies in excessive port-related costs. Part, however, lies in the low and asymmetric volume Panamanian shipping trade as well as in the low value per container of the products shipped. These characteristics make it less profitable for shipping lines to stop in Panama's ports and when they do stop, to charge higher prices. U.S. Lines and Sealand, the two largest Conference shippers, have recently discontinued northbound service from Balboa. One seafood exporter who had experienced an impressive growth in scallop exports expressed concern that he would be unable to contract with any timely shipper in the near future. Such interruptions in service not only denote the loss of a particular shipment and likely cash flow problems, but often

entail as well loss of land transportation, distribution, and marketing arrangements.

Given these circumstances, it is perhaps not surprising that the shipping Conference and exporters organizations have been at loggerheads. Twice in the last six months of 1986, the Conference attempted to raise its rates but was forced to rescind the increase. Now service is being curtailed.

Conferences do function as a cartel. When reliable non-conference shippers are unavailable, they set monopoly prices. Panamanian exporters claim exploitation. It is beyond the scope of this report to evaluate the contrasting allegations, but the pricing problem can be seen neutrally to be a function of the early phase of the export cycle. While export volume is low and asymmetrical, unit shipping costs are high. As volume grows over time, particularly with improved port efficiency, these costs decrease. From this perspective, an interim shipping subsidy might be justified.

Air shipping for perishables has similar problems. Some exporters claimed rates were twice as high from Panama as from neighboring countries. Others reported that perishable output was lost by air shipping foul-ups.

Land transportation is also very costly. Trucking companies operate in cartel-like fashion to enforce restrictive practices. Foreign truckers are prohibited from hauling cargo of Panamanian origin in Panama, meaning that foreign trucks must return home empty. Between provinces within Panama, similar regulations operate. Some interviewees alleged a link between the truck companies and the military. One said the truck companies maintained their control over land transportation with violence, citing a recent incident when the roads to Colon were blocked for days by truckers and the government took no action to clear them.

Other infrastructural deficiencies are related to financing, utilities, and telecommunications. They will be treated in the next section on microeconomic determinants.

**MICROECONOMIC DETERMINANTS.** Just as it is a sad irony that Panama with its world famous canal should have shipping difficulties, it is ironic that with over 150 international banks located in Panama City there should be financing problems for domestic nontraditional exporters. Financing problems come in all shapes and sizes, both for industrial as well as agricultural producers. In the case of the latter, however, the difficulties appear universal. Unavailability of short-term export financing as well as medium and long-term loans were frequent complaints. AID's small business loan program is well conceived and appears to be making at least a small dent in the problem for industrial producers. Agricultural loans, though, seem to have dried up several years ago when Chase and Bank of America pulled out of rural areas. New loan guarantee programs have been established and it is possible this problem will be alleviated in the future. The AID-sponsored Development Finance Corporation (FIDESA) holds particular promise, but it was just initiated in September 1986 and results are not yet visible.

Price distortions have also retarded export development. There is some dispute as to whether government control over agricultural prices through the Agricultural Marketing Institute (IMA) until October 1985 actually encouraged food self-sufficiency at the expense of export production. These controls were almost entirely removed in October 1985, however, and no longer constitute an impediment if they ever were. A more likely impediment is the existence of market-determined monopoly prices for several goods. The experience of a baking company is illustrative in this regard. The firm pays 30 cents a pound for unrefined sugar (the current world price is approximately 6 cents). They argue that this price is set in collusion between government-owned and private sugar mills. Further, the company pays $18 a bag for flour and the world price, according to them, is $11. They attribute this to the fact that flour distribution

in Panama is controlled by two companies. A similar problem exists for lard. These prices, the firm claims, makes them uncompetitive internationally. With competitive input prices, the company estimates that they would export 40 percent, in contrast to the present 1 percent, of their output.

Another microeconomic problem is the rigidities imposed by the Labor Code issued under Torrijos in 1972. The largest single complaint from exporters was that the Code makes it very difficult and expensive to dismiss a worker for almost any reason. If a worker is laid-off due to demand problems, severence pay requirements are high. Since most exporters seem to feel that their export contracts can be broken at any time (and many have experienced this), it is rather risky to hire workers for an export expansion drive. Exporters need more flexibility, either through amendments to the Labor Code or through the institution of unemployment insurance to replace burdensome severence pay requirements or both. The impracticality of dismissal, of course, also weakens workers' incentive to perform at their capacity and this lowers productivity.

There appear to be no experimental programs underway at present to increase worker productivity. Given problems of worker morale, occasional restiveness and union militance (e.g., the general strike of May 1986), the absence of quality control circles, human resource development or other management programs is surprising. A productivity commission was recently formed and it has expressed some interest in such efforts.

Panama is reputed to have both a relatively skilled and expensive labor force for the region. While this is true on the average, it obscures the reality of many enterprises. White collar skills and wages are high due to the influence of the former Canal Zone and Panama's foreign banking sector. Yet many production enterprises pay workers close to the minimum wage of 69 cents an hour. All labor payments are subject to an approximately 40 percent social benefits tax. The Panamanian government does not record wage and salary data

systematically, making it difficult to decipher the true labor costs in this dual labor market. According to data presented by the International Labor Organization, average monthly earnings in 1982 in Panamanian manufacturing were more than double those in Costa Rica, 16 percent greater than those in Honduras and 28 percent greater than in Guatemala. It appears that these data apply to all employees, not just production workers.

Electricity costs in Panama in 1980 were more than double those in Jamaica, El Salvador, and Honduras, 50 percent above those in Costa Rica, but 50 percent below those in Guatemala. According to World Bank estimates, international telephone rates in Panama were 20 percent above those in Costa Rica, slightly above the rates in Guatemala and El Salvador, but below the rates in several other Caribbean Basin Initiative countries.

Knowledge of marketing channels and opportunities is being developed and did not appear to be an operative bottleneck to export expansion in most cases. Marketing knowledge is being gathered and disseminated very effectively by the AID-supported Export Promotion Institute, IPCE. IPCE has also made great strides in simplifying and expediting administrative procedures for exporting. IPCE's head, Paul Leignadier, is a dynamic, impressive figure who seems to have generated some momentum and esprit de corps among Panamanian exporters.

**OTHER CONSIDERATIONS.** Above we argued that the Panamanian government has not implemented a consistent package of measures to promote export development. Further, with changing and fragile political regimes, policy direction has often shifted. Contraband is still prevalent and most believe the military is actively involved. Whatever his deficiencies, Torrijos was able to impart a clear policy orientation and relatively stable institutional framework. Today, it appears that political parties work at cross purposes to each other from their ministerial posts and that the military continues to pull many economic strings. Businessmen complain it is unclear who is



191

making policy and who is responsible for its implementation. New export product promotion is inherently risky, even in a stable institutional context. Appreciable success in nontraditional exports will require changes in Panamanian politics.

It is equally imperative that United States' policy toward Caribbean Basin Initiative (CBI) exports be made consistent. While the United States says it is promoting Caribbean Basin exports and CBI treatment eliminated the .625 cents per pound tariff on imported sugar, the United States reduced sugar imports from Latin America by over 70 percent between 1981 and 1985, with further substantial reductions in 1986 and 1987. Part of the explanation for this import reduction lies in the growing substitution of high fructose corn syrup for sugar by U.S. soft drink producers (itself a function of government price supports), but another part lies in the fact that U.S. cane producers have been allowed to expand their output in recent years as domestic demand has fallen. It is difficult for Latin exporters to understand the rationale of this policy in the context of CBI exhortations for improved export performance. Similarly, many Panamanians question the continuation of U.S. protection of textiles, apparel, and tuna -- products for which a considerable export potential out of the Caribbean Basin exists.

The largest problem in this regard has been created by the November 1986 decision of the U.S. International Trade Commission (ITC) to put a 46.5 percent duty on Costa Rican flowers. Not only were the ITC's domestic cost determination methods dubious, but the finding that export-related tax credits were countervailable has thrown a monkey-wrench into the whole conception of policy measures for export promotion. Further, although the duty is on Costa Rican flowers, Panamanian exporters see it as a direct threat to themselves. Since any damaged U.S. producer can bring a suit before the ITC without regard to U.S. government intentions or the CBI preferences, Panamanian exporters treat the case of Costa Rican flowers as symbolic of what happens whenever the CBI effort bears fruit and export success is achieved. Given the natural hurdles to effective export promotion



200

and the inherent riskiness of new ventures, this ambiguity in U.S. policy has a devastating effect on export development efforts.

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

The aforementioned constraints notwithstanding, there are many bright prospects on Panama's export horizon. "Maquila" or drawback-type assembly in the Colon Free Zone, with low value added and linkage contributions, has been expanding rapidly. Scallop fishing and exporting has skyrocketed to over $20 million annually and has significant potential for continued growth.

There exists considerable promise for the development of small-scale, labor-intensive selected vegetable and fruit crops for export, particularly near the rivers of the central provinces. An asparagus marketing cooperative, supported by AID's Agriculture Cooperative Marketing Project, is about to export its first crop. The further expansion of melon and beef exports is also feasible. Agroexport development will depend upon the availability and conditions of long-term financing. Gestation periods for new projects in this area are typically two to four years; loans with grace periods of this length are necessary. AID-supported feasibility studies as well as marketing assistance and technical aid are indispensable.

An enormous potential exists in the development of Panamanian forestry products, especially for tropical hardwoods from the forests of Darien. There is, however, a danger of unregulated exploitation of forestry resources unless the Government's National Renewable Resources Institute is strengthened.

Given its human resources and geographical location, Panama has considerable potential in the area of industrial exports as well. This applies both to the expansion of existing export products (e.g., designer clothes, building materials, cosmetics, radiators, food processing, assembly of electronics, and medical and pharmaceutical products) and to the development of new, "high technology" projects.



201

As always, most export products offer the opportunities for either forward or backward linkages. These should be pursued on a case-by-case basis with greatest priority given to those products with higher domestic value added components and potential spread effects. Many export projects would benefit from the expansion of the domestic parts industry (e.g., through the development of a network of small machine shops).

## V. ACTION RECOMMENDATIONS

Given the nature of this investigation, any recommendations must be seen as preliminary and should be subjected to further study. Most recommendations flow directly out of the deficiencies and obstacles described above.

### A. Improve Infrastructure

Major infrastructural investments are needed. This observation applies most forcefully to Panama's ports where management and labor reforms are also needed. It has been suggested that port services be contracted out to private bidders; this suggestion merits further consideration. In addition, as argued above, interim subsidy programs for shippers and exporters seem desirable until competitive service prices become available.

### B. Reduce Restrictive Practices on Inputs

Labor reforms might include (a) the introduction of a national unemployment insurance program to replace the current severance pay system and (b) greater clarity, consistency and flexibility in the mechanisms of the employment contract as detailed in the Labor Code. Other needed reforms include the end of restrictive practices in trucking and more competitive pricing for certain goods, e.g., sugar, flour, fertilizers, insecticides, etc. Such price reform might be facilitated by more open trade with Central America.



202

## C. Expand Capital and Credit Availability

Credit availability is a ubiquitous issue for new exporters. Current financing opportunities are inadequate, but a variety of AID programs offer substantial promise to attenuate this constraint. Projections of AID's FIDESA program anticipate a large positive net balance of payments effect, reaching an annual sum of $70.4 million by 1996. It seems that the AID financing effort for agroexporters could be expanded. The Export Promotion Institute (IPCE) warrants AID's ongoing support. Marketing and technical aid are also imperative and must be provided along with credit on a consistent basis during the entire gestation period of selected projects.

## D. Promote Exports Based on True Comparative Advantage

Finally, there is a danger that emphasizing labor intensive projects, based upon a presumed comparative advantage in cheap labor, will lock Panama into low productivity industries. This circumstance, coupled with strong competition from other CBI countries and the rapidly expanding "maquiladoras" or northern Mexico, will impede income growth and standard of living improvements for the majority of Panamanians. This prospective dilemma can be confronted by emphasizing integrative projects and specialization through regional CBI planning and by the search for projects of intermediate capital intensity with a significant technological component. An AID-funded CBI scientific research and development institute might facilitate the identification and promotion of such projects.



20

## LIST OF INTERVIEWS

Bernie Masters
USAID Office of Development Planning

Bernai Velarde
USAID Small Business Project

Victor Ossa, Director
Radiadores Panama S.A., (Radiators)

Luis Ossa, Assistant Director
Radiadores Panama S.A., (Radiators)

Rafael Stanziola, Director
Productos Premier S.A., (Brooms, Mops, Brushes)

Ruben Dario Ortega-Vieto, Deputy Director
Instituto Panameno de Comercio Exterior (IPCE)

Paul Leignadier, Executive Director
Instituto Panameno de Comercio Exterior (IPCE)

Pamela Carpenter Navarro, Director
Miraflores Tropicales, S.A., (Flowers)

Tomas Ugarte
USAID Agriculture Loan Project

Benito Suarez, Director
Arcitek, S.A., (Construction, Materials, Tiles)

Paul Trivelli, Economist
U.S. Embassy

Sam Staret, Commercial Officer
U.S. Embassy

Fred Denton
American Chamber of Commerce

Jorge Fuentes, Subdirector of Foreign Trade
Contraloria General

Ron Holloman, Director
U.S. Lines, Balboa

Juan Jose Franco, Engineer
Coagro S.A., (Agro-Exports)

Issac Blasser
Queen Chemical Industry (Cosmetics, Perfume)

Daniel Vega, Director
Associacion de Exportadores Panamenos (APEX)

Rogelio Alvarado, Economist
Association of Panamanian Industrialists (SIP)

Dario Salles, Director
Association of Panamanian Industrialists (SIP)

Kermit Moh
USAID Export Development Project

David Dayan, Director
Dayan Hermanos, S.A., (Men's Shirts)

Tomas Fermin Chan, Director, Fermin Chan S.A.
and President, Panamanian Garment Association (Pants, Shirts, Sweatsuits)

Jorge Luque, Director
Sea Fruit S.A. (Shrimp, Scallops, Lobsters)

Juan Alberto Pascual, Director
Galletas Pascual S.A., (Cookies)

Juan Antonio Varela, Director, Varela Hermanos S.A.
and President, National Productivity Council (CONDEPRO), (Liquor)



205

PANAMA
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1983

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| | Total exports | 244,252 | 291,476 | 353,377 | 319,420 | 310,211 | 302,625 |
| 0 | Food and live animals | 156,284 | 179,355 | 226,387 | 219,102 | 192,590 | 225,518 |
| 01 | Meat and preparations | 490 | 1,564 | 3,181 | 5,098 | 9,401 | 4,110 |
| 02 | Dairy products and birds' eggs | 3,007 | 4,051 | 7,865 | 7,591 | 3,943 | 3,586 |
| 03 | Fish and preparations | 33,076 | 47,652 | 51,240 | 52,271 | 60,186 | 60,903 |
| 04 | Cereals and preparations | 4,460 | 3,463 | 144 | 233 | 1,349 | 1,735 |
| 05 | Fruit and vegetables | 76,099 | 70,613 | 65,858 | 75,324 | 70,637 | 80,422 |
| 06 | Sugar, honey and preps. | 20,382 | 27,028 | 69,752 | 55,034 | 25,589 | 42,776 |
| 07 | Coffee, tea, cocoa, spices | 12,104 | 13,902 | 13,015 | 15,380 | 15,104 | 18,964 |
| 08 | Animal feeding stuff | 4,203 | 8,062 | 10,700 | 4,446 | 1,764 | 5,596 |
| 09 | Misc. food preparations | 2,194 | 2,686 | 3,279 | 1,917 | 1,730 | 2,340 |
| 1 | Beverages and tobacco | 2,659 | 3,999 | 5,290 | 5,448 | 5,029 | 5,331 |
| 11 | Beverages | 1,438 | 2,324 | 3,887 | 3,264 | 2,755 | 3,214 |
| 12 | Tobacco and mfrs. | 1,221 | 1,675 | 1,403 | 2,184 | 2,274 | 2,117 |
| 2 | Crude matls. excl. fuels | 903 | 1,972 | 1,798 | 2,402 | 2,326 | 3,081 |
| 21 | Hides, skins, furs, undrssd | | | 396 | 432 | 914 | 919 |
| 28 | Metalliferous ores and scrap | 326 | 973 | 917 | 1601 | 941 | 1454 |
| 3 | Mineral fuels etc. | 60,141 | 72,397 | 81,839 | 58,434 | 70,279 | 36,503 |
| 33 | Petroleum and products | 60,115 | 72,397 | 81,839 | 58,434 | 70,279 | 36,503 |
| 4 | Animal, vegetable oil, fat | 1,675 | 1,391 | 4,685 | 1,296 | 290 | 884 |
| 41 | Animal oils and fats | 1,529 | 1,378 | 4,685 | 1,296 | 290 | 884 |
| 5 | Chemicals | 2,074 | 3,625 | 4,566 | 6,745 | 4,185 | 6,007 |
| 53 | Dyes, tanning, color prod. | | | 398 | 293 | 206 | 1,321 |
| 54 | Medicinal, etc., products | | | 1,426 | 1,602 | 2,198 | 1,549 |
| 55 | Perfume, cleaning, etc. prds. | 863 | 1,552 | 1,875 | 1,560 | 1,467 | 1,956 |
| 59 | Chemicals nes. | 608 | 1,153 | 798 | 175 | 142 | 935 |

PANAMA, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1983

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| 6 | Basic manufactures | 9,531 | 16,082 | 13,500 | 11,858 | 13,821 | 14,300 |
| 61 | Leather, dressed fur, etc. | 2,217 | 5,365 | 2,402 | 2,560 | 5,224 | 4,463 |
| 62 | Rubber manufactures nes. | | | 26 | 924 | 1236 | 1749 |
| 64 | Paper, paperboard and mfr. | 2,410 | 3,377 | 5,687 | 3,369 | 4,038 | 3,363 |
| 65 | Textile yarn, fabric, etc. | 586 | 806 | | | | |
| 66 | Nonmetal mineral mfs. nes. | 696 | 3,007 | 134 | 1,573 | 926 | 1,141 |
| 68 | Non-ferrous metals | 1,469 | 2,076 | 1,337 | 1,349 | 948 | 1,996 |
| 69 | Metal manufactures nes. | 1,400 | 969 | 1,939 | 1,029 | 759 | 834 |
| 7 | Machines, transport equipment | 22 | 206 | | | | |
| 71 | Machinery, nonelectric | 6 | 2 | | | | |
| 8 | Misc. manufactured goods | 10,923 | 12,469 | 14,785 | 16,695 | 21,214 | 10,348 |
| 84 | Clothing | 8,614 | 8,574 | 10,442 | 13,978 | 17,289 | 7,611 |
| 85 | Footwear | 347 | 1,444 | 1,217 | 768 | 1,718 | 1,308 |
| 89 | Misc. manufactured goods nes | 1,737 | 2,212 | 2,833 | 1,731 | 2,122 | 984 |

## Quantifiable Determinants of Nontraditional Exports
## PANAMA
## 1963 - 1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 47.8 | 60.1 | 68.9 | 78.8 | 85.2 |
| Traditional Exports | 45.4 | 56.1 | 64.3 | 71.5 | 78.9 |
| Nontraditional Exports | 2.4 | 4.0 | 4.6 | 7.3 | 6.3 |
| Merchandise Imports (FOB) | 162.8 | 181.4 | 189.6 | 234.8 | 250.7 |
| Trade Balance | (115.0) | (121.3) | (120.7) | (156.0) | (165.5) |
| Current Account Balance | (25.0) | (21.0) | (30.0) | (40.0) | (26.0) |
| CACM Exports | | | | 2.1 | 1.8 |
| CACM Exports as % of Exports | | | | 2.7 | 2.1 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 559.5 | 600.8 | 659.9 | 719.0 | 800.7 |
| GDP Growth (Nominal) | | 7.4 | 9.8 | 9.0 | 11.4 |
| GDP (1960 prices) | 1,295.3 | 1,352.7 | 1,476.6 | 1,588.5 | 1,724.4 |
| GDP Growth (Real) | | 4.4 | 9.2 | 7.6 | 8.6 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Fixed Capital Formation | 96.6 | 87.8 | 100.1 | 142.1 | 152.7 |
| Private | | | | | |
| Public | | | | | |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 114.5 | 126.9 | 160.1 | 184.2 | 221.5 |
| EXCHANGE RATE | | | | | |
| Exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 59.7 | 50.8 | 55.5 | 61.9 | 70.2 |
| White Collar Salary (B/mo.) | 130.6 | 134.0 | 135.6 | 146.8 | 154.0 |
| Budget Deficit | (16.3) | (2.3) | (3.4) | (6.8) | (12.9) |
| GDP Deflator (1980=100) | 43.2 | 44.4 | 44.7 | 45.3 | 46.4 |
| Wholesale Price Index | | | | 30.9 | 31.2 |

All figures in millions of Balboas unless otherwise specified.
* Million SDRs



208

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 93.8 | 108.8 | 106.3 | 114.9 | 121.4 |
| Traditional Exports | 86.4 | 101.1 | 98.6 | 107.6 | 109.1 |
| Nontraditional Exports | 7.4 | 7.7 | 7.7 | 7.3 | 12.3 |
| Merchandise Imports (FOB) | 266.3 | 305.4 | 326.3 | 359.0 | 401.1 |
| Trade Balance | (172.5) | (196.6) | (220.0) | (244.1) | (279.7) |
| Current Account Balance | (15.0) | (29.0) | (64.0) | (73.0) | (98.0) |
| CACM Exports | 2.8 | 2.8 | 3.0 | 4.0 | 5.5 |
| CACM Exports as % of Exports | 3.0 | 2.6 | 2.8 | 3.5 | 4.5 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 861.4 | 945.4 | 1,021.2 | 1,151.9 | 1,264.9 |
| GDP Growth (Nominal) | 7.6 | 9.8 | 8.0 | 12.8 | 9.8 |
| GDP (1960 prices) | 1,844.7 | 2,000.4 | 2,081.7 | 2,281.9 | 2,386.5 |
| GDP Growth (Real) | 7.0 | 8.4 | 4.1 | 9.6 | 4.6 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Fixed Capital Formation | 173.5 | 200.7 | 261.9 | 306.3 | 372.2 |
| Private | | | | | |
| Public | | | | | |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 253.2 | 307.3 | 393.2 | 516.0 | 685.1 |
| EXCHANGE RATE | | | | | |
| Exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 80.9 | 84.8 | 100.5 | 105.4 | 153.6 |
| White Collar Salary (B/mo.) | 162.2 | 168.2 | 177.3 | 181.4 | 179.5 |
| Budget Deficit | (8.3) | (62.1) | (49.1) | (32.3) | (105.7) |
| GDP Deflator (1980=100) | 46.7 | 47.3 | 49.1 | 50.5 | 53.1 |
| Wholesale Price Index | 31.8 | 32.3 | 33.3 | 35.1 | 38.0 |

All figures in millions of Balboas unless otherwise specified.
* Million SDRs



201

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 135.3 | 204.3 | 280.0 | 228.1 | 244.6 |
| Traditional Exports | 115.8 | 180.6 | 248.5 | 191.2 | 192.1 |
| Nontraditional Exports | 19.5 | 23.7 | 31.5 | 36.9 | 52.5 |
| Merchandise Imports (FOB) | 454.0 | 755.7 | 815.6 | 779.7 | 775.9 |
| Trade Balance | (318.7) | (551.4) | (535.6) | (551.6) | (531.3) |
| Current Account Balance | (111.0) | (224.0) | (169.0) | (176.0) | (155.0) |
| CACM Exports | 9.1 | 14.3 | 14.8 | 16.7 | 26.7 |
| CACM Exports as % of Exports | 6.7 | 7.0 | 5.3 | 7.3 | 10.9 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,446.6 | 1,654.1 | 1,840.8 | 1,956.3 | 2,069.8 |
| GDP Growth (Nominal) | 14.4 | 14.3 | 11.3 | 6.3 | 5.8 |
| GDP (1960 prices) | 2,514.5 | 2,576.0 | 2,620.9 | 2,664.5 | 2,693.7 |
| GDP Growth (Real) | 5.4 | 2.4 | 1.7 | 1.7 | 1.1 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | | | | | |
| Fixed Capital Formation | 434.8 | 465.1 | 535.5 | 608.6 | 445.9 |
| Private | | | | | |
| Public | | | | | |
| Foreign Direct Investment * | | | | | 9.3 |
| Domestic Credit | 871.1 | 1,235.7 | 1,425.7 | 1,532.3 | 1,591.2 |
| EXCHANGE RATE | | | | | |
| Exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | 457.5 | | 770.7 | | 1,333.5 |
| Debt Service | 87.0 | | 72.4 | | 161.4 |
| Debt Service Ratio | | | | | |
| (% of Merch. Exports) | 64.3 | | 25.9 | | 66.0 |
| OTHER | | | | | |
| M1 | 161.1 | 196.3 | 173.1 | 190.0 | 213.2 |
| White Collar Salary (B/mo.) | 188.4 | 229.6 | 241.3 | 262.8 | 280.6 |
| Budget Deficit | (144.7) | (195.2) | (148.0) | (164.2) | (90.3) |
| GDP Deflator (1980=100) | 57.5 | 64.2 | 70.2 | 73.4 | 76.8 |
| Wholesale Price Index | 42.0 | 54.8 | 62.4 | 67.3 | 72.2 |

All figures in millions of Balboas unless otherwise specified.
* Million SDRs



210

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 246.8 | 294.7 | 353.4 | 319.4 | 310.2 |
| Traditional Exports | 191.5 | 218.7 | 263.1 | 236.5 | 224.8 |
| Nontraditional Exports | 55.3 | 76.0 | 90.3 | 82.9 | 85.4 |
| Merchandise Imports (FOB) | 844.8 | 1,062.9 | 1,288.9 | 1,372.5 | 1,407.4 |
| Trade Balance | (598.0) | (768.2) | (935.5) | (1,053.1) | (1,097.2) |
| Current Account Balance | (208.0) | (311.0) | (311.0) | 56.0 | (51.0) |
| CACM Exports | 26.6 | 29.6 | 46.5 | 32.9 | 27.6 |
| CACM Exports as % of Exports | 10.8 | 10.0 | 13.2 | 10.3 | 8.9 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 2,452.5 | 2,800.2 | 3,558.8 | 3,878.0 | 4,278.9 |
| GDP Growth (Nominal) | 18.5 | 14.2 | 27.1 | 9.0 | 10.3 |
| GDP (1980 prices) | 2,957.4 | 3,091.1 | 3,558.8 | 3,707.6 | 3,911.1 |
| GDP Growth (Real) | 9.8 | 4.5 | 15.1 | 4.2 | 5.5 |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 11.5 | 13.8 | 13.7 | 21.2 | 16.1 |
| Fixed Capital Formation | 606.3 | 661.2 | 866.4 | 1,079.6 | 1,185.4 |
| Private | | | | | |
| Public | | | | | |
| Foreign Direct Investment * | (2.0) | 38.5 | (35.8) | 4.8 | 0.4 |
| Domestic Credit | 1,599.1 | 1,979.9 | 2,346.1 | 2,868.5 | 3,057.1 |
| EXCHANGE RATE | | | | | |
| Exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | 1,880.5 | 2,078.4 | 2,265.9 | 2,379.0 | 2,820.9 |
| Debt Service | 565.2 | 386.5 | 465.3 | 493.3 | 613.9 |
| Debt Service Ratio (% of Merch. Exports) | 177.0 | 131.2 | 131.7 | 154.4 | 197.9 |
| OTHER | | | | | |
| M1 | 246.0 | 301.3 | 335.3 | 359.7 | 379.3 |
| White Collar Salary (B/mo.) | 287.7 | 306.5 | 336.7 | 356.4 | 374.7 |
| Budget Deficit | (98.2) | (275.2) | (190.8) | (232.4) | (340.1) |
| GDP Deflator (1980=100) | 82.9 | 90.6 | 100.0 | 104.6 | 109.4 |
| Wholesale Price Index | 76.0 | 86.7 | 100.0 | 110.0 | 119.1 |

All figures in millions of Balboas unless otherwise specified.
* Million SDRs

| | 1983 | 1984 | 1985 | 1986 | |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 303.5 | 258.2 | 301.2 | 163.2 | (Jan-June) |
| Traditional Exports | 220.7 | 179.1 | 200.2 | 96.8 | |
| Nontraditional Exports | 82.8 | 79.1 | 101.0 | 66.4 | (Jan-June) |
| Merchandise Imports (FOB) | 1,231.7 | 1,167.9 | 1,205.1 | 1,220.9 | |
| Trade Balance | (928.2) | (909.7) | (903.9) | | |
| Current Account Balance | 247 | (70.0) | 21.0 | | |
| CACM Exports | 24.9 | | | | |
| CACM Exports as % of Exports | 8.2 | | | | |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 4,373.7 | 4,540.5 | | | |
| GDP Growth (Nominal) | 2.2 | 3.8 | | | |
| GDP (1980 prices) | 3,925.5 | 3,908.4 | 4,036.6 | | |
| GDP Growth (Real) | 0.4 | (0.4) | 3.3 | | |
| CAPITAL FORMATION | | | | | |
| Nominal Lending Rate | 13.1 | 14.0 | 12.5 | | |
| Fixed Capital Formation | 917.8 | 811.2 | | | |
| Private | | | | | |
| Public | | | | | |
| Foreign Direct Investment * | 46.0 | | | | |
| Domestic Credit | 3,194.5 | 3,421.7 | 3,514.1 | | |
| EXCHANGE RATE | | | | | |
| Exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | 2,986.2 | | | | |
| Debt Service | 471.5 | | | | |
| Debt Service Ratio (% of Merch. Exports) | 155.4 | | | | |
| OTHER | | | | | |
| M1 | 372.6 | 381.0 | 409.5 | | |
| White Collar Salary (B/mo.) | 377.9 | | | | |
| Budget Deficit | (51.0) | (52.0) | | | |
| GDP Deflator (1980=100) | 111.4 | 116.2 | | | |
| Wholesale Price Index | 122.0 | 123.1 | 127.9 | | |

All figures in millions of Balboas unless otherwise specified.
* Million SDRs



212

## DOMINICAN REPUBLIC

### I. INTRODUCTION: THE ECONOMIC CONTEXT

The agricultural sector and its associated processing industries have historically provided the principal contributions to the Dominican Republic's economy, in the form of income, employment, and export earnings. After having expanded at the relatively high annual average rate of 6.0 percent in the 1960s and early 1970s, however, the agricultural sector has stagnated over the past decade. Among the factors behind this lack of growth performance are declines in demand (or quotas) for agricultural exports, limits on arable land, and a general absence of economic incentives as compared to those offered in other sectors.

Agriculture's share of the country's domestic output fell from 26 percent in 1965 to 15 percent in 1984. The share of industry (including mining) has risen commensurately, from 20 percent to 31 percent over the period. The share of the service sector, the most important components of which are tourism and commmerce, has remained constant at 53 percent of total gross domestic product.

In the aggregate, the Dominican economy posted very high growth rates (8.5 percent on average) between 1965 and 1973. In the "oil crisis period" of 1973-1984, however, the nation's GDP growth faltered to an average annual rate of only 3.3 percent, or just slightly above the population growth rate of about 2.4 percent. The economy has been subjected to a series of adverse trends and events, such as hurricanes (1979) and other poor weather conditions, high energy import costs, declining sugar prices and weakened international demand for bauxite and ferronickel.

The combination of externally-imposed problems beyond the control of the government with policy-induced budget expenditures and deficits led to a severe foreign exchange crisis in the early 1980s. The government was forced to enter into a three-year, $390 million

Extended Fund Facility agreement with the International Monetary Fund (IMF). This agreement was suspended in the fall of 1983, however, due primarily to the government's failure to reduce the growth of public expenditures. A new agreement was reached in April 1984, and price rises caused by a reduction in subsidies led to serious riots.

In early 1985, after a continuing series of negotiations with the Dominican Republic's creditors, the government implemented a harsh stabilization program, involving currency devaluation, tight monetary policies, tax increases, and controls on public sector expenditures. The government subsequently rescheduled a large portion of the country's external debt. The austerity program imposed led to a sharp recession, including the first reduction in real output (officially 1.2 percent) since 1965. Preliminary estimates indicate that a modest recovery of Dominican output took place in 1986, with a growth rate in the range of 1.0-2.0 percent.

The basic policy stance of the Dominican government, headed by President Joaquin Balaguer (elected in mid-1986), is to maintain the austerity strategy of tight monetary and fiscal policies, in hopes that rises in tourism, nontraditional exports, and other economic diversification activities will over time improve the country's economic performance and reduce the currently high rate of unemployment.

## II. TRADE AND PAYMENTS PROFILE

Despite considerable expansions of import substitution activities undertaken over the past two decades, the Dominican economy is heavily dependent on increasing exports to finance needed imports and service the debt. The country's import bill of about $1.2 billion in recent years amounts to about one quarter of the nation's total output. The share of fuel costs in total imports has risen from 10.0 percent in 1965 to 36.0 percent in 1983, bringing the shares of food, machinery, transportation and other manufactured imports down.

The Dominican Republic's composition of exports has historically been dominated by a small number of agricultural (sugar, coffee, cocoa, and tobacco) and mineral (bauxite, ferronickel, and gold) products. Dominican authorities deem mineral exports to be nontraditional, but they are considered traditional for purposes of this study because they have been exported for a considerable number of years and they fall into a category which is generally viewed as traditional. The calculation of even reasonable estimates of the shares of nontraditional manufactured good exports is hindered by the fact that official statistics on the exports of the free zones are not published, and hence export totals do not include these figures. Historically, according to official statistics, the export share of the seven traditional commodities noted above remained at around 90.0 percent of total Dominican exports. This share fell to only about 82.3 percent in 1985 and is expected to continue to decline in the future.

The Dominican Republic's merchandise trade balance fluctuated between surpluses and deficits until 1976, after which a structural deficit appeared and grew to an average annual level of about $500 million in the 1980s. These deficits are offset to a certain extent in the current account by new inflows in two categories -- remittances of funds from Dominicans living abroad, and receipts from tourism. Private remittances have grown steadily in recent years, to annual rates averaging about $200 million.

Tourism has become a major growth industry, particularly as a relatively low-cost destination following devaluation of the peso. Four large, new tourist hotels on the north coast "tourist zone" were completed in 1985, as well as several smaller hotels throughout the country. The country's net revenues on travel have expanded from $371 million in 1984 to a projected $470 million in 1986, thereby far surpassing sugar as the nation's largest earner of foreign exchange.

The Dominican Republic's current account deficits have been financed by capital inflows. Foreign direct investment has recorded



215

net inflows into the economy in all recent years but 1982. The major burden of balance of payments financing, however, has fallen on official borrowings from foreign governments and banks. These borrowings have over time led to a considerable buildup of external indebtedness, and to the consequent debt servicing crisis of 1983 through 1985.

In 1985, the government successfully rescheduled $290 million of its official bilateral debt with the United States and other Paris Club members. Private commercial banks agreed to a multi-year debt rescheduling of some $800 million, permitting the country to spread its payments over a 13-year period. These reschedulings have greatly reduced the pent-up pressures on the nation's current payments structure, which had been mired in the need to meet ballooning interest and amortization repayment requirements. Despite the spreadout of payments and the government's austere policy stance, the Dominican Republic is reportedly slipping back into arrearages, estimated at about $150 million at the end of September 1986.

### A. Traditional Export Performance

As noted above, the composition of Dominican exports has been dominated by sales of about seven agricultural and mineral commodities. Among these, the leading role has been played by sugar. Sugar cane is grown principally on the country's southern coastal plain. Except for plantations in the Barahona area, which benefits from major irrigation infrastructure, cane operations are dependent on water from natural rainfall, and are therefore vulnerable to adverse climatic conditions.

The Dominican Republic has for decades been one of the world's largest sugar producers. With the United States as its primary market, the Dominican Republic benefited in the 1960s from the closing of U.S. economic relations with Cuba, a significant export competitor. From 1950 to the mid-1970s, sugar exports constituted about one half of total Dominican exports, growing from $44 million in 1950 to a



216

historical peak of $577 million in 1975, due to unprecedented rises in international sugar prices. Dominican sugar earnings have since that year ebbed and flowed as a direct consequence of swings in world demand and prices. In recent years, however, the country's exports of sugar have declined considerably, to only $207 million in 1985 and an estimated $177 million in 1986, as a result of cuts in the U.S. sugar quota and lower sugar prices. The Dominican Republic is the largest foreign supplier of sugar to the United States. From exports of 447,000 tons in 1982, the country's sugar quota was reduced continously to 278,000 tons in 1986. Due to quota reductions and long-term shifts in consumer tastes away from sugar, most Dominican executives indicate privately that sugar is something of a lost cause over the long run. As a result, both the government and the private sector have long sought to diversify the agricultural sector away from sugar production.

A second tier of traditional agricultural exports, in terms of relative foreign exchange earnings, consists of coffee and cacao. Coffee is grown primarily on smallholdings, whose owners rely on migrant workers during harvest seasons. With exports of about $12.7 million in 1950 and accounting for about 15 percent of the nation's total exports in that year, coffee sales stagnated in real terms until the massive commodity price fluctuations of the mid-1970s. Earnings grew to as high as $185 million in 1977, and have fluctuated in a descending pattern since that time. An export rise from $90 million in 1985 to an estimated $160 million in 1986 has occurred as a result of rises in the value but not the volume of coffee exports.

Cocoa is cultivated chiefly in the northern province of Duarte. Foreign exchange earnings from sales of cocoa beans and products have historically fallen below those of coffee, and have been somewhat less susceptible to cyclical swings. Cocoa exports have varied around an average of $60 million from 1980 to 1985, and are expected to have grown modestly in 1986.

The Dominican Republic's last traditional agricultural product, tobacco, has never had a material impact on the country's overall export earnings. International sales expanded gradually to a peak of $66 million in 1981 (accounting for 5.5 percent of total exports), but fell off to annual averages of approximately $20 million in subsequent years. However, the domestic tobacco industry has provided the raw material for the large and growing nontraditional export sector producing cigars and processed tobacco.

The Dominican Republic's traditional mineral exports consist of bauxite, ferronickel and gold. Bauxite was the first ore export, exploited beginning in 1959 from commercial reserves found in the country's southwest peninsula, very close to the border with Haiti. Bauxite exports expanded at a modest rate, reaching a high point of $23.1 million in 1978, and declining rapidly thereafter. No bauxite has been exported since 1983.

The production and exportation of ferronickel, used in metal alloys, was initiated in 1972 and grew rapidly to become one of the nation's major foreign exchange earners. Until 1982, ferronickel sales accounted for between ten and fifteen percent of total exports. However, in 1982, the second oil-induced global recession forced exports down drastically to only $24 million (from a 1979 peak of $123 million). In recent years, export levels have recovered, to $120 million in 1985.

Exports of gold or, more precisely, dore (a gold/silver mixture) have been of considerable importance in recent years. Once could legitimately question whether gold represents a traditional export, since international sales did not begin until 1975. These exports grew very rapidly until 1980, when sales of nearly $260 million represented as much as 27.1 percent of total Dominican exports. These exports have declined consistently in recent years, because the mine's once rich reserves have dwindled. An estimated $400 million investment in a new mining/refining process is required to revitalize the industry, and the World Bank has been approached for a loan. The

country's 1985 sales of dore amounted to $114 million and are estimated to have grown slightly in 1986.

## B. Nontraditional Export Performance

Unlike most countries in the Caribbean region, the Dominican Republic's expanding nontraditional export sector is diversified in both agricultural and manufacturing categories. Agribusiness concerns have for several years actively sought to expand their product lines, and light manufacturing companies have been established to take advantage of the country's low wage structure.

Analysis of the Dominican Republic's nontraditional exports is complicated by major data deficiencies. For example, the government does not regularly collect and publish data on the exports generated in the free zones, on the grounds that sales from the zones do not represent true exports, since they only "re-export" imported components which are processed or assembled in the zones. As a result, official figures for exports only include transactions conducted outside the zones. In addition, official figures are subject to a serious degree of under-reporting, given the commonplace practice of invoicing at below true value levels in order to retain foreign exchange abroad.

Notwithstanding these and other statistical problems, there is sufficient evidence to indicate that the production and sale of nontraditional exports have indeed "taken off" in the Dominican Republic, and represent the only significant prospect for growth in the future. The expansion of these exports require time, however, and hence earnings from nontraditional exports have not yet increased to the point of compensating for reductions in the country's traditional exports.

According to statistics collected by CEDOPEX, the government export promotion agency, nontraditional exports accounted for 17.3 percent of total exports in 1985. These figures do not, however,

include exports from the free zones. Including zone exports, the share of nontraditional exports doubles to 35.2 percent. U.S. trade data indicate that 53.7 percent of Dominican exports to the United States are in "nontraditional" categories.

By any standard, apparel heads the list of the Dominican Republic's nontraditional exports. Almost all of these garments are sold to the United States under "807" trade provisions allowing duties to be applied only to the locally-added value of products. Pre-cut clothing pieces are brought in from the United States, are assembled in Dominican factories, and are shipped back to the United States. Apparel exports to the United States have grown at a high rate, from $138 million in 1983 to $175 million in 1984 and $217 million in 1985. Sales in 1986 are estimated at over $300 million. The Dominican Republic is the largest Caribbean Basin apparel exporter to the United States.

The garment industry employs the greatest number of workers in the export free zones, and produces the vast majority of zone exports. Nationwide, the apparel industry is estimated to employ somewhere between 100,000 to 150,000 workers, producing clothing for local and export markets.

So long as local wage rates do not rise significantly in U.S. dollar terms, the only practical limit on Dominican apparel exports is the U.S. quota under the multifiber arrangement. In fact, the Dominican Republic has become the site for a number of factories opened by East Asian firms, since their home factories have reached their quota limits. Dominican companies have filled their quotas in several clothing categories, but can diversify into other items.

Other major export goods produced in the free zones include processed tobacco and cigars, paper medical gowns, computer parts, electrical switching gear, shoe parts and other leather products, and gold chains. Total exports in each of these categories exceeded $10 million in 1985. Values of sales in all of these product areas have

fluctuated in recent years, but the overall trend is favorable. According to CEDOPEX statistics, exports from the free zones have risen from $175 million in 1983 to $194 million in 1984 and $205 million in 1985. About ninety percent of the output of the free zones is exported to the United States.

Nontraditional manufactured goods produced outside the Dominican Republic's free zones include a wide variety of products. Processed foods include beef, cream of coconut, canned peas, and cocoa butter. Among nonfood export items are wearing apparel, leather purses, chemical fertilizer, wood furniture, dry batteries, and cement. Exports of industrial goods are destined primarily for neighboring markets in the Caribbean Common Market (CARICOM) region, whereas most consumer good items are sold to the United States and other industrial countries.

Exports of nontraditional agricultural products have increased steadily in recent years, at average annual rates of about 13.0 percent. Declines in incomes derived from traditional cash crops, especially sugar, have forced farmers and agribusiness firms to experiment with alternative crops. Certain products such as yautia root, sweet potatoes, yuca, and pidgeon peas, are exported to countries in the region. Other crops, including frozen mixed vegetables, dried coconuts, sweet peppers, melons, pineapples, and oranges are shipped primarily to the United States. In each of the product categories listed above, Dominican exports exceeded $1 million in 1985. CEDOPEX statistics indicate that nontraditional agricultural exports totalled $40 million in 1985, a figure which is probably understated. The Dominican Republic's nontraditional exports of melons, tropical fruit, avocadoes, winter vegetables and other crops filled an estimated 50-60,000 forty-foot shipping containers in 1986.

A number of agricultural export ventures have failed and almost all have encountered serious startup difficulties, such as rejected shipments, transportation problems, or poor marketing or joint venture arrangements. However, agribusiness companies appear to be firmly



221

committed to expand their nontraditional "cash crop" sales, and progress achieved to date suggests that these exports will continue to expand.

## III. DETERMINANTS OF NONTRADITIONAL EXPORTS

### A. Macroeconomic Determinants

**LABOR RESOURCES.** Abundant and inexpensive labor has been the driving force behind the Dominican Republic's ability to produce and successfully market nontraditional exports. The 1986 national minimum wage of 250 pesos per month translates into an hourly wage rate of about $.44 at an exchange rate of three pesos per U.S. dollar, since the normal work week is 44 hours. The minimum wage rose from a monthly rate of 125 pesos in 1983, to 154 pesos in 1984, and 211 pesos in 1985. Taking domestic inflation into account, wages have recently remained flat in real peso terms, but have fallen significantly in U.S. dollar terms. The change in the pesos's exchange rate with the dollar, from 1:1 to 3:1, effectively cut wage rates by two-thirds in dollar terms.

The Dominican labor force is considered by all officials and exporters interviewed to be the nation's principal economic asset. With prevailing unemployment levels of about 900,000 people, the country's pool of available labor is abundant. Workers are characterized as highly trainable, dexterous, and capable of utilizing new technologies. Employee turnover is not viewed as a problem, although apparel exporters noted a tendency for some operators to leave for higher paying jobs after they have been fully trained. Trade unions are permitted by law, but there have been no unions in the free zones since 1968. Overall, the quantity and quality of productive labor is seen as providing a highly positive contribution to the country's international competitiveness.

**INVESTMENT AND WORKING CAPITAL.** At the opposite end of the spectrum from labor, which represents a positive determinant of

nontraditional exports, the availability of financial capital is considered the primary constraint to export growth. Prior to currency unification and devaluation, the country's capital pool had diminished due to capital flight. In addition, large portions of available funds were absorbed by the government in efforts to finance budget deficits.

While the problems of capital flight and excessive government spending have been largely overcome, the continuing foreign exchange shortages caused by trade deficits and the high interest rates resulting from tight monetary policies have reduced the availability of investment and working capital to exporters. Exporters interviewed unanimously complained about the cost of borrowing. Commercial bank lending rates in the formal sector have fallen from the 20.0 to 25.0 percent range in late 1985 to the 16.0 to 20.0 percent range in the late 1986. However, access to these funds is highly limited. Interest charges for short-term financing in the informal financial market are typically as high as 30.0 to 36.0 percent annually, and often require a front-end fee of 6.0 percent of the principal amount.

According to several exporters interviewed, the basic constraint to export growth is not market limitations, but rather is the dearth of investments funds in the Dominican Republic. In addition, the current policy structure provides greater incentives for entrepreneurs to invest capital in tourism ventures than for agricultural or light manufacturing activities.

**FOREIGN EXCHANGE RATE.** The expansion of Dominican nontraditional exports could not have occurred were it not for the unification/ devaluation of the peso in early 1985. As in Jamaica, the adoption of a realistic exchange rate in the Dominican Republic has produced dollar-equivalent wage rates that are competitive not only in the region but world-wide when transportation costs and other factors are taken into consideration. The prevailing exchange rate of about 3:1 is slightly above the calculated "shadow rate" of 3.4:1, and the parallel "black market" rate of 3.1:1. Exporters state that for all practical purposes the black market has disappeared, since numerous

new, "storefront" banks can now legally deal in foreign exchange. Should domestic inflation and government unwillingness to allow depreciation in the peso's value cause overvaluation, however, the prospects of nontraditional exporters would be diminished.

## B. Microeconomics Determinants

**INDUSTRIAL FREE ZONES (IFZs).** The Dominican Republic's industrial free zones have played a critically important catalytic role in the development of nontraditional exports. The first zone, La Romana, was established in 1969. According to USAID Mission estimates, some 44,000 workers were employed in the country's four operational zones in mid-1986, up from some 32,000 one and a half years earlier. The Dominican government places the total employment figure at around 50,000. Two additional zones are currently in startup phases.

Initial zone activity was heavily concentrated in textiles and apparel, but has gradually become more diversified by adding electronics, footwear, gold chain, cigar, and other labor-intensive industries. However, garments still comprise between two-thirds and three-fourths of the zones' total output.

Established on the basis of a series of laws and decrees dating back to 1955 and culminating with the Free Zone Law (Law 145) of 1983, the free zones offer producers a number of important fiscal incentives, the most important of which are exoneration from income taxes and import duties on machinery and components. Companies are required to pay for local expenses (wages, plant leases, and local supplies) in U.S. dollars at prevailing market rates of exchange. These foreign exchange expenses grew from $44.5 million in 1980 to $56.8 million in 1984, before falling off to an estimated $30.0 million in 1985. This latter figure did not represent a reduction in zone activity, but rather was caused by the peso devaluation, which lowered operating costs in the zones. From 1970 to 1985, the free zones contributed approximately $300 million in foreign exchange to the Dominican economy.



224

Over the long run, the commercial activities carried out in the free zones have not only been important in their own right, by generating employment and foreign exchange, but equally importantly have created a highly positive "demonstration effect" for the economy as a whole. There is apparently a lengthy waiting list of companies seeking to enter the zones, with an overall backlog of factory space estimated at 700,000 square feet (for factory shells averaging some 11-12,000 square feet each). Exporters interviewed expressed a general consensus view that the shortage of factory space represents a serious constraint, although several disputed this assertion.

The point that the free zones have served as a positive catalyst for export businesses in new product categories is reinforced by the growth of nontraditional exporting outside the zones, which now also benefit from export incentives. According to one account that might border on hyperbole, it is believed that there are now more than 500 firms located outside the zones that are exporting 1,000 separate products. Regardless of the veracity of this assertion, there is a clear and widespread consensus in the business community that nontraditional exporting represents the only feasible engine of growth for the Dominican economy in the future.

**ELECTRICITY COSTS.** According to most business executives interviewed, the future of nontraditional exports will depend heavily on trends in the cost of electricity. Electricity rates remained relatively flat in the early 1980s, since government-imported oil was sold at subsidized prices. These prices were raised dramatically in early 1985 in concert with the structural adjustment program implemented at that time. Rates are now tied to oil prices, and some exporters complained that the full benefits of oil-price reductions have not been passed on to industrial consumers.

**WORKING CAPITAL AND FOREIGN EXCHANGE.** While discussed above under the rubric of macroeconomic determinants, the problem of shortages of capital and hard currency funds affects many exporters at the daily operational level. Many of these firms face a "Catch-22"

situation. Due to their recent performance in producing high quality, low cost goods, firms face the "luxury" of rapidly growing orders. However, they are unable to obtain funds for plant expansion or working capital to cover trade financing for larger shipments. As a result, they are often placed in a precarious liquidity position, with uncertain cash flow capabilities to meet ongoing operating costs. Similarly, many small companies feel they are "forced" into under-invoicing their shipments in order to retain foreign exchange needed to cover foreign currency obligations.

**TRANSPORTATION COSTS.** Most business executives interviewed complained that high transportation costs by both sea and air have strongly squeezed their profit margins. This problem is considered particularly acute for producers of relatively low value, bulk commodities such as unprocessed agricultural products. Similar concerns were raised with respect to packaging materials and services, which are felt to be expensive and not of good quality.

**JOINT VENTURE PARTNERS.** Most Dominican exporters of both agricultural and manufactured products expressed a critical need for a strong marketing or joint venture relationship with a U.S. partner. This is particularly important during startup phases of the business, since Dominican firms with new product lines often have very limited knowledge of U.S. markets and policies. Several exporters related experiences in which recent joint venture relationships proved wholly unsatisfactory. In one manufacturing industry example, the U.S. partner did not fulfill its marketing obligations. In a case in agribusiness, the American partner imposed expensive and inappropriate cultivation techniques, resulting in disappointing crop yields. Dominican nontraditional exporters need and are seeking mutually beneficial relationships with U.S. firms, but have had mixed results in this area thus far.



226

## C. Policy Determinants

**EXPORT/INVESTMENT INCENTIVES.** The export incentive structure governing free zone activities has been developed on the basis of numerous laws and Presidential Decrees, which in combination provide duty and income tax exoneration and procedures for retaining foreign exchange earnings and remitting profits and investment capital. Free zone operators feel that the overall incentive structure is adequate and in fact has been essential to the viability of their firms.

Exporting companies operating outside the free zones may qualify for fiscal incentives under Law 299 on "Industrial Incentives and Protection." This 1968 law is highly complex inasmuch as it covers both exporting and import-substituting industries. More important, however, is law 69, the Export Incentive Law enacted in 1979 to promote nontraditional exports. This legislation allows duty-free entry of imported inputs if they are exported within 12 months after having been assembled or otherwise transformed. These incentives are administered by CEDOPEX, which rules on applications for benefits, and by the Central Bank. Law 69 incentives have been used by a wide range of nontraditional export industries, including apparel, cement, pineapples, cigars, and furniture.

The number of beneficiaries of Law 69 has grown from 659 companies in 1982 to 756 firms in 1984, according to CEDOPEX. In 1984, 275 new products were introduced under this law, and approximately $421 million in imports entered duty-free under the system. Export tax credits under the so-called "CAT" system totaled 4.8 million pesos in 1985.

The fiscal incentive structure provided by the government is clearly important to nontraditional exporters, who expend considerable energies assuring that their firms obtain benefits. However, the complexities and ambiguities emerging from the numerous incentives laws and provisions (only briefly summarized herein) are the source of ongoing criticism and charges of discretionary treatment.

**U.S. INCENTIVES PROGRAMS.** The provisions of Section 807 of the U.S. Tariff Code, the Generalized System of Preferences (GSP), and the Caribbean Basin Economic Recovery Act (CBI) are equally if not more important than Dominican incentives to the viability of nontraditional export activities. Some exporters, particularly in agribusiness, voiced some complaints regarding arbitrary rulings and constantly changing "rules of the game" on the part of U.S. agencies. However, these expressions do not appear as strong as those observed in other countries examined in this study, presumably since the Dominican Republic has a longer history and greater amount of experience in exporting diverse goods to the United States.

**CUSTOMS PROCEDURES AND ADMINISTRATION.** Ubiquitous throughout the region, complicated customs practices and delays in clearing imported inputs are considered a principal constraint to Dominican export growth. Most nontraditional exporters operate on tight delivery schedules that require prompt receipt of raw materials and components. Customs clearance delays have resulted in lost contracts. Problems in customs administration are prevalent in most developing countries, particularly those experiencing chronic foreign exchange and government revenue shortages. On a more positive note, however, Dominican exporters feel that if the government customs system worked well, the entire country could eventually become an "export zone."

## D. Other Determinants

**POLITICAL AND POLICY STABILITY.** Unlike most exporters from Central America, exporters from the Dominican Republic do not speak of political instability as a threat to their businesses. Quite the contrary, several manufacturers located in free zones stated the nation's record of political stability, with over 20 years of relatively peaceful elections and changes of administrations, was one of its strongest drawing cards.

In addition to political stability, the Dominican Republic has offered policy stability to the business community. The prevailing

government stance has followed a relatively stable, pro-business, pro-export approach and has not varied between widely-diverging development policies as has been the case in Jamaica, for example.

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

The Dominican Republic faces the broadest range of nontraditional export opportunities of all countries in the Caribbean Basin region. The majority of these prospects fall into the categories of agricultural products and light manufactured goods.

The Dominican Republic has already established a strong foothold in a number of agricultural exports, based on the country's agricultural capacity and experience in selling to U.S. and regional markets. Sales of winter vegetables (table tomatoes, sweet peppers, beans, etc.), melons, tropical fruit, avocados, and staples (potatoes, yams, etc.) can be expected to grow over time, particularly after marketing networks are fully developed and firms gain experience in dealing with U.S. policies and procedures for food imports. The newly established and USAID assisted in-country inspection system could provide an invaluable service to local agribusiness firms.

The outlook for processed goods such as canned beans, tomato paste, and other bulk commodities are considered relatively limited compared to those for fresh fruit and vegetables. Overall, the agricultural export sector involving new products is likely to absorb increasing amounts of idle rural labor and to generate rising foreign exchange earnings but rates of growth will be only moderate. Therefore, agricultural exports should be viewed as a long-term development prospect rather than as a means to meet the country's near-term foreign exchange requirements.

Horticulture has been named by some observers as a strong export opportunity. Local producers claim, however, that they face strong price competition in particular flower categories, particularly from Colombia. In addition, exporters are constrained by infrastructure

problems (e.g., lack of refrigeration facilities at airports) and difficulties transporting their products to domestic airports. Overall, therefore, the expansion of horticulture exports will probably be more modest than is generally assumed.

The real opportunities for nontraditional exports in the near future lie in the fields of assembly operations and light manufacturing, where the Dominican Republic has established a clear lead over its Caribbean competitors. Apparel firms will continue to increase their output until they reach their quota limits, and can be anticipated to pursue higher value added items and non-quota products.

Exports of labor-intensive manufactures can be expected to burgeon in the years immediately ahead. It is likely that electronics will head the list. Current exporting companies TII Industries and R.E. Phelon, among other smaller firms, have recently been joined by Westinghouse, which estimates that its Dominican work force producing elecromechanical devices and printed circuit boards will eventually expand to 1,000 workers. General Electric and GTE Corporation plan similar operations. The Dominican economy, unlike many others in the region, is sufficiently large to support operations of major scale without their becoming "politically visible" due to their size.

Other manufacturing possibilities in the near term include footwear (especially shoe parts which are finished in Puerto Rico), medical supplies, pharmaceuticals, leather products (e.g., gloves, handbags, and other accessories), and jewelry.

In recent years, a considerable amount of attention has been drawn to the so-called twin plant concept. Under this scheme, companies currently operating in Puerto Rico under the 936 tax provision can set up a complementary plant in the Dominican Republic to take advantage of low wage rates while still maintaining their 936 tax advantages. The Dominican Republic has led the field in enticing twin plant operations, of which 20 have been or are in the process of being established. Most of these firms are producing apparel,

footwear, and electronics, but other goods include medical supplies, food processing, recycled plastics, and candy. Opportunities in twin plant activities should continue to be pursued but with a degree of caution. First, the long-term outlook for the 936 provision is questionable, given U.S. attempts to eliminate this tax benefit. Second, the Dominican Republic's eligibility for twin plant treatment may be threatened by U.S.-imposed financial reporting requirements, which the government is currently unable to meet.

Dominican exporters of nontraditional manufactures are for the most part currently limited to subcontracting. This was, in fact, the first step taken by many successful exporters such as the newly industrializing countries. Over the long run, one can expect Dominican producers to move into finished products (e.g., consumer electronics) and to begin direct marketing. In fact, as is the case with Jamaica, Dominican exporters should examine new opportunities in product categories currently dominated by East Asian countries and by U.S.-Mexican "maquiladora" operations. Asian exporters are experiencing declines in competitiveness due to rising wage rates and graduation from GSP benefits. Potential product lines would include consumer electronics, Christmas lights and ornaments, toys, sporting goods, bicycles, fabricated metals and plastics, kitchenware and flatware, and many other export items. The manufacturing processes required for these commodities offer, over time, increasing opportunities for "backward linkages" and local sourcing of inputs.

In conclusion, the outlook for nontraditional exports produced in the Dominican Republic will remain bright so long as domestic economic conditions (primarily wages and exchange rates) support price competitiveness, and so long as U.S. markets remain open to Dominican goods. The export sector has taken hold, and has gradually captured the imagination of both the government and the business community.

## V. ACTION RECOMMENDATIONS

### A. Streamline Investment/Export Policies

The level of fiscal incentives provided to investors and exporters is sufficient and competitive by regional and world standards. In fact, in some cases (e.g., perpetual tax holidays) the incentives might even be excessive from a national interest perspective. Nonetheless, the policy structure is based on a complex web of laws and decrees and is administered by a host of government and quasi-government agencies. To facilitate business decisionmaking and ongoing management, the government should consider a legal/institutional policy reform that streamlines the structure and administration of investment and export promotion policies. One method for achieving this goal would be the creation of a high level locus of decisionmaking for reviewing current regulations and designing a comprehensive new system. This investment/export commission, council, or agency would be vested with responsibility to direct the country's shift toward a complete export orientation.

### B. Reform Customs Procedures and Administration

While acknowledging the constraints placed on a country suffering from chronic foreign exchange shortages, the government should over time seek to improve the customs process, which currently deters nontraditional export growth. To a certain extent this will require an educational/training program to sensitize customs officials on the needs of exporters. However, effective reform will depend on the achievement of the more difficult objectives of reducing discretionary treatment and corruption, and expanding the government's ability to enforce existing regulations.

### C. Enhance Capital Availability

The country's financial market faces a basic dilemma in that borrowers complain of high interest charges and collateral

requirements, whereas lenders claim that pursuing a loan default claim is extremely difficult. Expanding and deepening capital markets is a long-term proposition which requires good macroeconomic and company-specific performance and increasing trust on the part of all market participants. Long-term capital is needed in the Dominican Republic in order to finance additional factory space and equipment, and short-term funds are required to cover working capital for larger export transactions. Efforts by the government, the private sector or the donor community to extend additional capital to legitimate firms with proven performance would generate considerable dividends for the economy as a whole.

### D. Initiate Management/Marketing Training Programs

As in many countries in the region, Dominican exporting companies can be characterized as having relatively thin management and marketing capabilities. Top-level executives are often responsible for all facets of their firm's operations, including production, administration, and marketing. Programs to train middle-level managers would yield positive long-term results. Local agricultural and manufacturing companies have also benefited significantly from on-the-job training and consulting provided by expatriates on a short-term basis, but these services are often prohibitively expensive. Finally, the U.S. government could assist Dominican exporters by establishing an unchanging set of "rules of the game" for import policies and procedures and by disseminating this information in a clear and comprehensive fashion.

## LIST OF INTERVIEWS

Mr. Kenneth Beasley, Senior Economic Officer
USAID/Santo Domingo

Mr. Peter Bittner, Private Sector Officer
USAID/Santo Domingo

Mr. Kenneth Lanza, Private Sector Officer
USAID/Santo Domingo

Ms. Aileen Pou G., Commercial Specialist
U.S. Department of Commerce
U.S. Embassy, Santo Domingo

Mr. Jose M. Ceron Pena, Executive Director
Investment Promotion Council

Mr. Pablo Rodriguez Nunez, Technical Assistant to the Executive Director
Dominican Export Promotion Center (CEDOPEX)

Ms. Maritza Amalia Guerrero, Senior Economist
Central Bank of the Dominican Republic

Mr. Miguel Heredia, Deputy Director
Foreign Exchange Department
Central Bank of the Dominican Republic

Dr. Gladys A. DeJesus, Executive Secretary
National Council of Industrial Free Zones

Mr. Osmar C. Benitez, Project Manager
Joint Agricultural Consulting Committee (JACC)

Mr. Bernardo E. Pichardo, President
Comercializadora Dominicana, S.A. (COMEDON)

Mr. Luis Jose Cabral A., President
Cia. Anonima Exploraciones Industriales (CAEI)

Mr. Pedro F. Parra Hurtado, Assistant to the President
Comercializadora Dominicana, S.A. (COMEDON)

Mr. Mario Rodriguez Mansfield, Director of Operations
Industrial de Confecciones, S.A.

Mr. Julio Guillen, General Manager
Frutas Dominicanas (Frudoca)

Mr. Porfirio Peralta, President
Rattan Dominicano

Mr. Manuel E. Tavares, President
Parque Industrial Itabo, S.A. (PIISA)

Mr. Jose Paliza, Export Manager
FERSAN

Mr. Melvin Manon, President
Manon & Associates

Mr. Victor Acre, General Manager
Caribbean Shoes

Mr. Miguel Crouch, General Manager
Flores Antillianas

Mr. Tito Victoriano, General Manager
R.E. Phelon, S.A.

DOMINICAN REPUBLIC
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1983

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| | Total exports | 603,733 | 748,486 | 706,906 | 991,088 | 627,726 | 648,306 |
| 0 | Food and live animals | 398,665 | 472,737 | 479,891 | 716,044 | 490,427 | 462,936 |
| 01 | Meat and preparations | 2,363 | 3,504 | 2,886 | 8,500 | 8,846 | 6,720 |
| 04 | Cereals and preparations | 2,400 | 628 | 990 | | | |
| 05 | Fruit and vegetables | 22,152 | 19,841 | 25,623 | 30,235 | 29,128 | 31,688 |
| 06 | Sugar, honey and preps. | 181,433 | 206,603 | 307,539 | 538,084 | 283,600 | 275,734 |
| 07 | Coffee, tea, cocoa, spices | 184,862 | 235,347 | 134,476 | 126,403 | 156,834 | 137,236 |
| 09 | Misc. food preparations | 4,086 | 4,655 | 5,682 | 8,118 | 8,520 | 7,483 |
| 1 | Beverages and tobacco | 46,681 | 53,976 | 34,376 | 67,753 | 24,571 | 25,690 |
| 12 | Tobacco and mfrs. | 46,290 | 53,873 | 34,101 | 67,387 | 24,378 | 24,140 |
| 2 | Crude matls. excl. fuels | 26,993 | 24,757 | 22,865 | 20,399 | 9,447 | 4,013 |
| 27 | Fertilizers | 2,308 | 2,301 | 2,621 | 2,660 | 2,307 | 1,661 |
| 29 | Metalliferous ores, scrap | 23,568 | 21,352 | 18,969 | 16,017 | 5,466 | 46 |
| 4 | Animal, vegetable oil, fat | 4,052 | 3,345 | 695 | | | |
| 42 | Fixed vegetable oil, fat | 3,296 | 2,559 | | | | |
| 5 | Chemicals | 34,884 | 39,823 | 41,656 | 43,264 | 34,801 | 26,001 |
| 51 | Chemical elements, compounds | 30,590 | 27,954 | 20,873 | 26,478 | 25,507 | 22,550 |
| 56 | Fertilizers manufacture | 3,531 | 10,891 | 19,638 | 15,706 | 7,469 | 1,790 |

DOMINICAN REPUBLIC, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1983

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| 6 | Basic manufactures | 79,500 | 129,140 | 110,143 | 123,956 | 35,067 | 914,410 |
| 66 | Nonmetal mineral mfs. nes. | 794 | 2,026 | 4,936 | 6,055 | 6,580 | 2,335 |
| 67 | Iron and steel | 74,056 | 123,486 | 102,105 | 110,544 | 24,211 | 83,468 |
| 69 | Metal manufactures nes. | 3,454 | 2,372 | 2,071 | 3,282 | 3,232 | 2,762 |
| 7 | Machines, transport equipment | 3,668 | 14,463 | 4,591 | 8,631 | 21,848 | 28,908 |
| 71 | Machinery, nonelectric | 2,269 | 5,236 | 2,836 | 6,665 | 15,115 | 20,551 |
| 72 | Electrical machinery | 1,048 | 7,280 | 1,259 | 1,281 | 3,914 | 3,484 |
| 8 | Misc. manufactured goods | 9,259 | 10,150 | 9,680 | 10,146 | 10,817 | 9,736 |
| 83 | Travel goods, handbags | 6,809 | 8,126 | 6,235 | 6,040 | 6,281 | 5,507 |

Quantifiable Determinants of Non-traditional Exports
DOMINICAN REPUBLIC
1963-1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 174.3 | 179.4 | 125.5 | 136.7 | 156.2 |
| Traditional Exports | 152.2 | 162.5 | 110.2 | 125.9 | 142.4 |
| Non-traditional Exports | 22.1 | 16.9 | 15.3 | 10.8 | 13.8 |
| Merchandise Imports (FOB) | 164.6 | 202.4 | 120.7 | 166.9 | 174.7 |
| Trade Balance | 9.7 | (23.0) | 4.8 | (30.2) | (18.5) |
| Current Account Balance | (19.4) | (61.8) | 42.9 | (74.9) | (66.2) |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,009.1 | 1,123.3 | 954.4 | 1,074.3 | 1,121.6 |
| GDP Growth (Nominal) | | 11.3 | (15.0) | 12.6 | 4.4 |
| GDP (1980 prices) | 2,555.3 | 2,659.8 | 2,370.5 | 2,681.3 | 2,772.3 |
| GDP Growth (Real) | | 4.1 | (19.9) | 13.1 | 3.4 |
| CAPITAL FORMATION | | | | | |
| Fixed Capital Formation | 139.2 | 187.9 | 86.8 | 156.1 | 160.7 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 183.8 | 214.4 | 216.9 | 223.6 | 255.3 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT ** | | | | | |
| External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service as % of Exports | | | | | |
| OTHER | | | | | |
| M1 | 130.2 | 116.6 | 135.0 | 116.1 | 120.2 |
| Budget Deficit | (18.1) | (27.1) | (31.6) | (32.5) | (27.9) |
| GDP Deflator (1980=100) | 39.5 | 42.2 | 40.3 | 40.1 | 40.5 |

All figures in millions of Dominican pesos unless otherwise specified.
* Millions of SDRs
** Millions of US$

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 163.5 | 183.4 | 214.0 | 240.7 | 347.6 |
| Traditional Exports | 145.3 | 162.9 | 188.4 | 211.9 | 306.5 |
| Non-traditional Exports | 18.2 | 20.5 | 25.6 | 28.8 | 41.1 |
| Merchandise Imports (FOB) | 196.8 | 217.2 | 278.0 | 309.7 | 337.7 |
| Trade Balance | (33.3) | (33.8) | (64.0) | (69.0) | 9.9 |
| Current Account Balance | (75.2) | (84.7) | (101.9) | (129.4) | (47.1) |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,149.4 | 1,344.5 | 1,485.5 | 1,666.5 | 1,987.4 |
| GDP Growth (Nominal) | 2.5 | 17.0 | 10.5 | 12.2 | 19.3 |
| GDP (1980 prices) | 2,785.8 | 3,125.9 | 3,392.1 | 3,760.7 | 4,151.6 |
| GDP Growth (Real) | 0.5 | 12.2 | 8.5 | 10.9 | 10.4 |
| CAPITAL FORMATION | | | | | |
| Fixed Capital Formation | 165.9 | 220.1 | 245.9 | 293.7 | 426.7 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 314.3 | 363.7 | 407.4 | 479.7 | 572.2 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT ** | | | | | |
| External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service as % of Exports | | | | | |
| OTHER | | | | | |
| M1 | 139.1 | 149.3 | 171.7 | 188.1 | 222.5 |
| Budget Deficit | (13.3) | (16.1) | (10.1) | (19.7) | (3.2) |
| GDP Deflator (1980=100) | 41.3 | 43.0 | 43.8 | 44.3 | 47.9 |

All figures in millions of Dominican pesos unless otherwise specified.
* Millions of SDRs
** Millions of US$

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 442.1 | 636.8 | 893.8 | 716.4 | 780.5 |
| Traditional Exports | 396.7 | 583.8 | 829.9 | 635.4 | 706.8 |
| Non-traditional Exports | 45.4 | 53.0 | 63.9 | 81.0 | 73.7 |
| Merchandise Imports (FOB) | 421.9 | 673.0 | 772.7 | 763.6 | 849.3 |
| Trade Balance | 20.2 | (36.2) | 121.1 | (47.2) | (68.8) |
| Current Account Balance | (96.6) | (240.9) | (72.8) | (129.2) | (128.6) |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 2,344.7 | 2,931.2 | 3,599.1 | 3,951.5 | 4,587.1 |
| GDP Growth (Nominal) | 18.0 | 25.0 | 22.8 | 9.8 | 16.1 |
| GDP (1980 prices) | 4,687.1 | 4,968.4 | 5,226.4 | 5,578.1 | 5,855.7 |
| GDP Growth (Real) | 12.9 | 6.0 | 5.2 | 6.7 | 5.0 |
| CAPITAL FORMATION | | | | | |
| Fixed Capital Formation | 497.8 | 643.6 | 802.7 | 780.3 | 935.2 |
| Foreign Direct Investment * | | | | 52.0 | 61.2 |
| Domestic Credit | 702.7 | 986.1 | 1,090.2 | 1,178.1 | 1,312.2 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT ** | | | | | |
| External Debt | 428.5 | 535.7 | 637.1 | 746.4 | 918.4 |
| Debt Service | 28.9 | 34.7 | 48.9 | 58.3 | 68.9 |
| Debt Service as % of Exports | 6.5 | 5.4 | 5.5 | 8.1 | 8.8 |
| OTHER | | | | | |
| M1 | 260.1 | 364.2 | 379.7 | 390.4 | 460.0 |
| Budget Deficit | (20.6) | (41.8) | 56.3 | (10.6) | (0.1) |
| GDP Deflator (1980=100) | 50.0 | 59.0 | 68.9 | 70.8 | 78.3 |

All figures in millions of Dominican pesos unless otherwise specified.
* Millions of SDRs
** Millions of US$



248

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 675.5 | 868.6 | 961.9 | 1,188.0 | 767.7 |
| Traditional Exports | 577.8 | 764.1 | 856.6 | 1,059.6 | 656.0 |
| Non-traditional Exports | 97.7 | 104.5 | 105.3 | 128.4 | 111.7 |
| Merchandise Imports (FOB) | 862.4 | 1,137.5 | 1,519.7 | 1,451.7 | 1,257.3 |
| Trade Balance | (186.9) | (268.9) | (557.8) | (263.7) | (489.6) |
| Current Account Balance | (311.9) | (331.3) | (669.8) | (405.9) | (441.9) |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 4,734.4 | 5,496.8 | 6,630.7 | 7,266.9 | 7,981.3 |
| GDP Growth (Nominal) | 3.2 | 16.1 | 20.6 | 9.6 | 9.8 |
| GDP (1980 prices) | 5,981.3 | 6,252.1 | 6,630.7 | 6,900.1 | 7,015.7 |
| GDP Growth (Real) | 2.1 | 4.5 | 6.1 | 4.1 | 1.7 |
| CAPITAL FORMATION | | | | | |
| Fixed Capital Formation | 1,031.8 | 1,334.7 | 1,566.8 | 1,640.3 | 1,540.9 |
| Foreign Direct Investment * | 50.8 | 13.2 | 71.2 | 67.6 | (1.3) |
| Domestic Credit | 1,413.6 | 1,639.4 | 1,963.9 | 2,318.6 | 2,773.3 |
| EXCHANGE RATE | | | | | |
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| FOREIGN DEBT ** | | | | | |
| External Debt | 1,073.6 | 1,198.3 | 1,478.2 | 1,636.0 | 1,913.3 |
| Debt Service | 90.7 | 249.3 | 156.7 | 233.6 | 260.3 |
| Debt Service as % of Exports | 13.4 | 28.7 | 16.3 | 19.7 | 33.9 |
| OTHER | | | | | |
| M1 | 458.0 | 598.4 | 579.6 | 636.9 | 715.4 |
| Budget Deficit | (70.4) | (315.1) | (172.9) | (181.4) | (246.6) |
| GDP Deflator (1980=100) | 79.2 | 88.0 | 100.0 | 105.3 | 113.8 |

All figures in millions of Dominican pesos unless otherwise specified.
* Millions of SDRs
** Millions of US$

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | |
| Merchandise Exports (FOB) | 785.2 | 868.1 | 738.5 | 328.9 |
| Traditional Exports | 683.5 | 735.3 | 564.4 | |
| Non-traditional Exports | 101.7 | 132.8 | 174.1 | |
| Merchandise Imports (FOB) | 1,282.2 | 1,257.1 | 1,285.9 | 599.6 |
| Trade Balance | (497.0) | (389.0) | (389.0) | (389.0) |
| Current Account Balance | (421.1) | | | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 8,574.8 | 10,705.6 | 14,487.9 | |
| GDP Growth (Nominal) | 7.4 | 24.8 | 35.3 | |
| GDP (1980 prices) | 7,292.2 | 7,319.4 | 7,157.5 | |
| GDP Growth (Real) | 3.9 | 0.4 | -2.2 | |
| CAPITAL FORMATION | | | | |
| Fixed Capital Formation | 1,705.1 | 2,156.1 | | |
| Foreign Direct Investment * | 45.1 | 67.5 | | |
| Domestic Credit | 3,233.9 | 3,502.3 | 3,844.0 | |
| EXCHANGE RATE | | | | |
| Exchange Rate | 1.0 | 1.0 | 3.2 | |
| FOREIGN DEBT ** | | | | |
| External Debt | 2,403.2 | | | |
| Debt Service | 230.6 | | | |
| Debt Service as % of Exports | 29.4 | | | |
| OTHER | | | | |
| M1 | 767.5 | 1,154.8 | 1,321.1 | 1,494.9 |
| Budget Deficit | (216.4) | (114.9) | | |
| GDP Deflator (1980=100) | 117.6 | 146.3 | 202.4 | |

All figures in millions of Dominican pesos unless otherwise specified
* Millions of SDRs
** Millions of US$



242

# JAMAICA

## I. INTRODUCTION: THE ECONOMIC CONTEXT

In the 1950s and 1960s, Jamaica's economic strategy centered around developing the nation's large bauxite reserves discovered in the 1950s, expanding the tourist industry, and encouraging domestic industry through an import-substitution based industrialization policy. Successful efforts in these areas, combined with a rich agricultural base, enabled Jamaica to obtain annual GNP growth rates averaging 4.4 percent in the 1960s.

The oil price rise of 1973, however, was the first in a series of unfavorable internal and external developments which led Jamaica to experience negative growth rates in every year from 1973 to 1980. Deterioration of the investment climate, unfavorable publicity for the tourist industry, and inappropriate fiscal and monetary policies caused GNP to decline between 1973 and 1980 by 18.3 percent overall and by as much as 25 percent per capita. By 1980, unemployment had grown to over 30 percent of the labor force, and inflation reached nearly 30 percent per year.

Several domestic factors help explain Jamaica's poor economic performance in the 1970s. The Manley administration was elected in 1972 on a platform of "democratic socialism" aimed at diversifying the economy, reducing urban unemployment, and redistributing income. The People's National Party (PNP) increased government spending without corresponding increases in revenue, which eventually contributed to a 25 percent average annual inflation rate over the 1976 to 1980 period. The PNP government increased foreign borrowing and drew down its foreign exchange reserves to the point where, by the mid-1970s, shortages of foreign exchange caused cutbacks and closings of dozens of factories for lack of imported raw materials, equipment, and spare parts. The PNP government's nationalistic policy toward the bauxite mining companies also contributed to the economic decline.

In 1980, the government which had presided over the decline, the People's National Party led by Michael Manley, was voted out of office in favor of the Jamaica Labour Party. The new Prime Minister, Edward Seaga, has sought to increase investment and exports in order to revitalize the Jamaican economy. Jamaica's investment and export incentive laws have been reformed, and investment promotion offices have been established locally and overseas. The government also strengthened Jamaica's political and economic ties with the United States, Jamaica's main trading partner. These efforts resulted in initial successes. For example, GNP grew by 2.0 percent in 1981 and by an estimated 3 percent in 1982, which represent significant achievements given the depressed condition of the world economy over the period. Since 1983, however, this forward momentum was halted due to a number of factors, primarily shortages of foreign exchange. In addition, many of the reforms promised by the Seaga government were not implemented, which dampened investor confidence. Driven largely by reduced production from the mining sector, Jamaica's real output stagnated in 1984 and fell by 3.7 percent in 1985.

## II. TRADE AND PAYMENTS PROFILE

The composition of Jamaica's external trade falls into a pattern prevalent in many small developing countries -- heavy dependence on a wide range of imported goods to meet production and consumption needs, and an equally heavy dependence on a select number of commodity exports to earn needed foreign exchange. Most raw materials, machinery, and parts used by Jamaica's industry are imported, and a large portion of consumption goods are also of foreign origin. In 1985, Jamaica's imports of goods and services amounted to as much as two-thirds (66.5 percent) of the nation's gross domestic product, a share that has risen from about one-third in the late-1960s to about one-half in the early 1980s, and now to its current level. The implication of this import dependence is that if for whatever reason foreign purchases of food, raw materials, capital goods and consumer goods cannot be maintained at appropriate levels, then the entire economy will experience commensurate, almost immediate consequences.

To finance the imports required to sustain the nation's economy, Jamaica has relied on export earnings generated from a highly concentrated set of minerals and agricultural commodities. More specifically, sales of bauxite and alumina (the raw material and intermediate material, respectively, used in producing aluminum), and sugar have traditionally made up the lion's share of Jamaica's total exports. These three commodities accounted for 78.0 percent of total Jamaican merchandise exports in 1970 and as much as 84.0 percent in 1980, before declining to 74.0 percent and 63.0 percent, respectively, in 1984 and 1985.

The diverse commodity requirements on the import side of the equation and concentrated commodity dependence on the export side necessarily create an extremely high degree of vulnerability. That is, the performance and prospects of the Jamaican economy as a whole are strongly vulnerable to shifts in supply/demand conditions and policies in the aluminum and sugar markets.

Jamaica's balance of payments structure is also typical of that of many developing countries. Recurrent trade and current account deficits are offset by inflows of official and private capital. Since 1961, Jamaica's merchandise trade balance has recorded deficits in every year except 1977 and 1978. Trade in services has also resulted in net deficits, despite significant earnings in tourism. Tourist expenditures have risen steadily from an average U.S.$70 million per year in the late 1960s to a level of U.S.$400 million in 1984 and 1985. While tourism is clearly an important generator of employment, the foreign exchange contributions of the tourism sector are negated to a certain extent by the large import bills incurred to support the industry. The financing of current account shortfalls has been accomplished through capital inflows, largely in the form of official government borrowings.

Cyclical trends in Jamaica's merchandise trade balance reflect changes in international prices of oil, bauxite and sugar. Import levels peaked in 1975 and again in 1981 due to the escalation of oil



245

prices, and declined thereafter. Export performance followed a similar pattern, with peaks occurring in the mid-1970s and early 1980s.

Long-term trends in Jamaica's trade balance are more ominous. Exports kept pace with imports in the 1960s, with the former growing at an average annual rate of 9.4 percent and the latter by 10.6 percent. In the decade of the 1970s, export expansion of 12.1 percent annually actually exceeded the 9.1 percent rate recorded for Jamaican imports. In the first half of the 1980s, however, the situation was reversed. While imports fell modestly (0.1 percent on average) in the 1980-1985 period, exports dropped precipitously, by an average annual rate of 11.0 percent, from U.S.$963 million in 1980 to only U.S.$570 million in 1985. When this latter figure is netted against Jamaica's 1985 import bill of U.S.$999 million, the result is a merchandise trade deficit of U.S.$429 million.

To finance Jamaica's external financial shortfall, the government has not drawn down the nation's foreign exchange reserves, which at U.S.$175 million as of the end of June 1986 are sufficient to cover only about two months of imports. Instead, deficits have been funded by a combination of foreign assistance (unrequited transfers) and foreign borrowing, most of which consists of official borrowing from bilateral and multilateral lending institutions. As a consequence, Jamaica's external debt has grown steadily over the past decade, from U.S.$529 million in 1974 to nearly U.S.$2.0 billion at the end of 1983. Over three-quarters of the latter figure represents indebtedness to foreign official creditors.

This brief external sector profile provides convincing evidence that Jamaica faces a major challenge to develop existing and new sources of foreign exchange earnings. Tourism may expand in the years ahead, but the consensus among experts is that such gains will be only marginal. Therefore, the principal responsibility for generating the additional foreign exchange will fall on traditional and nontraditional exports, which are examined in greater detail below.



·2446

## A. Traditional Export Performance

Jamaica's "initial" traditional export was sugar, with the British operating the island as a plantation colony. The discovery of large bauxite reserves in the mid-1950s led to the development of a major bauxite/alumina complex, which by the following decade became the dominant factor in Jamaica's exports and overall economic development.

Aluminum is the most recently discovered of the common metals used industrially in large quantities. In less than a century, commercial use of aluminum has by any measure surpassed all other metals except iron and steel. Aluminum's properties of light weight, high electrical and thermal conductivity, corrosion resistance, and casting capabilities have led to the use of the metal in a wide range of industrial, construction, and consumer good areas.

The production of aluminum from bauxite is a two-step process: Bauxite is first refined to obtain its oxidized form, alumina, which in turn is smelted into aluminum. The smelting process requires large quantities of electricity.

With reserves in excess of 500 million tons, Jamaica has since the late 1960s ranked as one of the largest bauxite/alumina producers in the world. Over time, Jamaican bauxite was mined by most of the largest aluminum companies, including the following ventures: Alcan Jamaica, Alumina Partners of Jamaica, the Kaiser Bauxite Company, Reynolds Jamaica Mines, and Alcoa Minerals of Jamaica. Jamaica's exports of bauxite and alumina expanded throughout the 1960s and early 1970s. In the late 1970s, Jamaica's production accounted for approximately 20 percent of world output.

However, the long-term growth potential of the industry was dampened by increases in energy prices, which lifted production costs, and by the imposition in Jamaica of a production levy in 1974. Foreign exchange earnings from bauxite peaked in 1978 at U.S.$234

million, and declined continuously thereafter to U.S.$77 million in 1985. Alumina sales grew rapidly throughout the latter 1970s, reaching a peak of U.S.$589 million figure in 1981. The severe recession sparked by the second round of oil price rises reversed that trend, resulting in an ultimate 65 percent fall in alumina earnings, to U.S.$212 million in 1985.

The precipitous decline in energy prices in 1986 may contribute to a global economic "recovery" and to a reduction in electricity costs, thereby stimulating demand for aluminum in the near term. Over the longer term, however, the prognosis for basic materials such as aluminum is not particularly good. The increasing use of new technologies and advanced materials has diminished long-term demand for basic minerals, in what is increasingly being called the end of the "era of materials."

Jamaica's performance in bauxite and alumina was adversely affected in recent years by the closures of several companies (Reynolds, Alpart, and Alcoa) and by the completion of shipments to supply the U.S. strategic stockpile. According to most forecasts, the outlook for Jamaican bauxite sales is for very modest growth to perhaps U.S.$90 million per year over the next five years. Exports of alumina are generally expected to rise more rapidly, by perhaps 7.0-8.0 percent annually, over this period. Even under the most optimistic of scenarios, however, the bauxite/alumina industry cannot be expected to fill more than a small portion of the current and anticipated gap in Jamaica's foreign exchange requirements.

Jamaica's second major traditional export is sugar. Over the past fifteen years, sugar has exhibited lackluster export performance, with annual earnings averaging about U.S.$50 million. The only exceptions occurred in 1974 and 1975, when quantum rises in world sugar prices resulted in Jamaican sugar exports of U.S.$82 million and U.S.$154 million, respectively. Over the next five years, the annual volume of sugar sales is expected to remain relatively constant, leading to annual earnings of approximately U.S.$50 million.

A number of other agricultural, mining, and manufactured products are classified as traditional exports by the government. The combined earnings of these exports totalled U.S.$42 million in 1985, or about 11 percent of total traditional exports.

Traditional agricultural exports consist of bananas, citrus fruit, coffee, cacao, and pimentos. Sales of bananas have fluctuated over the past fifteen years from highs of U.S.$18 million to a low of under U.S.$2 million, and have leveled off to an annual average of about U.S.$5 million in recent years. Citrus exports have remained stagnant at about U.S.$1 million annually. Foreign sales of coffee, cacao, and pimentos have also fluctuated, and when combined contribute about U.S.$10-20 million per year. While some gains in traditional agriculture exports are possible over time, they are not expected to be significant.

Other than bauxite and alumina, Jamaica's only traditional mining export is gypsum, which is used in making plaster and plasterboard. Annual exports have remained relatively constant at around U.S.$1 million.

Jamaica's traditional exports of manufactures are essentially processed agricultural products. These include rum and processed forms of citrus fruits, coffee, and cacao. Sales of rum have stabilized in the range of U.S.$8-10 million per year. The remaining three traditional "manufacturing" categories of citrus, coffee, and cocoa products contribute a combined total of approximately U.S.$7 million annually.

In general, ignoring cyclical fluctuations, Jamaica's traditional export sales grew by an average rate of 10 percent per year from 1970 to 1981, from U.S.$289 million to U.S.$842 million. This healthy growth was largely responsible for sustaining the domestic economy and financing imports. Since 1981, however, total traditional exports have steadily declined, at an average annual rate of 22 percent through 1985. Total traditional exports of U.S.$381 million in 1985 are less than one half of the sales recorded in the peak year of 1981.

The future prospects of Jamaica's traditional export sector can be characterized as at best only moderately good. Sales of bauxite and alumina could recover to a certain extent, but will depend on the combination of world economic recovery and a continuation of relatively low energy prices. Any expansions of other traditional exports are likely to be modest. Therefore, the Jamaican economy will have to rely on growth in nontraditional exports to meet its foreign exchange requirements.

## B. Nontraditional Export Performance

Jamaican exports of nontraditional goods have grown steadily over the past 15 years, at an average annual rate of 8.3 percent, but this expansion has been insufficient to take up the slack of declining traditional exports. The nontraditional product share of total exports has more than doubled, from 13.9 percent in 1970 to 28.8 percent in 1985.

Jamaican nontraditional exports can be classified as foodstuffs, beverages and tobacco, crude materials, apparel, or other. Each of these product groups faces a different set of circumstances, constraints, and opportunities.

Jamaican sales of foodstuffs consist of winter vegetables (sweet peppers, tomatoes, onions, okra, pumpkins, and other vegetables), staples (cassava, sweet potatoes, and yams), avocadoes, and various food preparations. Taken together, these exports rose from U.S.$8 million in 1970 to U.S.$29 million in 1985.

Winter vegetables destined for U.S. markets have for a number of years been considered to hold great promise, but these high expectations have not been fulfilled. Two private winter vegetable projects have failed, and the Spring Plain project operated by an Israeli group went bankrupt in mid-1986. Several reasons were given for these failures. The crop yields were not as high as had been hoped. The domestic infrastructure and transportation system are not



250

sufficient to handle this highly time-sensitive industry, which requires that vegetables reach their ultimate markets in approximately one day. In addition, external freight costs are high and follow irregular schedules. Finally, the costs of marketing winter vegetables, estimated at around 1.6 times the cost of actual production, pare back the margins of the farming operation. In spite of these difficulties, an additional experiment is currently being considered.

Exports of food staples, particularly yams, have grown steadily in recent years, but their market potential is limited. The production of avocadoes has also expanded, but from a very low base.

The final category of "other food exports" includes a wide range of prepared food items, such as jams and jellies, sauces, bulk processed food, and ethnic food preparations. A number of new products have been developed in recent years and are currently being actively marketed. The prospects for processed foods are viewed as reasonably good but limited. Successful marketing of processed foods is critically dependent on attractive packaging and sophisticated product presentation. Jamaican producers have historically paid little attention to packaging since they enjoyed a captive local market. As a result, canning and packaging capabilities are considered poor by international standards, and would have to be improved to capture foreign market shares. Additional problems include high unit prices due to small scale operations, outdated machinery, and high-cost inputs other than the food itself. If these constraints are effectively addressed, the long-term outlook for such products as juices, concentrates, snack foods, preserves, sauces and ethnic foods is for gradual increases in sales, but not in volumes that will have any material impact on total exports.

Jamaican tobacco, cigars, and beverages (primarily non-rum alcoholic beverages) have been sold internationally for decades, but are considered to be "nontraditional" by the government. These exports have been relatively stagnant in the U.S.$20 million range for



251-

the past decade. Efforts are currently under way to expand sales of cigars, liqueurs, and beer, but these products face stiff competition and restrictive trade barriers.

Jamaican exports of crude materials consist of horticulture products (cut flowers), foliage, and an assortment of other animal and vegetable materials. Sales of cut flowers have never exceeded U.S.$1 million in value, but are considered by local entrepreneurs to have some potential for growth. The export receipts obtained by sales of other crude materials have declined in recent years.

The most vibrant sector of nontraditional export sectors by far is that of textiles and other forms of light manufacturing. Jamaica's exports of wearing apparel have an extensive history, reaching back decades, but until the recent past, the majority of clothing sold was of relatively low cost and quality and intended to serve the Caribbean Common Market (Caricom). As a result, exports of apparel stagnated at annual levels of U.S.$4-8 million from 1970 to 1981. Since that time, new investments have been made, especially in the Kingston Free Zone, to assemble garments for U.S. markets under 807 provisions. Exports of apparel have grown from U.S.$7 million in 1981 to as much as U.S.$36 million in 1985, at a compound annual rise of 50 percent. In fact, this latter figure may even be understated, since U.S. statistics show wearing apparel and accessories imports from Jamaica at over U.S.$54 million.

The apparel industry accounts for three-quarters of the factory space and 85 percent of the Kingston Free Zone's labor force of 7,000. Nine of the Free Zone's current list of tenants are apparel companies, including the Asian-owned East Ocean Textiles Limited, which employs 4,000 people. Jamaica's clothing producers have in the period of several years developed sufficient experience and marketing contacts to obtain larger, longer-term contracts and increasingly stable relationships with their North American buyers. In addition, the demonstration effect has worked to attract new investments in apparel production, primarily from entrepreneurs from the Far East who face

quota limits in their home countries. From a purely economic standpoint, the prospects of the apparel industry in Jamaica are excellent. The only major factors that could contain the growth of clothing exports in the long run are a significant rise in U.S. dollar-equivalent wage rates (resulting from either rising local currency wage rates or overvaluation of the Jamaican dollar), or trade restrictions (through quotas or elimination of 807 provisions) in the United States.

The final category of Jamaica's nontraditional exports is known as "other" and consists of a wide range of miscellaneous manufactured products such as furniture, metal fabrication, machinery, electronic switchgear, etc. This amalgam of goods recorded exports of U.S.$24 million in 1970, rose to a peak of U.S.$105 million in 1975, fluctuated widely over the past decade, and totaled U.S.$65 million in 1985.

Jamaica's miscellaneous manufactures, which have exhibited strong growth and are expected to continue to rise, are increasingly targeted at the U.S. market. For the period preceding the 1980s, these various products were oriented toward serving the Caricom market, which is limited in size and volatile in nature. There was little market-driven inducement to increase the quality of products, and economies of scale were not possible to achieve. Over the past few years, sales of these manufactures to members of Caricom (primarily Trinidad and Tobago) have rapidly declined. Consequently, Jamaican producers have shifted their emphasis and product mix toward the United States market, involving labor intensive production techniques and high volume output. The products included in this new orientation are discussed later in this report, but initial indications show that a rapid takeoff of these nontraditional exports is clearly possible.

In conclusion, Jamaica's historical trade strategy was aimed at selling traditional commodities (bauxite, alumina, sugar, and bananas) to industrial countries, and exporting the majority of nontraditional products to other developing countries, primarily its neighbors in the



253

Caribbean region. By one measure, in as late as 1980, 40 percent of Jamaica's nontraditional exports was shipped to Caricom countries. This share fell to only 29 percent in 1985. In the same years, the U.S. share of Jamaica's total nontraditional exports grew from less than 18 percent to 34 percent. This shift reflects not only economic realities prevalent in the region, but also new opportunities opened by various incentives offered under the rubric of the Caribbean Basin Initiative and through other preference provisions.

## III. DETERMINANTS OF EXPORT PERFORMANCE

The export performance of any country is the result of a host of macroeconomic, microeconomic, and policy variables. A number of basic determinants -- resource endowments, comparative costs, product quality, marketing expertise, etc. -- hold true across the board for all competitors in international markets. Other variables relate to the specific experience of an individual nation. The following discussion reviews those factors, determined through independent analysis and raised in interviews with Jamaican exporters, which are considered to exert the strongest impact on Jamaica's nontraditional export performance.

### A. Macroeconomic Determinants

**FOREIGN DEMAND.** As with all other exporting countries, the most critical determinant of export performance is levels of effective demand for Jamaican products. International demand for aluminum clearly swamped all other variables affecting Jamaica's sales of alumina and bauxite, and the same holds true for sugar and other traditional exports. For nontraditional exports, declining incomes and demand in Caricom has in the recent past adversely affected Jamaica's regional sales.

On the positive side, the large U.S. market and the opportunities opened by the CBI program and other provisions have opened a vast market for Jamaican producers of the "new" variety of nontraditional

exports (e.g., apparel, leather goods, electronics, etc.). However, this demand is in large part policy-determined, and is highly vulnerable to protectionist shifts in U.S. policies.

**FOREIGN EXCHANGE RATE.** Jamaica's nontraditional exports would without question not be internationally competitive if the government had not abandoned the fixed exchange rate regime which in the late 1970s and early 1980s led to significant overvaluation. In 1983, the government adopted a managed floating rate system based on weekly auctions conducted by the Bank of Jamaica. The exchange rate has declined from J$1.78 per U.S. dollar in 1982 to rates in the range of J$6.3-6.6 per U.S. dollar at the end of 1986. Current rates are generally considered to be reflective of the true value of the Jamaican dollar -- the current official exchange rate is now roughly the same as the "black market" rate -- although some slippage toward overvaluation (due to domestic inflation of about 25 percent) has occurred. Overall, however, the current exchange rate has attracted foreign and local investors interested in producing labor-intensive products, since Jamaica's U.S. dollar equivalent wage rate is considered competitive.

**LABOR RESOURCES AND COSTS.** Jamaica's labor force is abundant, relatively well educated and skilled, and inexpensive. SRI interviewed executives in a wide range of nontraditional export industries, including apparel, leather goods, electronics, foodstuffs, furniture, and others. These executives unanimously gave high marks to the Jamaican workforce for trainability, low turnover, and productivity. Workers respond well to production (quality and quantity) incentives offered by a number of exporters interviewed.

Wages are relatively low, starting at about J$75 (U.S.$11.50) per week for unskilled workers and moving up to about $300 (U.S. $46.15) per week for laborers with higher skills and more experience. Jamaica's reputation for labor union militancy is not borne out by the recent experience of export industries, according to executives in those firms. While the labor movement remains strong, and

continuously attacks employers (especially those in the Kingston Free Zone) for "exploitative" wage rates, executives ascribe these protests to the unions' attempts to retain their membership rolls, which have been declining due to Jamaica's economic stagnation. Overall, from the perspective of nontraditional exporters, Jamaica's labor force constitutes a highly positive factor contributing to their ability to expand sales.

**DOMESTIC ECONOMIC ACTIVITY.** From 1971 to 1985, the aggregate output of Jamaica's productive sectors (agriculture, mining, manufacturing, and construction) declined by a total of 42 percent as expressed in constant prices. This trend has had detrimental effects on Jamaica's population, which has suffered from falling standards of living. To a limited extent, this slack has been taken up by increases in the size of the services sector, especially government, but the latter growth has resulted in higher government budget deficits and external indebtedness.

From the standpoint of nontraditional export prospects, Jamaica's economic decline has ironically laid the groundwork for what might prove to be long-term export growth. The weakening or stagnation of Jamaica's traditional "basic" industries (mining, sugar production, and tourism) has forced both the government and the business community to pursue an alternative source of income -- nontraditional exports. Shifts from an import substitution strategy to export promotion policies have begun, although they are far from complete. Entrepreneurs are considering and developing products based on Jamaica's true comparative advantages favoring labor-intensive production. Finally, the labor force has adjusted its attitudes and demands downward to reflect current economic realities. In short, the falling rents generated by Jamaica's natural resource (bauxite) abundance have created a situation similar to that initially faced by the East Asian NICs, which were forced to rely on their labor forces to create exports and income.

**CAPITAL FORMATION/AVAILABILITY.** High fiscal deficits and external indebtedness, as well as governmental intervention in financial markets have led to a general shortage of capital at appropriate rates and maturities for productive enterprises. Historically, Jamaica's bauxite/alumina operations contributed not only income and foreign exchange, but also inflows of foreign capital. A large portion of these funds have flowed out of Jamaica over the past decade as foreign producers closed their operations.

In recent years, economic decline has dampened profits and savings. In addition, growing government budget deficits have placed increasing pressure on available financial resources. Finally, while the government's monetary policy is appropriate for seeking price stability and international financial objectives, the resulting interest rates (currently about 25 percent for commercial borrowing) are onerous for entrepreneurs attempting to secure either long-term capital or short-term working capital. The general dearth of financial capital is a fact of life in most developing countries; it has in Jamaica acted as a deterrent to nontraditional export ventures.

## B. Microeconomic Determinants

**ROLE OF KINGSTON FREE ZONE.** Inaugurated in 1976, the Kingston Free Zone has been in operation for slightly over one decade. Levels of activity in the zone were initially low, but have expanded rapidly in recent years, to the point where the zone's 20 resident companies now employ 7,000 people. The zone generates about J$19 million (U.S.$3.0 million) per month in exports, and approximately one-half of Jamaica's total exports of apparel. The zone offers a 100 percent tax holiday and duty free entry of raw materials and machinery. The importance of the zone has been its "demonstration effect," indicating to other Jamaican companies that a nontraditional export orientation can indeed prove profitable.

**FACTORY SPACE.** The lack of adequate factory space represents a major constraint to Jamaican exporters. The Kingston Free Zone is



251

fully subscribed, and a long list of applicants for 807-type operations awaits factory space. A second free zone has been established in Montego Bay, but construction is progressing slowly.

**INFRASTRUCTURE.** In addition to the dearth of suitable factory shells, local exporters complain of general infrastructure problems. The poor quality of the domestic transportation system and the lack of adequate utilities services are considered to place Jamaican producers at a competitive disadvantage.

**TRANSPORTATION COSTS.** Exporters uniformly complained of high costs for shipping and air transportation. Executives claim that the shipping costs from Jamaica to New York are in the area of U.S.$1,600 for a 40 foot container, compared to only U.S.$800-1,100 per container from Taiwan. SRI contacted shipping companies to obtain rates, however, and found that while the $1,600 figure for Jamaica holds, the cost of shipping a container from Taiwan is $4,470. Although there appears to be a misperception of comparative costs, the issue of high freight charges and uncertain schedules has been raised as a basic constraint throughout the Caribbean region.

**ELECTRICITY COSTS.** Electricity charges are considered onerous to nontraditional exporters, who claim that the pricing structure subsidizes consumers at the expense of manufacturers. In addition, current rates are based on an oil price of $30 per barrel, with the government absorbing the benefits created by lower oil prices.

**SOURCING LOCAL INPUTS.** The majority of Jamaica's nontraditional exporters import virtually all of their raw materials, components, and machinery. As a result, the only added value associated with their operations is the labor input, thereby limiting the economic benefits to Jamaica. All executives interviewed, however, expressed an interest in sourcing locally, but have encountered two sets of problems. First, because their 100 percent export operations benefit from a preferred status, the documentation required for local sourcing is as complex as that for importing inputs. Firms operating in the

free zone indicate that the paperwork associated with commercial transactions with companies outside the zone precludes local sourcing. The second problem facing exporters relates to prices and quality. Exporters would prefer to purchase inputs (e.g., buttons, elastic, packaging materials, etc.) from local producers, but find either that these goods are prohibitively expensive or are not of sufficient quality for U.S. consumers.

**MIDDLE MANAGEMENT SKILLS.** All exporters interviewed reported that they have no problem recruiting and training production line workers. However, most encounter considerable problems filling middle management positions, particularly those requiring business skills such as accounting, inventory management, quality control, and process flow management. In fact, the majority of successful nontraditional export firms consist of a very small group of senior managers and production line workers, with no middle management layer whatsoever. As a result, if senior executives are travelling or are otherwise occupied, business decisionmaking is brought to a halt.

**MARKETING CAPABILITIES.** Most nontraditional exporters are fully familiar with the Caricom market, but have a very limited knowledge of the U.S. market and trade policy structure. Many exporters can therefore relate personal "horror stories" connected with rejected shipments, unwarranted delays in U.S. customs clearance, problems with the U.S. Department of Agriculture or Food and Drug Administration, etc. Most of these problems can be ascribed to limited experience and the fact that nontraditional exporters are still on the "learning curve" with respect to dealing with the U.S. market. In order to succeed, most exporters tend to enter into formal or informal marketing relationships with their U.S. customers.

### C. Policy Determinants

**EXPORT POLICY SHIFT.** Over the past five years, the Jamaican government has inaugurated a basic shift from an import substitution strategy to an export promotion approach. While the change in

attitudes and policies is not yet complete, the fundamental policy structure favoring nontraditional exporters is now in place. Free zone firms benefit from permanent income tax holidays and duty-free entry of raw materials and machinery. Exporters to the Caricom region obtain tax holidays (up to nine years) and duty-free entry as designated by the Industrial Incentives Act. The Export Industry Encouragement Act, for manufacturers producing goods for export outside the local and Caricom regions, provides ten-year tax holidays and exemption from import duties. The Export Credit Fund and the Export Development Fund provide subsidized financing to bona fide exporters. In combination, these policy structures have established the necessary foundation for long-term growth in nontraditional exports.

**IMPORT POLICY REGIME.** By far the largest number of complaints expressed by exporters relates to Jamaica's customs policies and procedures. The government has contracted with a Swiss company, SGS, to administer import regulations, and most exporters accused the company of causing unwarranted delays and imposing a high degree of discretionary treatment. One exporter noted that it takes up to three weeks to clear a container. Others stated that they are subject to a container stripping station fee, for which their containers are emptied to search for contraband. Firms producing goods for both local markets and export are theoretically allowed a tariff rebate for the export portion of their output, but several executives interviewed have never even applied for the rebate, since they must deal with as many as seven different agencies and have never heard of examples where companies actually received the rebate. Executives in these firms claim that they must pay 100 percent or higher tariffs on new equipment imports. In short, the export industry is in essence an "enclave" sector. Firms which export all of their production are basically protected from onerous import duties, but companies serving both local and foreign markets are placed at a clear disadvantage.

**REGULATORY ENVIRONMENT.** Most exporters interviewed expressed a general complaint about government bureaucracy and red tape. For



260

example, despite the efforts of Jamaica's investment promotion agency (Jamaica National Investment Promotion Limited -- JNIP), new investors must deal with a large number of government ministries. Delays and documentation requirements are viewed as a large constraint. However, most successful exporters noted that they have through concerted efforts been able to break through bureaucratic impasses.

**INVESTMENT AND WORKING CAPITAL.** Executives of Jamaican-owned exporting firms have great difficulty in raising funds to finance either expansions or ongoing operations. They must pay what they feel to be exorbitant interest rates for borrowings, and typically must offer even their personal property as collateral on loans. Lending institutions not only do not assume risks, but in addition often obtain an equity position in firms they finance. As a result, exporters often limit the scale of their operations rather than expand to meet market demand.

**U.S. POLICIES.** Most of Jamaica's recent growth of nontraditional exports can be attributed to Section 807 of the U.S. Tariff Code, which provides duty free treatment for products with a minimum of 35 percent value added in eligible countries. Additional incentives are provided by the U.S. Generalized System of Preferences (GSP) and various provisions of the Caribbean Basin Economic Recovery Act. All executives interviewed claimed that Jamaica's nascent nontraditional export industry would be eliminated in the event that U.S. incentives are withdrawn. In addition, several exporters question the overall economic value of 807 provisions, which provide little room for middle management, local entrepreneurs, and backward linkages, since exporting firms only represent assembly operations. However, the experience of such countries as South Korea, the Republic of China, and Hong Kong, which began exporting in a similar fashion, suggests that assembly exports can lead toward long-term increases in added value.



261

## IV. NONTRADITIONAL EXPORT OPPORTUNITIES

The greatest potential for increases in Jamaica's nontraditional exports lies in the area of manufactures requiring labor-intensive production techniques. Labor costs and availability are Jamaica's only significant comparative advantage, and will remain so as long as the Jamaican dollar's value reflects the true cost of labor.

Exports of garments will continue to increase until Jamaica reaches quota levels in specific clothing categories. Jamaica's first quota was negotiated in mid-1986. Sales of electronics components, which have only recently begun, also hold relatively high potential. While the Jamaican furniture industry has been beset by a wide range of problems, the long-term prospects for sales of furniture and other processed wood products (such as parquet flooring) would also appear to be good, particularly as manufacturers gain experience.

If Jamaica's wage rate and foreign exchange rate remain competitive, one could over time expect additional products to be added to the country's currently concentrated line of exports. Possible candidates include consumer electronics, footwear and other leather goods, toys, sporting equipment, Christmas lights and ornaments, and other labor-intensive goods. In fact, entrepreneurs could find market niches in the entire array of exports that initially drove the performance of the East Asian NICs, where rises in wages are now reducing these nation's competitiveness.

A number of product categories which are viewed as generally promising will probably not live up to their expectations. These include data entry, winter vegetables, horticulture, and processed foods. Data entry is in reality a service rather than a good. Eight data entry companies are now in operation. The average firm size is 15 to 30 work stations, which if run in three shifts would employ 45-90 workers. Most firms operate on a batch basis, in which data are flown in from the United States, processed, and flown back to the United States. Problems facing the Jamaican industry include



262

short-response delivery dates, demands for 98 percent accuracy at low costs, and a dearth of marketing skills. Plans for the construction of a teleport are considered "an exciting idea in theory" by the industry, but the necessary government involvement in the project gives rise to private sector skepticism. Data entry activities can be expected to expand in the future, but not to the point where they have a material impact on Jamaica's foreign exchange earnings.

The outlook for winter vegetables and horticulture products is constrained by both economic and political factors. These sectors require strong infrastructure and transportation facilities, are highly competitive, involve major risks, and are susceptible to covert and overt forms of protectionism. Finally, expansions of processed foods will only take place after major investments are made to upgrade machinery and packaging facilities. In addition, the markets for the type of products envisioned are relatively limited in size.

## V. ACTION RECOMMENDATIONS

### A. Maintain Policy Stability

Jamaica's nontraditional export sector has only recently been established, and is based on a combination of favorable wage/foreign exchange rates and the adoption of export incentives. The most important overall recommendation is for the government to maintain policy stability and give the export industry time to expand. Until the last few years, the private sector has been loathe to invest in new ventures out of fear that the government and/or its policy stance would change radically. Jamaica's nontraditional exporters have to deal with sufficient commercial risks that they should not have to worry about domestic political risks.

### B. Improve Customs Procedures

Customs problems represent the greatest policy constraint expressed by exporters. Tight enforcement of tariff policies can be



262

anticipated to continue so long as Jamaica experiences foreign exchange problems. However, the administration of customs procedures can and should be improved, especially for foreign exchange earning sectors such as nontraditional export industries. These firms should be provided preferential and streamlined treatment.

### C. Increase Capital Availability

The largest economic constraint facing exporters is the dearth of venture and working capital at reasonable terms. AID-assisted activities such as the newly-established Trafalgar Development Bank have begun to address this problem, but larger national efforts are required to expand the country's stock of financial capital. Capital is needed to overcome the critical shortage of suitable factory space, purchase equipment, and expand export operations to achieve appropriate economies of scale.

### D. Enhance Marketing Skills

For the most part, Jamaica's nontraditional exporters consider themselves to be novices at marketing products in the United States. Programs should be developed to provide seminars and consulting on not only sales techniques and strategies, but also methods for dealing with U.S. government agencies and requirements.

### E. Educate/Train Middle Managers

The size of many of Jamaica's export firms is constrained to a certain extent by the absence of effective middle management. The entrepreneurs themselves are generally well educated, but often the capabilities of their immediate subordinates to conduct ongoing business transactions are minimal. Formal or informal training programs on specific business skills would provide considerable benefits to existing and new firms.

## LIST OF INTERVIEWS

Mr. Samuel Skogstad, Senior Economic Advisor
USAID/Kingston

Mr. Talbot Penner, Private Sector Officer
USAID/Kingston

Mr. Alex Dougal, Chairman
Parquet Flooring

Mr. Barclay Ewart, Chairman
Industrial Chemical Co., Ltd.
Tanner Limited

Mr. Charles Pennycooke, General Manager
Kingston Free Zone

Mr. L. Junior White, Plant Manager
Jamtex Limited

Mr. Robert Stanford, General Manager
Candies Limited

Mr. Keith Rigbye, General Manager
S.E. Caribe Limited

Mr. Trevor Smith
General Manager, Henkel Chemicals, Limited
Director, Kingston Heirlooms Limited

Mr. Lionel Green, Director of Marketing and Systems
WTG Data Services

Mr. Lloyd P. Samuels, Managing Director
Ruel Samuels
Philip Clarke (Hanover) Limited

Mrs. B. Booth, Director, Trade Section
Statistical Institute of Jamaica

Mr. Ambrose Da Costa, Senior Director
Economic Development Division
Jamaica National Investment Promotion Limited

Mrs. Brenda Robinson, General Manager
Ms. Margueritte Jones, Director, Promotions
Ms. Joy M. Hall, Director, Trade Intelligence
Jamaica National Export Corporation

Mr. Carleton Alexander, Chairman
Grace Kennedy Group

JAMAICA
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| | Total exports | 736,643 | 817,330 | 964,573 | 985,380 | 739,186 |
| 0 | Food and live animals | 113,922 | 109,586 | 99,626 | 92,744 | 100,268 |
| 04 | Cereals and preparations | 2,945 | 3,453 | 1,940 | 3,608 | 3,050 |
| 05 | Fruit and vegetables | 27,021 | 27,698 | 23,109 | 149,827 | 24,716 |
| 06 | Sugar, honey and preps. | 66,152 | 59,267 | 55,545 | 46,517 | 48,012 |
| 07 | Coffee, tea, cocoa, spices | 14,946 | 16,056 | 16,278 | 18,258 | 19,448 |
| 09 | Misc. food preparations | 1,445 | 1,706 | 2,150 | 2,600 | 2,690 |
| 1 | Beverages and tobacco | 21,205 | 26,663 | 29,565 | 33,093 | 32,892 |
| 11 | Beverages | 14,575 | 17,289 | 19,442 | 22,728 | 22,928 |
| 12 | Tobacco and manufactures | 6,630 | 9,374 | 10,123 | 10,365 | 9,964 |
| 2 | Crude matls. excl. fuels | 149,665 | 585,050 | 740,401 | 764,986 | 482,958 |
| 28 | Metalliferous ores, scrap | 146,139 | 581,569 | 736,469 | 760,882 | 478,550 |
| 29 | Crude animal veg. mat. nes. | 2,210 | 2,406 | 2,304 | 2,270 | 2,440 |
| 3 | Mineral fuels etc. | 18,790 | 33,933 | 19,177 | 27,824 | 26,478 |
| 33 | Petroleum and products | 18,790 | 33,932 | 19,174 | 27,821 | 26,420 |
| 5 | Chemicals | 403,066 | 16,763 | 15,052 | 19,033 | 22,421 |
| 51 | Chemical elements, compounds | 391,277 * | | | | |
| 52 | Inorganic chemicals | | 2,407 | 2,163 | 1,746 | 3,114 |
| 53 | Dye, tan, and color material | 1,778 | 27,35[illegible] | 888 | 2,323 | 2,262 |
| 54 | Medicinal, etc., products | 3,019 | 3,204 | 2,245 | 1,787 | 2,632 |
| 55 | Perfume, cleaning, etc. prds. | 5,570 | 6,339 | 6,747 | 7,458 | 11,252 |
| 59 | Chemicals nes. | | 1,770 | 14,739 | 2,000 | 2,601 |

* After 1978, aluminum oxide was apparently reclassified from SITC code 51365 to 28732.



266.

JAMAICA, continued
EXPORTS FOB BY 2-DIGIT SITC CODE
IN THOUSANDS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | DESCRIPTION | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| 6 | Basic manufactures | 12,580 | 15,984 | 14,813 | 14,938 | 13,593 |
| 64 | Paper, paperboard and mfr. | 2,414 | | | | |
| 65 | Textile yarn, fabric, etc. | | 2,771 | 1,626 | 1,952 | 518 |
| 66 | Nonmetal mineral mfs. nes. | 567 | | | | |
| 67 | Iron and steel | 3,984 | 5,404 | 5,490 | 4,046 | 4,658 |
| 69 | Metal manufactures nes. | 3,074 | 3,122 | 3,817 | 4,039 | 4,348 |
| 7 | Machines, transport equipment | 4,740 | 11,749 | 25,196 | 13,175 | 26,113 |
| 72 | Electrical machinery | 3,376 | 892 | 930 | 1,654 | 3,519 |
| 77 | Electric machinery nes. etc. | | 4,415 | 4,437 | 4,896 | 5,473 |
| 79 | Other transport equipment | | 4,415 | 17,697 | 4,715 | 14,482 |
| 8 | Misc. manufactured goods | 12,504 | 17,161 | 20,021 | 22,478 | 34,394 |
| 82 | Furniture, part thereof | 2,287 | 2,372 | 3,157 | 2,989 | 5,263 |
| 84 | Clothing | 3,741 | 5,152 | 7,060 | 7,444 | 18,358 |
| 89 | Misc. manufactured goods nes | 5,686 | 7,695 | 8,029 | 10,054 | 8,965 |



267

Quantifiable Determinants of Nontraditional Exports
JAMAICA
1963 - 1986

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 201.9 | 216.3 | 214.3 | 228.1 | 222.8 |
| Traditional Exports | 146.7 | 95.5 | 142.3 | 202.6 | 204.6 |
| Non-traditional Exports | 55.2 | 120.8 | 72.0 | 25.5 | 18.2 |
| Imports (CIF) | 225.5 | 289.4 | 289.1 | 327.2 | 348.9 |
| Trade Balance | (23.6) | (73.1) | (74.8) | (99.1) | (126.1) |
| Current Account Balance | 9.8 | (43.7) | (30.5) | (42.1) | (81.4) |
| CACM Exports | | | | | 0.6 |
| CACM Exports as % of Exports | | | | | 0.0 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 558.5 | 588.6 | 635.7 | 690.8 | 744.9 |
| GDP Growth (Nominal) | | 5.4 | 8.0 | 8.7 | 7.8 |
| GDP (1980 prices) | 3,347.9 | 3,759.5 | 3,969.7 | 4,059.8 | 4,249.0 |
| GDP Growth (Real) | | 12.3 | 5.6 | 2.3 | 4.7 |
| CAPITAL FORMATION | | | | | |
| Commercial Lending Rate | | | | | |
| Discount Rate | 4.0 | 5.0 | 5.0 | 5.5 | 6.0 |
| Fixed Capital Formation | 91.6 | 111.8 | 124.2 | 146.0 | 170.0 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 97.7 | 130.7 | 143.4 | 146.2 | 165.4 |
| Commercial Lending | | | | | |
| to Private Sector | | | | | |
| Agriculture | | | | | |
| Mining | | | | | |
| Manufacturing | | | | | |
| Tourism | | | | | |
| EXCHANGE RATE | | | | | |
| Exchange Rate (J$/US$) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 58.7 | 63.8 | 63.7 | 71.3 | 75.7 |
| Budget Deficit | (11.7) | (15.1) | (15.5) | (18.6) | (23.3) |
| GDP Deflator (1980=100) | 16.7 | 15.7 | 16.0 | 17.0 | 17.5 |

All figures in millions of Jamaican dollars unless otherwise specified.
* Millions of SDRs



268

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 215.4 | 246.2 | 335.2 | 330.2 | 380.0 |
| Traditional Exports | 177.5 | 210.1 | 288.5 | 280.1 | 322.1 |
| Non-traditional Exports | 37.9 | 36.1 | 46.7 | 40.2 | 57.9 |
| Imports (CIF) | 387.3 | 442.3 | 525.4 | 553.0 | 636.0 |
| Trade Balance | (171.9) | (196.1) | (190.2) | (222.8) | (256.0) |
| Current Account Balance | (91.9) | (123.6) | (152.9) | (172.2) | (196.7) |
| CACM Exports | 1.1 | 1.0 | 1.0 | 0.4 | 0.9 |
| CACM Exports as % of Exports | 0.5 | 0.4 | 0.3 | 0.1 | 0.2 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 820.0 | 992.6 | 1,170.6 | 1,282.4 | 1,439.1 |
| GDP Growth (Nominal) | 10.1 | 21.0 | 17.9 | 9.6 | 12.2 |
| GDP (1960 prices) | 4,453.2 | 4,596.6 | 5,143.5 | 5,304.8 | 5,795.3 |
| GDP Growth (Real) | 4.8 | 3.2 | 11.9 | 3.1 | 9.2 |
| CAPITAL FORMATION | | | | | |
| Commercial Lending Rate | | | | | |
| Discount Rate | 5.0 | 6.0 | 6.0 | 5.0 | 6.0 |
| Fixed Capital Formation | 221.4 | 315.3 | 367.1 | 356.1 | 366.8 |
| Foreign Direct Investment * | | | | | |
| Domestic Credit | 202.6 | 264.8 | 318.2 | 384.9 | 527.9 |
| Commercial Lending | | | | | |
| to Private Sector | | | | | |
| Agriculture | | | | | |
| Mining | | | | | |
| Manufacturing | | | | | |
| Tourism | | | | | |
| EXCHANGE RATE | | | | | |
| Exchange Rate (J$/US$) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | | | | | |
| Debt Service | | | | | |
| Debt Service Ratio (% of Exports) | | | | | |
| OTHER | | | | | |
| M1 | 94.9 | 111.1 | 126.7 | 160.0 | 172.6 |
| Budget Deficit | (30.1) | (20.5) | (31.7) | (47.8) | (59.4) |
| GDP Deflator (1980=100) | 18.4 | 21.6 | 22.8 | 24.2 | 24.8 |

All figures in millions of Jamaican dollars unless otherwise specified.
* Millions of SDRs



269

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 382.8 | 718.4 | 837.0 | 617.0 | 711.2 |
| Traditional Exports | 323.8 | 635.7 | 693.0 | 527.0 | 629.9 |
| Non-traditional Exports | 59.0 | 82.7 | 114.0 | 89.9 | 81.3 |
| Imports (CIF) | 676.6 | 935.5 | 1,123.6 | 912.8 | 746.8 |
| Trade Balance | (293.8) | (217.1) | (286.6) | (295.8) | (35.6) |
| Current Account Balance | (247.6) | (91.9) | (282.8) | (302.6) | (42.1) |
| CACM Exports | 2.7 | 2.3 | 2.9 | 2.7 | 4.6 |
| CACM Exports as % of Exports | 0.7 | 0.3 | 0.3 | 0.4 | 0.6 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 1,719.9 | 2,159.2 | 2,600.6 | 2,696.4 | 2,954.3 |
| GDP Growth (Nominal) | 19.5 | 25.5 | 20.4 | 3.7 | 9.6 |
| GDP (1980 prices) | 5,878.6 | 5,606.7 | 5,589.6 | 5,228.7 | 5,104.3 |
| GDP Growth (Real) | 1.4 | (4.6) | (0.3) | (6.5) | (2.4) |
| CAPITAL FORMATION | | | | | |
| Commercial Lending Rate | | | | | |
| Discount Rate | 7.0 | 9.0 | 8.0 | 9.0 | 9.0 |
| Fixed Capital Formation | 448.2 | 478.2 | 609.6 | 450.8 | 349.5 |
| Foreign Direct Investment * | | | | | (8.3) |
| Domestic Credit | 613.3 | 666.9 | 949.6 | 1,204.0 | 1,347.9 |
| Commercial Lending | | | | | |
| to Private Sector | | | 696.4 | 702.2 | 658.7 |
| Agriculture | | | 71.1 | 82.4 | 90.5 |
| Mining | | | 5.8 | 6.5 | 6.2 |
| Manufacturing | | | 117.7 | 123.1 | 118.9 |
| Tourism | | | 12.1 | 13.0 | 10.7 |
| EXCHANGE RATE | | | | | |
| Exchange Rate (J$/US$) | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | 527.5 | 528.6 | 686.4 | 885.9 | 920.3 |
| Debt Service | 37.9 | 64.8 | 80.7 | 111.9 | 152.0 |
| Debt Service Ratio (% of Exports) | 9.9 | 9.0 | 9.6 | 18.1 | 21.4 |
| OTHER | | | | | |
| M1 | 218.3 | 258.1 | 312.8 | 343.0 | 510.2 |
| Budget Deficit | (90.5) | (167.9) | (206.0) | (418.3) | (428.2) |
| GDP Deflator (1980=100) | 29.3 | 38.5 | 46.5 | 51.6 | 57.9 |

All figures in millions of Jamaican dollars unless otherwise specified.
* Millions of SDRs

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | | |
| Merchandise Exports (FOB) | 772.2 | 806.3 | 935.5 | 966.3 | 746.6 |
| Traditional Exports | 682.2 | 675.3 | 829.0 | 842.4 | 603.3 |
| Non-traditional Exports | 90.0 | 131.1 | 106.5 | 123.8 | 143.3 |
| Imports (CIF) | 864.7 | 1,002.8 | 1,173.8 | 1,467.1 | 1,375.9 |
| Trade Balance | (92.5) | (196.5) | (238.3) | (500.8) | (629.3) |
| Current Account Balance | (50.1) | (138.9) | (166.1) | (336.8) | (403.4) |
| CACM Exports | 4.0 | 1.4 | 0.3 | 0.2 | 1.4 |
| CACM Exports as % of Exports | 0.5 | 0.2 | 0.0 | 0.0 | 0.2 |
| GROSS DOMESTIC PRODUCT | | | | | |
| GDP | 3,737.4 | 4,274.6 | 4,750.1 | 5,267.2 | 5,841.9 |
| GDP Growth (Nominal) | 26.5 | 14.4 | 11.1 | 10.9 | 10.9 |
| GDP (1968 prices) | 5,132.1 | 5,043.0 | 4,750.1 | 4,868.5 | 4,915.8 |
| GDP Growth (Real) | 0.5 | (1.7) | (5.8) | 2.5 | 1.0 |
| CAPITAL FORMATION | | | | | |
| Commercial Lending Rate | | | 15.5 | 15.5 | 15.7 |
| Discount Rate | 9.0 | 9.0 | 11.0 | 11.0 | 11.0 |
| Fixed Capital Formation | 498.9 | 748.1 | 690.1 | 953.8 | 1,167.6 |
| Foreign Direct Investment * | (21.2) | (20.4) | 21.3 | (9.8) | 14.3 |
| Domestic Credit | 1,735.2 | 2,526.7 | 2,649.4 | 3,797.0 | 4,605.3 |
| Commercial Lending | | | | | |
| to Private Sector | 767.6 | 900.9 | 1,088.1 | 1,494.8 | 193.0 |
| Agriculture | 81.9 | 93.1 | 117.8 | 230.8 | 265.3 |
| Mining | 5.7 | 5.8 | 6.3 | 7.6 | 12.0 |
| Manufacturing | 132.6 | 164.1 | 213.9 | 317.3 | 396.7 |
| Tourism | 25.8 | 35.6 | 60.3 | 76.2 | 98.8 |
| EXCHANGE RATE | | | | | |
| Exchange Rate (J$/US$) | 1.4 | 1.6 | 1.6 | 1.8 | 1.8 |
| FOREIGN DEBT (US$ mm) | | | | | |
| Public External Debt | 1,050.3 | 1,176.8 | 1,396.4 | 1,537.1 | 1,646.5 |
| Debt Service | 197.7 | 199.7 | 200.9 | 397.2 | 258.9 |
| Debt Service Ratio (% of Exports) | 25.6 | 24.8 | 21.5 | 41.1 | 34.7 |
| OTHER | | | | | |
| M1 | 494.7 | 541.1 | 647.4 | 687.1 | 729.2 |
| Budget Deficit | (625.0) | (655.8) | (986.0) | (874.9) | (896.2) |
| GDP Deflator (1980=100) | 72.8 | 84.8 | 100.0 | 108.2 | 118.8 |

All figures in millions of Jamaican dollars unless otherwise specified.
* Millions of SDRs



211

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| TRADE STATISTICS (US$ mm) | | | | |
| Merchandise Exports (FOB) | 673.1 | 687.9 | 535.1 | |
| Traditional Exports | 521.0 | 547.8 | 381.0 | |
| Non-traditional Exports | 152.1 | 140.0 | 154.1 | |
| Imports (CIF) | 1,280.9 | 1,183.2 | 1,143.6 | |
| Trade Balance | (607.8) | (495.3) | (608.5) | |
| Current Account Balance | (354.9) | (308.9) | (21.5) | |
| CACM Exports | | | | |
| CACM Exports as % of Exports | | | | |
| GROSS DOMESTIC PRODUCT | | | | |
| GDP | 6,897.0 | 9,367.8 | | |
| GDP Growth (Nominal) | 18.1 | 35.8 | | |
| GDP (1980 prices) | 5,015.2 | 4,995.5 | | |
| GDP Growth (Real) | 2.0 | (0.4) | | |
| CAPITAL FORMATION | | | | |
| Commercial Lending Rate | 16.4 | 18.2 | 24.5 | |
| Discount Rate | 11.0 | 16.0 | 21.0 | |
| Fixed Capital Formation | 1,417.4 | 1,962.5 | | |
| Foreign Direct Investment * | (17.5) | | | |
| Domestic Credit | 6,011.6 | 6,735.6 | 6,481.9 | |
| Commercial Lending | | | | |
| to Private Sector | 2,447.4 | 2,745.8 | 3,048.2 | |
| Agriculture | 265.3 | 401.0 | 296.9 | |
| Mining | 11.6 | 10.0 | 6.4 | |
| Manufacturing | 520.4 | 681.0 | 726.1 | |
| Tourism | 107.7 | 125.4 | 184.9 | |
| EXCHANGE RATE | | | | |
| Exchange Rate (J$/US$) | 1.9 | 3.9 | 5.6 | 6.5 |
| FOREIGN DEBT (US$ mm) | | | | |
| Public External Debt | 1,949.9 | | | |
| Debt Service ** | 205.0 | 357.2 | 336.8 | 330.6 |
| Debt Service Ratio (% of Exports) | 30.5 | 51.9 | 62.9 | |
| OTHER | | | | |
| M1 | 884.3 | 1,012.4 | 1,410.4 | |
| Budget Deficit | (941.2) | (1,287.1) | (379.4) | |
| GDP Deflator (1980=100) | 137.5 | 187.5 | | |

All figures in millions of Jamaican dollars unless otherwise specified.
* Millions of SDRs
** Estimated, 1984 - 1986



212

## Appendix A: Central American Regional Exports

2-DIGIT SITC CODE DEFINITIONS

| SITC CODE | DESCRIPTION |
|---|---|
| 0 | Food and live animals |
| 01 | Meat and preparations |
| 03 | Fish and preparations |
| 04 | Cereals and preparations |
| 05 | Fruit and vegetables |
| 06 | Sugar, honey and preps. |
| 07 | Coffee, tea, cocoa, spices |
| 08 | Animal feeding stuff |
| 09 | Misc. food preparations |
| 1 | Beverages and Tobacco |
| 11 | Beverages |
| 12 | Tobacco and mfrs. |
| 2 | Crude matls. excl. fuels |
| 21 | Hides, skins, furs, undrssd. |
| 22 | Oil seeds, nuts, kernals |
| 23 | Rubber, crude, syn., natural |
| 24 | Wood, lumber, cork |
| 26 | Textile fibers |
| 27 | Fertilizers |
| 28 | Metalliferous ores, scrap |
| 29 | Crude animal veg. mat. nes. |
| 3 | Mineral fuels etc. |
| 33 | Petroleum and products |
| 4 | Animal, vegetable oil, fat |
| 41 | Animal oils and fats |
| 42 | Fixed animal oil, fat |
| 5 | Chemicals |
| 51 | Chemical elements, compounds |
| 53 | Dyes, tanning, color prod. |
| 54 | Medicinal, etc., products |
| 55 | Perfume, cleaning, etc. prds. |
| 56 | Fertilizers manufacture |
| 58 | Plastic materials, etc. |
| 59 | Chemicals nes. |
| 6 | Basic manufactures |
| 61 | Leather, dressed fur, etc. |
| 62 | Rubber manufactures nes. |
| 63 | Wood, cork manufactures nes. |
| 64 | Paper, paperboard and mfr. |
| 65 | Textile yarn, fabric, etc. |
| 66 | Nonmetal mineral mfs. nes. |
| 67 | Iron and steel |
| 68 | Non-ferrous metals |
| 69 | Metal manufactures nes. |
| 7 | Machines, transport equip. |
| 71 | Machinery, nonelectric |
| 72 | Electrical machinery |
| 73 | Transport equipment |
| 8 | Misc. manufactured goods |
| 82 | Furniture |
| 84 | Clothing |
| 85 | Footwear |
| 86 | Instruments, watches, clocks |
| 89 | Misc. manuf. goods nes. |
| 9 | Goods not classified |
| 93 | Special transactions |

Appendix A Continued

CENTRAL AMERICAN EXPORTS *
EXPORTS FOB BY 2-DIGIT SITC CODE
IN MILLIONS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Total | 2,982.1 | 3,233.8 | 3,795.8 | 3,157.4 | 2,962.8 |
| 0 | 1,933.0 | 2,013.1 | 2,302.7 | 1,974.1 | 2,080.1 |
| 01 | 141.1 | 160.7 | 187.1 | 182.4 | 115.2 |
| 02 | 14.5 | 8.8 | 11.7 | 7.6 | 5.6 |
| 03 | 68.5 | 95.1 | 97.5 | 93.5 | 103.6 |
| 04 | 25.8 | 33.2 | 35.6 | 39.2 | 15.4 |
| 05 | 452.8 | 520.9 | 661.8 | 636.8 | 687.2 |
| 06 | 136.9 | 163.4 | 291.9 | 250.7 | 212.6 |
| 07 | 1,049.6 | 992.1 | 971.0 | 713.4 | 852.2 |
| 08 | 9.7 | 12.3 | 15.5 | 7.7 | 1.8 |
| 09 | 17.1 | 18.4 | 22.8 | 17.6 | 68.5 |
| 1 | 28.6 | 38.0 | 43.9 | 44.5 | 43.8 |
| 11 | 2.7 | 3.0 | 4.7 | 3.3 | 2.8 |
| 12 | 25.2 | 31.0 | 37.7 | 39.7 | 39.6 |
| 2 | 326.0 | 408.3 | 378.9 | 276.6 | 201.0 |
| 21 | 0.0 | 3.3 | 2.1 | 1.9 | 3.7 |
| 22 | 12.2 | 16.1 | 13.9 | 16.8 | 15.5 |
| 23 | 6.4 | 7.5 | 9.2 | 10.6 | 6.9 |
| 24 | 47.4 | 52.9 | 26.9 | 29.8 | 46.6 |
| 26 | 167.1 | 199.2 | 186.3 | 124.1 | 123.6 |
| 27 | 2.3 | 2.3 | 2.6 | 2.7 | 2.3 |
| 28 | 31.4 | 45.8 | 52.8 | 38.3 | 27.6 |
| 29 | 53.1 | 80.8 | 75.6 | 49.3 | 23.5 |
| 3 | 63.8 | 76.3 | 110.7 | 95.2 | 125.0 |
| 33 | 63.8 | 76.3 | 110.6 | 95.2 | 122.5 |
| 4 | 2.0 | 1.5 | 5.1 | 1.3 | 0.3 |
| 41 | 1.5 | 1.4 | 4.7 | 1.3 | 0.3 |
| 42 | 0.3 | 0.1 | 0.4 | 0.0 | 0.0 |
| 5 | 162.0 | 179.7 | 241.6 | 241.0 | 191.4 |
| 51 | 1.2 | 1.6 | 3.0 | 3.4 | 2.1 |
| 53 | 0.0 | 2.3 | 3.9 | 3.3 | 2.2 |
| 54 | 49.1 | 57.6 | 79.4 | 76.9 | 29.7 |
| 55 | 43.5 | 53.4 | 68.9 | 58.1 | 24.8 |
| 56 | 11.1 | 9.5 | 14.9 | 20.8 | 7.9 |
| 58 | 4.8 | 4.7 | 6.6 | 7.0 | 5.6 |
| 59 | 42.3 | 39.2 | 52.4 | 56.0 | 117.0 |

Appendix A Continued

CENTRAL AMERICAN EXPORTS *
EXPORTS FOB BY 2-DIGIT SITC CODE
IN MILLIONS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| 6 | 210.8 | 277.6 | 399.8 | 306.1 | 140.2 |
| 61 | 6.6 | 15.7 | 14.1 | 12.0 | 10.1 |
| 62 | 16.8 | 18.0 | 29.6 | 31.3 | 12.7 |
| 63 | 19.9 | 27.7 | 28.9 | 25.6 | 19.8 |
| 64 | 21.4 | 27.4 | 46.0 | 39.9 | 34.5 |
| 65 | 58.9 | 81.1 | 110.7 | 86.7 | 24.8 |
| 66 | 28.3 | 32.2 | 32.2 | 48.1 | 11.7 |
| 67 | 15.4 | 19.5 | 28.0 | 26.3 | 5.8 |
| 68 | 8.6 | 21.7 | 70.3 | 2.8 | 0.9 |
| 69 | 26.1 | 25.1 | 31.8 | 26.8 | 12.6 |
| 7 | 60.1 | 58.1 | 70.5 | 63.1 | 41.1 |
| 71 | 16.3 | 8.0 | 6.3 | 3.6 | 7.1 |
| 72 | 40.2 | 46.1 | 54.9 | 52.5 | 33.3 |
| 73 | 2.6 | 3.0 | 7.3 | 6.1 | 0.7 |
| 8 | 110.6 | 122.4 | 175.8 | 125.7 | 180.8 |
| 82 | 7.0 | 7.3 | 8.9 | 9.1 | 5.1 |
| 84 | 46.3 | 50.8 | 72.5 | 45.4 | 83.0 |
| 85 | 8.9 | 10.8 | 38.5 | 33.9 | 18.6 |
| 86 | 7.9 | 6.5 | 8.6 | 0.0 | 0.0 |
| 89 | 34.6 | 40.1 | 57.7 | 47.5 | 79.6 |
| 9 | 77.3 | 22.5 | 61.8 | 30.7 | 48.5 |
| 93 | 77.3 | 22.5 | 61.8 | 30.7 | 28.5 |

* Exports from Belize, Costa Rica, Guatemala, Honduras and Panama.



275

Appendix B

ANNUAL GROWTH RATE IN CENTRAL AMERICAN EXPORTS *
BY 2-DIGIT SITC CODE
1979 - 1982

| SITC CODE | 1979 | 1980 | 1981 | 1982 | AVERAGE, 1979-1982 |
|---|---|---|---|---|---|
| Total | 8.44 | 17.38 | (16.82) | (6.16) | 0.71 |
| 0 | 4.14 | 14.39 | (14.27) | 5.37 | 2.41 |
| 01 | 13.91 | 16.44 | (2.51) | (36.84) | (2.25) |
| 02 | (39.51) | 33.36 | (35.20) | (25.66) | (16.75) |
| 03 | 38.83 | 2.52 | (4.13) | 10.77 | 12.00 |
| 04 | 28.26 | 7.29 | 10.08 | (60.74) | (3.78) |
| 05 | 15.04 | 27.05 | (3.77) | 7.91 | 11.56 |
| 06 | 19.34 | 78.68 | (14.14) | (15.20) | 17.17 |
| 07 | (5.50) | (2.13) | (26.53) | 19.47 | (3.67) |
| 08 | 26.87 | 26.11 | (50.18) | (77.10) | (18.58) |
| 09 | 7.72 | 23.68 | (22.73) | 288.59 | 74.31 |
| 1 | 32.89 | 15.45 | 1.25 | (1.45) | 12.04 |
| 11 | 9.61 | 56.67 | (30.02) | (15.59) | 5.17 |
| 12 | 23.16 | 21.60 | 5.40 | (0.33) | 12.46 |
| 2 | 25.23 | (7.21) | (27.00) | (27.35) | (9.08) |
| 21 | | (36.16) | (10.88) | 101.94 | 13.73 |
| 22 | 32.15 | (13.30) | 20.38 | (7.77) | 7.87 |
| 23 | 18.14 | 22.66 | 14.87 | (34.91) | 5.19 |
| 24 | 11.78 | (49.12) | 10.51 | 56.46 | 7.41 |
| 26 | 19.20 | (6.46) | (33.42) | (0.34) | (5.26) |
| 27 | 0.00 | 13.04 | 3.85 | (14.81) | 0.52 |
| 28 | 45.69 | 15.32 | (27.44) | (28.13) | 1.36 |
| 29 | 52.10 | (6.40) | (34.78) | (52.25) | (10.33) |
| 3 | 19.57 | 44.96 | (13.98) | 31.29 | 20.46 |
| 33 | 19.62 | 44.93 | (13.96) | 28.70 | 19.82 |
| 4 | (23.78) | 233.25 | (74.40) | (77.62) | 14.36 |
| 41 | (9.88) | 239.99 | (72.34) | (77.62) | 20.04 |
| 42 | (59.75) | 194.53 | (100.00) | | |
| 5 | 10.90 | 34.45 | (0.24) | (20.60) | 6.13 |
| 51 | 35.28 | 90.01 | 13.49 | (38.85) | 24.98 |
| 53 | | 68.25 | (15.79) | (34.79) | 4.42 |
| 54 | 17.32 | 37.66 | (3.14) | (61.38) | (2.39) |
| 55 | 22.84 | 29.03 | (15.66) | (57.29) | (5.27) |
| 56 | (14.33) | 57.50 | 39.34 | (62.20) | 5.08 |
| 58 | (0.74) | 39.80 | 6.50 | (19.95) | 6.40 |
| 59 | (7.43) | 33.62 | 6.97 | 108.81 | 35.49 |



-276

Appendix B Continued

ANNUAL GROWTH RATE IN CENTRAL AMERICAN EXPORTS *
BY 2-DIGIT SITC CODE
1979 - 1982

| SITC CODE | 1979 | 1980 | 1981 | 1982 | AVERAGE, 1979-1982 |
|---|---|---|---|---|---|
| 6 | 31.66 | 44.03 | (23.43) | (54.19) | (0.48) |
| 61 | 136.68 | (9.79) | (15.29) | (15.91) | 23.92 |
| 62 | 6.63 | 64.90 | 5.76 | (59.52) | 4.44 |
| 63 | 39.42 | 4.15 | (11.23) | (22.87) | 2.37 |
| 64 | 28.00 | 67.59 | (13.22) | (13.48) | 17.22 |
| 65 | 37.56 | 36.58 | (21.65) | (71.40) | (4.73) |
| 66 | 13.89 | 0.01 | 49.28 | (75.77) | (3.15) |
| 67 | 26.41 | 43.71 | (6.22) | (77.80) | (3.47) |
| 68 | 152.62 | 224.67 | (96.00) | (66.31) | 53.75 |
| 69 | (3.93) | 26.82 | (15.68) | (53.15) | (11.48) |
| 7 | (3.32) | 21.26 | (10.54) | (34.87) | (6.86) |
| 71 | (50.84) | (20.97) | (43.35) | 96.93 | (4.56) |
| 72 | 14.74 | 19.04 | (4.25) | (36.61) | (1.77) |
| 73 | 12.90 | 143.18 | (15.64) | (88.28) | 13.04 |
| 8 | 10.69 | 43.66 | (28.51) | 43.84 | 17.42 |
| 82 | 4.09 | 22.76 | 2.40 | (44.42) | (3.79) |
| 84 | 9.79 | 42.65 | (37.34) | 82.67 | 24.44 |
| 85 | 21.34 | 255.39 | (11.96) | (45.15) | 54.90 |
| 86 | (18.08) | 32.81 | (100.00) | | (21.32) |
| 89 | 15.90 | 44.04 | (17.64) | 67.41 | 27.42 |
| 9 | (70.92) | 175.06 | (50.40) | 58.28 | 28.00 |
| 93 | (70.92) | 175.06 | (50.39) | (6.94) | 11.70 |

* Exports from Belize, Costa Rica, Guatemala, Honduras and Panama.

Appendix C

TOTAL EXPORTS FROM COUNTRIES STUDIED
EXPORTS FOB BY 2-DIGIT SITC CODE
IN MILLIONS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Total | 4,322.5 | 4,799.6 | 5,467.3 | 5,205.9 | 4,633.3 |
| 0 | 2,445.6 | 2,595.4 | 2,882.2 | 2,842.6 | 2,712.5 |
| 01 | 143.4 | 164.2 | 190.0 | 190.9 | 124.0 |
| 02 | 14.5 | 8.8 | 11.7 | 7.6 | 5.6 |
| 03 | 68.5 | 95.1 | 97.5 | 100.7 | 109.8 |
| 04 | 31.2 | 37.2 | 38.4 | 42.8 | 19.0 |
| 05 | 502.0 | 568.4 | 710.5 | 825.6 | 875.3 |
| 06 | 384.5 | 429.2 | 655.0 | 879.1 | 576.5 |
| 07 | 1,249.7 | 1,243.5 | 1,121.7 | 858.0 | 1,027.3 |
| 08 | 9.7 | 12.3 | 15.5 | 7.7 | 1.8 |
| 09 | 22.7 | 24.8 | 30.6 | 28.3 | 79.6 |
| 1 | 96.5 | 118.7 | 107.9 | 145.3 | 101.5 |
| 11 | 17.3 | 20.3 | 24.1 | 26.0 | 25.5 |
| 12 | 78.1 | 94.2 | 81.9 | 117.5 | 74.3 |
| 2 | 502.7 | 1,018.1 | 1,142.1 | 1,063.2 | 977.2 |
| 21 | 0.0 | 3.3 | 2.1 | 1.9 | 3.8 |
| 22 | 12.2 | 16.1 | 13.9 | 16.8 | 0.8 |
| 23 | 6.4 | 7.5 | 9.2 | 10.6 | 6.9 |
| 24 | 47.4 | 52.9 | 26.9 | 31.0 | 48.4 |
| 26 | 167.1 | 199.2 | 186.3 | 124.1 | 88.8 |
| 27 | 2.3 | 2.3 | 2.6 | 2.7 | 2.3 |
| 28 | 177.6 | 627.4 | 789.3 | 799.2 | 788.5 |
| 29 | 78.9 | 104.5 | 96.9 | 67.6 | 31.3 |
| 3 | 82.6 | 110.3 | 129.8 | 123.0 | 152.8 |
| 33 | 82.6 | 110.3 | 129.8 | 123.0 | 150.3 |
| 4 | 6.0 | 4.9 | 5.8 | 1.3 | 0.3 |
| 41 | 1.5 | 1.4 | 4.7 | 1.3 | 0.3 |
| 42 | 3.6 | 2.7 | 0.4 | 0.0 | 0.0 |
| 5 | 600.0 | 236.3 | 298.3 | 303.3 | 245.2 |
| 51 | 423.0 | 29.5 | 23.9 | 29.9 | 27.6 |
| 53 | 1.8 | 5.1 | 4.8 | 5.6 | 4.5 |
| 54 | 52.2 | 60.8 | 81.6 | 78.6 | 31.5 |
| 55 | 49.1 | 59.8 | 75.7 | 65.6 | 32.3 |
| 56 | 14.6 | 20.4 | 34.6 | 36.5 | 15.3 |
| 58 | 4.8 | 4.7 | 6.6 | 7.0 | 5.6 |
| 59 | 42.3 | 41.0 | 67.1 | 58.0 | 103.7 |



275

Appendix C Continued

TOTAL EXPORTS FROM COUNTRIES STUDIED *
EXPORTS FOB BY 2-DIGIT SITC CODE
IN MILLIONS OF U.S. DOLLARS
1978 - 1982

| SITC CODE | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| 6 | 302.9 | 422.7 | 524.7 | 445.0 | 190.2 |
| 61 | 6.6 | 15.7 | 14.1 | 12.0 | 10.1 |
| 62 | 16.8 | 18.0 | 29.6 | 31.3 | 12.7 |
| 63 | 19.9 | 27.7 | 28.9 | 25.6 | 19.8 |
| 64 | 23.9 | 27.4 | 46.0 | 39.9 | 14.4 |
| 65 | 58.9 | 83.8 | 112.3 | 88.7 | 30.7 |
| 66 | 29.6 | 34.2 | 37.1 | 54.1 | 18.2 |
| 67 | 93.4 | 148.4 | 135.6 | 140.8 | 34.1 |
| 68 | 8.6 | 21.7 | 70.3 | 2.8 | 0.9 |
| 69 | 32.6 | 30.6 | 37.7 | 34.1 | 19.8 |
| 7 | 68.5 | 84.3 | 100.3 | 84.9 | 76.1 |
| 71 | 18.6 | 13.3 | 9.2 | 10.3 | 22.2 |
| 72 | 44.6 | 54.3 | 57.0 | 55.5 | 38.9 |
| 73 | 2.6 | 3.0 | 7.3 | 6.1 | 0.7 |
| 8 | 132.3 | 149.7 | 205.5 | 169.4 | 220.5 |
| 82 | 9.3 | 9.6 | 12.1 | 12.1 | 8.1 |
| 84 | 50.0 | 56.0 | 79.6 | 56.5 | 96.8 |
| 85 | 8.9 | 10.8 | 38.5 | 33.9 | 18.6 |
| 86 | 7.9 | 6.5 | 8.6 | 0.0 | 0.0 |
| 89 | 40.3 | 47.8 | 65.8 | 57.6 | 89.7 |
| 9 | 77.3 | 22.5 | 61.8 | 30.7 | 48.5 |
| 93 | 77.3 | 22.5 | 61.8 | 30.7 | 28.5 |

* Exports from Belize, Costa Rica, Dominican Republic, Guatemala, Honduras, Jamaica and Panama.

Appendix D

ANNUAL GROWTH IN EXPORTS FROM COUNTRIES STUDIED *
EXPORTS FOB BY 2-DIGIT SITC CODE
1979 - 1982

| SITC CODE | 1979 | 1980 | 1981 | 1982 | AVERAGE, 1979-1982 |
|---|---|---|---|---|---|
| Total | 11.04 | 13.91 | (4.78) | (11.00) | 2.29 |
| 0 | 6.13 | 11.05 | (1.37) | (4.58) | 2.81 |
| 01 | 14.48 | 15.71 | 0.49 | (35.02) | (1.09) |
| 02 | (39.51) | 33.36 | (35.20) | (25.66) | (16.75) |
| 03 | 38.83 | 2.52 | 3.25 | 9.11 | 13.43 |
| 04 | 19.37 | 3.13 | 11.36 | (55.62) | (5.44) |
| 05 | 13.24 | 25.00 | 16.19 | 6.03 | 15.11 |
| 06 | 11.64 | 52.60 | 34.21 | (34.43) | 16.01 |
| 07 | (0.49) | (9.79) | (23.51) | 19.73 | (3.52) |
| 08 | 26.87 | 26.11 | (50.18) | (77.10) | (18.58) |
| 09 | 9.50 | 23.54 | (7.51) | 180.88 | 51.60 |
| 1 | 22.97 | (9.12) | 34.72 | (30.16) | 4.61 |
| 11 | 17.21 | 18.95 | 7.82 | (1.96) | 10.50 |
| 12 | 20.69 | (13.09) | 43.43 | (36.73) | 3.57 |
| 2 | 102.53 | 12.18 | (6.91) | (8.09) | 24.93 |
| 21 | | (36.16) | (10.88) | 107.34 | 15.08 |
| 22 | 32.15 | (13.30) | 20.38 | (95.31) | (14.02) |
| 23 | 18.14 | 22.66 | 14.87 | (34.91) | 5.19 |
| 24 | 11.78 | (49.12) | 14.97 | 56.21 | 8.46 |
| 26 | 19.20 | (6.46) | (33.42) | (28.39) | (12.27) |
| 27 | (0.30) | 13.91 | 1.49 | (13.27) | 0.46 |
| 28 | 253.29 | 25.81 | 1.26 | (1.34) | 69.75 |
| 29 | 32.51 | (7.32) | (30.23) | (53.72) | (14.69) |
| 3 | 33.45 | 17.74 | (5.26) | 24.22 | 17.54 |
| 33 | 33.48 | 17.72 | (5.23) | 22.21 | 17.04 |
| 4 | (19.54) | 18.36 | (77.49) | (77.62) | (39.07) |
| 41 | (9.88) | 239.99 | (72.34) | (77.62) | 20.04 |
| 42 | (25.65) | (85.97) | (100.00) | | (52.90) |
| 5 | (60.62) | 26.25 | 1.68 | (19.16) | (12.96) |
| 51 | (93.02) | (19.19) | 25.18 | (7.66) | (23.67) |
| 53 | 186.84 | (5.49) | 16.89 | (20.45) | 44.45 |
| 54 | 16.67 | 34.10 | (3.62) | (59.99) | (3.21) |
| 55 | 21.81 | 26.63 | (13.33) | (50.78) | (3.92) |
| 56 | 39.56 | 69.70 | 5.62 | (58.00) | 14.22 |
| 58 | (0.74) | 39.80 | 6.50 | (19.95) | 6.40 |
| 59 | (3.25) | 63.83 | (13.55) | 78.72 | 31.44 |



280

Appendix D Continued

ANNUAL GROWTH IN EXPORTS FROM COUNTRIES STUDIED *
EXPORTS FOB BY 2-DIGIT SITC CODE
1979 - 1982

| SITC CODE | 1979 | 1980 | 1981 | 1982 | AVERAGE, 1979-1982 |
|---|---|---|---|---|---|
| 6 | 39.55 | 24.14 | (15.20) | (57.25) | (2.19) |
| 61 | 136.68 | (9.79) | (15.29) | (15.91) | 23.92 |
| 62 | 6.63 | 64.90 | 5.76 | (59.52) | 4.44 |
| 63 | 39.42 | 4.15 | (11.23) | (22.87) | 2.37 |
| 64 | 15.05 | 67.59 | (13.22) | (63.93) | 1.37 |
| 65 | 42.26 | 34.00 | (21.04) | (65.43) | (2.55) |
| 66 | 15.49 | 8.51 | 45.75 | (66.33) | 0.86 |
| 67 | 58.77 | (8.61) | 3.88 | (75.80) | (5.44) |
| 68 | 152.62 | 224.67 | (96.00) | (66.31) | 53.75 |
| 69 | (6.31) | 23.29 | (9.43) | (41.90) | (8.59) |
| 7 | 23.07 | 18.91 | (15.37) | (10.34) | 4.07 |
| 71 | (28.66) | (30.80) | 11.81 | 116.34 | 17.17 |
| 72 | 21.68 | 5.14 | (2.78) | (29.92) | (1.47) |
| 73 | 12.90 | 143.18 | (15.64) | (88.28) | 13.04 |
| 8 | 13.12 | 37.29 | (17.57) | 30.15 | 15.75 |
| 82 | 4.00 | 25.30 | 0.38 | (33.48) | (0.95) |
| 84 | 11.88 | 42.13 | (28.98) | 71.37 | 24.10 |
| 85 | 21.34 | 255.39 | (11.96) | (45.15) | 54.90 |
| 86 | (18.08) | 32.81 | (100.00) | | (21.32) |
| 89 | 18.64 | 37.64 | (12.41) | 55.64 | 24.88 |
| 9 | (70.92) | 175.06 | (50.40) | 58.28 | 28.00 |
| 93 | (70.92) | 175.06 | (50.39) | (6.94) | 11.70 |

* Exports from Belize, Costa Rica, Dominican Republic, Guatemala, Honduras, Jamaica and Panama.



281