

PW-ABL-075

70762

PRICING IN BELIZE:

Price Controls, Foreign Trade
and Exchange Regimes

Report presented to:

U.S. AID

Belize City, Belize

Under purchase orders

#505-0012-0-00-5261

and #505-0012-0-00-5262

By:

William Loehr

Loehr and Associates, Inc.

1580 Garst Lane

Ojai, CA 93023

INDEX

<u>Executive Summary</u>	i
<u>Introduction</u>	1
<u>Section 1: Price Controls</u>	3
1.1 Description of Price Control System	3
1.2 Impact of Price Controls	7
<u>Section 2: Trade Regime</u>	17
2.1 Tariffs	17
2.2 Licensing and Quantitative Restrictions	28
2.3 Other Taxes on Imports	32
2.4 Export Taxes and Incentives	38
<u>Section 3: Exchange Regime</u>	44
3.1 Belize's Exchange Control System	44
3.2 Real Exchange Rates	46
3.3 Trends in Real Exchange Rates: Discussion	58
<u>Section 4: Effects of Trade and Exchange Regime</u>	63
4.1 Consumption	63
4.2 Production	64
4.3 Trade	70
<u>Section 5: Policy Interactions</u>	78
5.1 Internal Consistencies and Inconsistencies	78
5.2 Consistency with Development Policy	81
<u>Section 6: Export Promotion and Diversification</u>	84
<u>Section 7: Policy Recommendations</u>	86
7.1 Priorities	86
7.2 Policy Recommendations	87
<u>Bibliography</u>	96
<u>Appendix A: Price Control Regulations</u>	97
<u>Appendix B: Re-export Measurement Problem</u>	108
<u>Appendix C: Import Licenses and Prohibitions</u>	111
<u>Appendix D: Stamp Duty Exemptions</u>	114
<u>Appendix E: List of Persons Contacted in Belize</u>	115

EXECUTIVE SUMMARY

This study has to do with pricing in Belize. The specific topics under study are the system of internal price controls, the trade regime and the foreign exchange regime. Each of these has an important influence on prices in Belize, whether we consider exports, imports or non-traded domestically produced goods.

Our objectives have been threefold. We have identified specific problem areas in which current economic policy could be improved upon. Secondly, we have made judgements about priorities for policy changes. Finally, we offer specific policy recommendations to address the problems found. The policies recommended, the order of importance of them, and brief reasons for them are:

1. The current system of import licenses and prohibitions should be eliminated. Import licenses and restrictions were found to create economic uncertainty and inefficiency and to be unnecessary for protection of infant industries.
2. Price controls in Belize should be discontinued or sharply curtailed. Most price controls are not effective in influencing prices, and those that are are unnecessary. Incidences where price controls have damaged the interests of consumers and producers abound.
3. Further appreciation of the real exchange rate should be carefully avoided. Despite real exchange rate performance which is better in Belize than in many countries, real appreciation has occurred. Future export performance and the balance of trade is threatened. Continued monetary and fiscal restraint is called for.
4. Development concessions should be modified. Concessions have been overly protective in the past and have probably encouraged

inefficiency. The term of concessions should be shortened and exemptions from import duties in imported inputs should be discontinued. Infant industry protection should be provided by temporary import duty surcharges on final goods.

5. Tariff policy should be modified by seeking:
 - Greater homogeneity of tariff duty rates across all imported goods.
 - Public revenue targets should be set and honored.
 - Exemptions of tariff duties should be eliminated.
 - A temporary infant industry protection tariff should be employed.
 - CARICOM negotiations should reflect Belize's interest in a simplified tariff structure.

6. Export licenses should be replaced by export registration.

In making these recommendations we have not tried to make policy choices. Most of the steps mentioned can be taken as a group or separately. Some interaction occurs when the quantitative restrictions on imports are removed, because the protection that they provide is replaced by temporary infant industry protection tariffs. Thus, removal of quantitative restrictions implies some steps on tariff policy.

INTRODUCTION

This study deals with policies affecting Belize's international trade and pricing. A review of these and other policies is particularly timely for Belize. Independence from Britain is recent and many policies and legal characteristics which affect the economic environment in Belize were inherited from the former colonial power. Some of these policies may have been well designed for a colony of the U.K. but may not well suit the needs of an independent developing country. Furthermore, world economic conditions have changed greatly in just the past five years. High inflation of the early 1980s, helped along by the second big "oil shock," brought with it a general worldwide slowdown in economic activity. Demand for many of the products of developing countries, including those of Belize, slumped badly. Balance of payments and debt problems, revenue deficiencies, employment difficulties and other economic problems became severe for Belize as they have for most other developing countries.

Belize is in a particularly good position to improve its policy mix. The country is not overly afflicted by the uncontrolled inflation and political unrest found elsewhere. The recently elected government is dedicated to examining economic policy and to bring a greater degree of economic rationality and efficiency into being. It has taken a course of honoring past commitments while seeking new directions for the development of the country.

It is the objective of this study to identify priorities and enlarge the list of policy options available in several related areas. It is not our intention to choose policy prescriptions. Rather, we seek a range of options from which choices can be made and which are in keeping with the political constraints of Belize. We will pursue policy options that have a reasonable chance of yielding economic improvement rather than dwell on only those that seek the often naive goal of economic "optimality."

The areas of concern to this study could be generally categorized as having to do with pricing in Belize. The specific topics under study are the system of internal price controls, the trade regime and the exchange rate regime. Each of these has an important influence upon the price structure of Belize. Price controls in domestic markets as well as tariffs and quantitative restrictions on traded goods affect the relative prices of all goods, and of course, affect the allocation of expenditures across the various categories of imported versus domestically produced goods. The exchange rate regime has a more general effect. It determines how the prices of Belizean goods appear to foreigners when comparisons are made with prices of similar goods from other countries. Also, the decision by Belizeans, to buy imported or domestically produced goods is greatly affected by the exchange rate regime. Thus, the topics under study cover the full range of factors affecting prices in Belize, whether we are considering relative internal or international prices.

In the text that follows we will deal in turn with a description of price controls, the trade regime and the foreign exchange regime. These appear in Sections 1-3. Descriptions in these sections will be followed by observations on the functioning of each area. Section 4 will be dedicated to observations on the overall effects of the trade and exchange regimes and Section 5 will briefly comment upon the interactive effect of all items under study. Section 6 will comment upon the likely effect that current controls and policies have on export promotion and diversification. Finally, in Section 7 we will specify a range of policy options and recommendations.

In the discussion that follows all references to "dollars" will be to Belize dollars, unless otherwise stated. Footnotes will be indicated by an asterisk (*) and a number within parentheses. They are found at the end of each section.

Section 1: Price Controls

Belize is typical of many developing countries in that it has price controls on a number of items. Also typical is that price controls do not work the way their designers had intended. We will therefore describe the system of controls as they exist in law (de jure) but assess the way they work in practice (de facto).

Section 1.1 Description of Price Control System

De jure price controls - In Belize price controls are administered by the Ministry of Commerce, Industry, Fishing and Cooperatives. Controls apply to two general categories of goods: imported goods and locally produced items. Fifty-one imported goods plus a long list of imported medical supplies are regulated by maximum legal markups which can be applied to c.i.f. import prices. Twenty-one locally produced items plus a long list of goods are controlled by specific prices. The most recent list of price-controlled items, and the legal maximum prices is attached as Appendix A. This list was first distributed on March 3, 1984.

In addition to setting maximum prices, the control regulations require that shopkeepers have invoices readily available for inspection by control officers. Further required is that every item in a shop have the authorized price marked on it and that the list of authorized prices be 'prominently' displayed in the shop. Finally, the controls make it an offense for consumers to purchase controlled goods in excess than their legal maximum prices.

Prices are set by decisions made by a "price control committee" composed of representatives of trade unions, Chamber of Commerce, Ministry of Finance and Ministry of Commerce.

De facto price controls were evaluated by

- discussion with relevant parties in the Ministry of Commerce;
- checking prices of specific price-controlled items at local markets;
- discussion with local wholesalers and retailers of price-controlled items.

The results of that evaluation are that price controls are rather arbitrary, are probably costly to wholesalers, retailers and consumers, but do little to control prices.

Enforcement is almost impossible given the staff assigned to price control. There are only four people working on price control administration and enforcement. One is the "Controller of Supplies" and three are "Price Control Officers." The latter are charged with checking prices at the retail level. Two persons work in Belize City and one in Corozal. Immediately it is apparent that this staff could not hope to enforce the price controls as stated in the regulations. There are simply too few people.

To confirm this impression, retail prices were surveyed at supermarkets and shops in Belize City. Imported items were not checked in this way since control is via a percentage markup over invoices and obtaining invoices would be difficult. Only basic, locally produced food items were checked. Those were:

- rice
- bread
- sugar
- black-eyed and pinto beans
- black beans
- beer

In almost all cases prices for bread, sugar, beer and beans exceeded the legal prices. However, the extent to which maximum prices are exceeded is

only slight -- normally by less than 20%. Often, two kinds of the same item are displayed side-by-side, with one satisfying the legal price; the other much above it. Normally, several kinds of rice were available and one kind would almost always be sold at a price below the legal maximum. In the latter case a question of quality is immediately raised. How can rice priced at almost twice the legal price compete with other rice at the legal price, when both are side-by-side on the same shelf? Clearly, one is better than the other (*1). Indeed, the rice sold below controlled price has a high incidence of broken and discolored grain compared to the higher priced products. Similar price observations were made on the other basic goods listed above.

In general, when prices exceeded legal limits the difference was only slight. Managers were usually able to explain some of these differences. Inexpensive rice is bought in bulk and repackaged. Merchants can charge a small amount for the package. A bottle deposit may be added to the price of beer or pop. In times of shortage, imported goods may compete with identical local produce (e.g. rice, beans), but may be free from price controls. Extra charges are allowed to cover transport costs to out-of-the-way locations. However, none of these explanations are described in any of the official documents specifying controlled prices. The extra charges that are allowed appear to be ad hoc judgements which are at the discretion of price control officers. In summary, given the shortage of price control officers, it is surprising that the goods that we checked were priced so close to the controlled price.

Store managers point out that the items that we checked are few in numbers, are very basic food items and are easiest to check. Managers say that while those prices are often too low, the number of goods to which they apply is small and these controls do not therefore overly hurt their business. Also, when the low-priced goods are offered for sale, they are often of poor quality. Managers usually offer higher quality goods too, but at prices higher than the controlled maximum.

The kind of price control that we were unable to check on is the percentage markup allowed on imported goods. To do this at the retail level one would need access to import and/or wholesale invoices. These controls, however, were described simply as a "nuisance" by one store manager; "a farce" by another. Wholesalers and retailers buy stock from a number of sources, and will generally buy from the cheapest source. Thus, an item on the retail shelf could have come from stocks that were bought from several suppliers, at different times and at different prices. One retailer remarked that there is always a "convenient invoice" available to justify a price if necessary. Another told of buying a case or two of an item at well above his normal cost so that his markup on the rest of his stock would be protected. All managers commented that the percentage markups are generally about what they would have charged anyway, except for goods requiring special handling, refrigeration, etc. Where legal markups are what would occur anyway, regulations are irrelevant. Where regulations do not allow adequate markups, managers always have the option of not offering those goods for sale. Under these circumstances, price controls can only be destructive of consumer welfare since they do not constrain price but can constrain quality and consumer choice.

In the opinion of managers, the controlled legal markups do little to effect consumer prices or product availability, yet require monitoring and paperwork on their part. No attention is paid whatsoever to the price control requirements on labelling and notifying consumers. In no cases were the controlled prices prominently displayed, nor were goods marked with the maximum price identified.

One might argue that even though price controls have no effect on some commodities, they can prevent price "gouging" on others. However, the commodities which are affected by the controls tend to be the ones sold in the most competitive markets. Basic commodities like beans, rice, bread, etc. are sold in many establishments, and competition is a natural barrier

to price gouging. Imported commodities are generally unaffected by the price controls, but these are not usually "necessities" and merchants who attempt to change prices that are too high will find that consumers simply stop consuming. In this context it is difficult to see any useful role for price controls.

Section 1.2 Impact of Price Controls

The Costs and Benefits of Price Controls

One of the main costs of controls on prices is probably the cost of production lost due to inadequate incentives. Simultaneously, consumers may be deprived of goods that are unavailable, and this must be weighed against benefits from lower prices on the goods that they do consume. Retailers and distributors of price controlled goods also incur the costs of increased accounting and paperwork and perhaps, lower sales. In summary, there is one benefit from controls and that is:

- lower prices to consumers on the goods to which controls are effectively applied

This is accompanied by several costs. These are:

- lower production
- fewer goods available to consumers
- decreased incentives for distribution
- higher administrative costs for producers, importers, wholesalers, retailers and the public sector

Our survey of the functioning of price controls indicates that the part of the price control regulations dealing with imported items has little or no effect on price. On the few domestically produced items subject to controls there is probably a slight dampening of prices as a result. Thus, of the possible benefits from controls, very little is observable in Belize. Prices of only a few items are affected, and they all have higher-quality

substitutes which many people choose to buy at uncontrolled prices. They are also the kinds of goods that are sold in competitive markets where there is a natural form of "price control" in any event.

The costs associated with price controls can be substantial. It is obvious that the public sector incurs costs in price control administration. This cost goes beyond the direct cost associated with price control officers (which is not great, since there are only four of them). Merchants are prosecuted for violating price controls, imposing costs on the legal system, the judiciary and the merchants involved.

Cost of compliance with price controls can be substantial, especially for entrepreneurs engaged in importing and wholesaling. It is instructive to review the steps that must be followed for an importer/wholesaler to comply with the control regulations.

Upon importing an item which is to be wholesaled, two kinds of papers must be filed:

1. Customs entry: This shows item by item, the goods imported, duties applicable, etc. It must be accompanied by a worksheet showing the tariff calculation including the BTN class, applicable tariff rate, etc. This must be submitted to Customs.
2. Cost Sheet: This shows the c.i.f. prices of imported items and the legal markups. This must be submitted to the price control authority.

Legal procedure is that the customs people check the customs entry to make sure the correct duties are being charged. Once the customs entry is approved by customs, duties are paid. Then, the cost sheet is checked by the price control authority against the customs entry to ensure that the c.i.f. costs upon which legal markups are based are correct. If all is in

order the wholesaler can then sell the goods. If all steps are followed, the entire procedure could take up to two months, but this procedure is almost never followed.

The actual procedure is different. One can file a "provisional customs entry" and "provisional cost sheet." These forms make estimates of the duties due and markups. The importer must place on deposit with customs an amount twice the expected customs duties. The provisional customs entry and cost sheets are not complex, are approved quickly (in a few days) and allow the wholesaler to sell the goods before the final customs entry and cost sheets are filed and approved. After the provisional forms are approved, the full procedure using the true customs entry and cost sheets is done.

The irony of the above procedure is that the goods are sold before the full legal paperwork is done. Also, there is no provision for adjustment if it is found that the prices at which things are sold exceed the maximum prices at which they should have been sold. Any adjustment would only apply to as yet unsold goods - which wholesalers report are likely to be few. Thus, the price control procedure is an empty exercise. No control is actually exerted, and yet the full complement of paperwork must be done in any event.

Following the procedure outlined above imposes unnecessary costs on all concerned. The customs entry with accompanying worksheets and cost sheets are very detailed. One importer/wholesaler showed me an invoice that was about 60 pages in length, with the Customs entries and worksheets adding about 40 pages to that. The cost sheets add a similar amount of paperwork. This particular importer/wholesaler employs two full-time people just to fill out the forms. If the full legal procedure is followed before sale occurs, the time delay is so long that extra storage charges are incurred as well as carrying charges on tied-up working capital. Also, for perishable items, especially those requiring refrigeration, extra costs are incurred. None of these costs are allowed in the base to which the markup percentages are applied. If the shorter provisional approval route is taken (which is

almost always the case), the importer has to deposit twice the expected import duty in favor of the Customs Department, increasing the costs of working capital. Clearly, costs are also borne by the price control and customs authority. These costs must be considered unnecessary for, at least the price control authority, since no effective control of prices occurs. In the words of one importer, the whole procedure is "...a farce."

Examples of cases where price controls have reduced production and maintained inefficient resource allocation abound. A major case involves the fresh meat and fish industries. Until about two years ago both fresh fish and fresh meat were subject to price controls. Both were also on the import prohibition list (*2). In neither case were prices adequate to bring forth domestic supplies and no major grocery stores sold either item. Recently, meat price controls have been removed, but controls on fish remain. All major grocery stores now sell fresh meat; none sell fish. One manager of a major store told of securing a reliable source of domestic meat once price control was lifted. The meat retailer contracted for beef deliveries and quality and quantity controls were agreed upon with a local supplier. The producer has invested in packing and handling facilities and is currently installing a feed lot. In the near future all beef sold by the retailer in question will be grain-fed. The same retailer sells no fish.

Fresh fish prices are so low that investments to supply the local market are not justified and there is no margin for retailers. Most fish prices are set between \$1.35 and \$1.50 per pound. Deheaded lobster and shrimp prices are \$3.00 per pound -- which is only a fraction of their export value (*3). It is surprising to find that one of the main items in which Belize has a comparative advantage, fish, is not readily available on the local market (*4). The same retailer who arranged a beef market when beef price controls were dropped offered that he would do the same with fish if he could recoup the costs of developing a reliable supply.

Several cases occur, in addition to fresh fish, where goods are not available to consumers because prices are too low. Prices are controlled on domestic beer, but not on imported beers. At least one major grocery store and some restaurants do not carry domestic beer as a result (*5). Retailers can cite many examples of prices being set too low on beans, rice and corn to make production worthwhile, so shortages have occurred.

Administrative Problems with Price Controls

The public administrative resources devoted to price control are so few that major problems arise in setting and/or changing prices. In some ways, the system of price controls and in some cases even the level of prices, are remnants of the past, inherited from the colonial period. No procedure exists for regularly reviewing prices, there is little cost monitoring and no regular consideration of international prices. Control price levels are set rather arbitrarily -- some having been in effect for years. Procedure for changing prices is entirely ad hoc. To change prices, interested parties appeal to the price control committee. When an official of that committee was asked how they determine the legitimacy of a claim to higher prices he said, we "listen to their opinion." He did not disclose any procedure even remotely related to cost studies or resource allocation.

As Garcia (1983) has pointed out, price control in Belize works in an "upward" direction. Changes in international markets have little effect on local prices. Controllers, when they do change prices, pay primary attention to the local cost of production as represented by local producers, and not to alternative international prices. Thus, the system of price control benefits mainly producers and not consumers.

Out of this price setting procedure we have already indicated several inconsistencies such as artificially low fish prices, and lobster and shrimp prices set well below export market prices. Maximum sugar prices are well above world price. There appears to be no logic behind these prices. They

are more artifacts from some ancient political decision rather than a result of systematic analysis of costs, incentives and consumer welfare.

Of price-controlled items, fuel should be one of the easiest to control. Fuel is imported by only two parties, and it is sold at only a few locations, yet fuel prices can illustrate the arbitrary way in which prices are adjusted. On October 5, 1985, prices of gasoline and diesel fuel were changed (S.I. 83 of 1985). Prices per U.S. gallon before and after that date are:

	<u>Before 10/5/85</u>	<u>After</u>
Diesel	2.79/gal.	2.72
Premium	3.32	3.72
Regular	3.21	3.62

The price of gasoline was raised by about 12%. The reason given for this was that the revenue replacement duty on gasoline had been raised from 20% to 35%. Also, stamp taxes had been raised from 5% to 10% (*6). The higher price was to pass the increased tax on to consumers.

Consideration does not seem to have been given to declining world prices for fuels. The Central Statistical Office reports that the import cost per U.S. gallon for gasoline was \$1.67 in 1984 and had dropped to \$1.57 in 1985. If one applies the normal tariff (\$.45/gal.), and applicable taxes (*7) to the average import cost in 1984 and 1985, and compares the result with the controlled prices, one sees that margins have increased. The margins referred to here go toward payment of minor taxes and fees, transport and marketing costs. The average cost of gasoline plus normal taxes and controlled price in 1984 result in a markup of \$.59/gal. In 1985 the markup is \$.73/gal. This is a 25% increase in markups. Thus, if the price control authority wished only to recoup increased taxes from consumers, they raised the price too much (*8).

Prices of most other commodities would be much more difficult to regulate than those of gasoline, diesel and kerosene. These fuels are all imported and their costs are clear. The cost of producing basic grains and other consumer goods are not easy to determine. Even if the price control authority investigated the costs of production for regulated items, their job would be a difficult one. The fact that they are not organized to study any of these costs must surely lead to arbitrary price setting (*9).

One major dimension of controlled prices in Belize, which has not been studied here has to do with prices that are set by activities of the Belize Marketing Board. Since some of the major commodities handled by the BMB are also subject to price controls, rice, beans, corn and condensed milk, there needs to be coordination between the BMB and the price control authority. As things stand now, it appears that the controlled price on the items mentioned reflects the policy of the BMB, rather than any overriding philosophy or methodology of the price control authority. The BMB study now being conducted by the Kansas State team should shed more light on this important dimension.

Summary

In Belize there are two general classes of goods under price control: (1) imported consumer goods; (2) locally produced consumer goods. Observations on price controls are:

- the price control staff is so small that little effective control enforcement can be expected;
- there is no systematic review of controlled-price levels;
- adjustment in controlled prices is ad hoc and not necessarily based upon technical criteria such as production cost, international prices, etc.;
- price controls on imported items are almost impossible. It is not likely that price controls have much effect on these goods;

- domestically produced goods subject to price controls are a few basic commodities;
- prices of domestically produced goods probably are affected somewhat by price controls;
- many violations of price controls can be observed;
- ineffective attempts at price controls impose unnecessary costs on importing wholesalers and retailers;
- controlled prices on domestically produced items often cause resource misallocation;
- local producers often face reduced production incentives due to price controls;
- cases where local production is not forthcoming due to price controls are numerous;
- any benefits to consumers from price controls are very small;
- consumers often face reduced quality and availability of domestically produced items due to price controls;
- the public sector bears the unnecessary cost of price control administration and enforcement;
- any benefits of price controls are surely outweighed by the cost.

Section 1: Footnotes

*1 It may also be interesting to note that the only wholesale supplier of the high-priced rice is the Belize Marketing Board.

*2 The fact of being on the import prohibition list would normally be irrelevant if there were no price controls. Belize has a comparative advantage in both beef and fish and would normally export both items, not import them. With price controls however, if prices are set too low, imports would flow in since the price controls applied only to domestically produced meat and fish. Thus, the import prohibition is a necessary tool to try to enforce a domestic price control.

*3 FOB export values of "Crustaceans and Molluscs" (SITC 031.29) in 1983 were \$12.40/lb. and in 1984, \$11.46/lb.

*4 Fish are available, but one needs to go directly to the fishing coops or fishermen, and prices paid there are outside the effective control of the authorities. Nevertheless, prices at that level are approximately the controlled prices, though quality varies. Furthermore, there is no quality control as there would be if sales occur through most retail outlets.

*5 Bars may have local beer on tap rather than in bottles. Surely bottles can be inconvenient, but it is also easier to avoid controls when selling beer by the glass than by the bottle.

*6 The stamp tax was raised in steps occurring mainly in 1984.

*7 Import duty, revenue replacement duty and stamp tax.

*8 Similar calculations cannot be made for diesel fuel. The data available on imports show that diesel import cost fell in 1983 and 1984. 1985 data also show a drop but it is implausably large (from \$2.07/Imperial gal. to

\$.44/Imperial gal.) so the data must be in error. Diesel normally costs about the same as kerosene. Kerosene import costs dropped from \$1.72/gal. in 1984 to \$1.69/gal. in 1985. Diesel prices were lowered in 1985 to \$2.72/gal. from \$2.79/gal. If diesel costs are the same as kerosene costs, given applicable taxes and tariffs (diesel is exempt from stamp duties) the markup on diesel fell from about \$.37/gal. to about \$.28/gal. after the tax and price changes. This reduces markups by about 24%. To just recoup taxes, the price of diesel should have been raised -- not reduced.

*9 Conversations with some public officials indicated that some felt that prices should be controlled so that people who have access to cheap supplies do not "exploit" the local market.. Some referred to grains produced in neighboring countries under "subsidized" conditions. The people expressing these views seem to base their statements on a feeling that profit should be reduced rather than on consumer protection. Price controls cannot protect local farmers from cheaper commodities imported from neighbors. Other steps are required for that.

Section 2: Trade Regime

The trade regime in Belize is characterized by several major influences. Tariff duties and quantitative restrictions are applied to most imported goods. Additional taxes on several important imports are applied as well as some export taxes. These will be explained in turn. Then a summary of the overall functioning of the trade regime will be provided.

Section 2.1 Tariffs

In 1976 Belize adopted the tariff structure of CARICOM. Tariffs are a mixture of ad valorem and specific rates. Ad valorem rates range up to 50%, but specific rates can be much more in ad valorem terms. For example, the tariff on imported beer is \$12 per gallon, which is approximately \$1.10 per 12-oz. can (U.S.\$.55). This is equivalent to a 150% ad valorem duty, based on the average cost of imported beer in 1984. Rates on liquor (\$66/gal.) are also about 150% of c.i.f. value. Details on tariff rates, item by item, can be found in the document (*10):

The Laws of Belize (chapter 28) Customs Tariff and Trade Classification (1st Schedule) Effective March 20, 1976 as amended. 340 pages.

Exemption to tariffs may be granted for a number of reasons. "The Laws ..." specify that exemptions are made for items used by government or which are important inputs to agriculture. Medical, scientific and educational materials are exempt as well as packing materials for Belizean products. Inputs to the meat processing industry are specifically mentioned as well as inputs for "industrial purposes", especially in the manufacture of cigars and cigarettes, tobacco, boots and shoes, starch and sugar,"... and in the manufacture of any other commodity or article approved by the cabinet." In addition, exemptions to tariff duties (as well as to all taxes and other duties) can stem from the Development Incentives Ordinance which grants broadly-based exemptions for general development purposes. In short, while

the tariff duties in Belize appear rather restrictive, many exemptions can exist.

Tables 2.1-1 and 2.1-2 attempt to calculate actual ad valorem tariff rates paid in 1983 and 1984 respectively. The first column shows gross imports into Belize, by single digit SITC. Because of its convenient location, Belize serves as a port for areas in southeastern Mexico. Goods received in the port at Belize City but destined for Mexico, are recorded as an import when they arrive, and a "re-export" when they are delivered to Mexico. Re-export goods may also originate in Mexico and traverse Belize on their way abroad. These goods do not leave the control of Customs and therefore are not subject to Belizean import duties. For this reason, one must subtract re-exports from gross imports to see imports for domestic use. It is only the latter which is potentially subject to tariff duties, and the amounts derived in this way are found in the third column of the two tables.

Table 2.1-1
1983 Imports and Tariff Duties

S.I.T.C.	Gross Imports	Re- Exports	Imports: Domestic Use	Tariff Duties Paid	Tariff Rates %
0 Food	47,148	1,786	45,362	2,941	6.5
1 Beverages & Tobacco	4,931	977	3,954	359	9.1
2 Crude Materials	739	1,162	--	24	--
3 Fuel	52,599	6,815	45,784	678	1.5
4 Animals & Vegetable Oil	619	151	468	120	25.6
5 Chemicals	17,319	1,337	15,982	1,875	11.7
6 Manufactured Goods	27,945	677	27,268	3,533	13.0
7 Machinery	43,334	5,539	37,795	4,541	12.0
8 Misc. Manufactured Goods	27,950	5,774	22,176	2,006	11.1
9 Misc. Commodities	<u>1,492</u>	<u>882</u>	<u>610</u>	<u>5</u>	<u>0.8</u>
TOTAL	224,076	25,100	198,976	16,082	8.1

-- Figures imply negative imports

SOURCE: Computer printouts provided by the Central
Statistical Office, Belmopan

Table 2.1-2
1984 Imports and Tariff Duty

S.I.T.C.	Gross Imports	Re-Exports	Imports: Domestic Use	Tariff Duties Paid	Tariff Rate %
0 Food	55,955	6,676	49,279	3,457	7.0
1 Beverages & Tobacco	6,311	2,052	4,259	375	8.8
2 Crude Materials	926	401	525	31	5.9
3 Fuel	43,471	5,768	37,603	732	1.9
4 Animals and Vegetable Oil	919	329	590	111	18.8
5 Chemicals	21,691	2,205	19,486	2,085	10.7
6 Manufactured Goods	32,804	1,472	31,332	4,047	12.9
7 Machinery	51,511	9,615	41,896	4,286	10.2
8 Misc. Manufactured Goods	44,513	10,988	33,525	4,289	12.8
9 Misc. Commodities	<u>1,586</u>	<u>1,179</u>	<u>407</u>	<u>12</u>	<u>2.9</u>
TOTAL	259,587	40,685	218,902	17,625	8.1

Source: Computer printout provided by Central Statistical Office, Belmopan

(If gas, kerosene, diesel are removed -- M=6776; duty=same=732; rate=10.8. 1984)

Technically, to calculate imports for domestic use, one should allow for annual changes in inventories of goods in customs warehouses, destined for re-export to or from Mexico. If re-exports in a given year are made from inventories accumulated in the preceding year, it may appear that imports for domestic consumption are negative -- an impossibility. Indeed this is apparently what has occurred in 1983 for crude materials (SITC 3) where it would appear that imports for domestic use are a negative \$423,000. Similarly, our figures shown for imports for domestic use may be overstatements if inventories destined for re-export are accumulated during the course of a year. Unfortunately, no information is available on changes in inventories of re-export goods. Also, there are signs that the data on re-exports and/or gross imports are not very accurate (see Appendix B). Thus, the figures shown as imports for domestic use must be seen as approximations and used with caution.

The actual tariff duty rates paid in Belize during 1983 and 1984 are not high on average. The rate paid in both years averaged 8.1%, though there is some variation across product categories. SITC 2, crude materials, has inconsistent figures for 1983 and is a very small net import in 1984. SITC 9 is extremely small in both years and is composed mainly of "Personal and Household Effects." Excluding these two categories, we see that tariff duties actually collected appear to range from a low for fuels of under 2% to a high of 25.6% (18.3%) for SITC 4 in 1983 (1984).

Our view of this range is distorted by the preponderant effect of imports of kerosene, gasoline and diesel fuel. These are three of the single largest imports in any year and the data do not allow us to compare import duties paid on these fuels with other duties (*11). Since these fuels are so preponderant as to skew our view of SITC 3, we have removed them from SITC 3 to see what the tariff duties paid on the remainder of that class of goods would be. With their removal SITC 3, fuels, carries a rate of duties paid of 8.8% in 1983 and 10.8% in 1984.

The range of duties actually paid in Belize is quite narrow. Ignoring SITC 2 and 9, and removing the preponderant effects of important fuels, the range of tariff rates actually paid is 6.5% to 25.6% in 1983 and 7.0% to 18.8% in 1984. For all SITC categories except 4, Animals and Vegetable Oils (which is a relatively small one), rates fall in the range 6.5%-13% for 1983 and 7-12.9% in 1984. In both years overall rates paid averaged 8.1%. Without fuels the averages for both years are 10% and 9.3% respectively.

Since we know that goods can be exempted from paying import duties it would be interesting to see what the extent of exemptions is. To attempt this, we have compared tariff duties actually paid with those legally chargeable on eleven items. There is nothing scientific about the commodities chosen (*12). Rather, we have chosen a few items which are imported in significant amounts and which carry significant duties. Tables 2.1-3 and 2.1-4 show the information on eleven commodities for 1983 and 1984 respectively. Along with each commodity is listed both the corresponding SITC and BTN number. Belizean import records are classified by SITC, but the tariff code is specified by the BTN. Both import records and the tariff code supply cross references.

Table 2.1-3
 Import Duty Comparisons
 1983

Item	SITC (BTN)	Gross Imports (\$000)	Re-exports (\$000)	Net Imports (\$000)	Duty Paid	Rate of Duty Paid (%)	Legal Duty Rate
Beer	112.31 .32 .39 (22.03)	518.4 (68,987 gal.)	2 (216 gal.)	516.4 (68,771 gal.)	122,760	23.8% (1.79/gal.)	\$12/gal.
Fertilizers	561.11 .12 .13 (31.02)	364.4 943 tons)	0	364.4 943 tons	0	0	\$12.50/ton
Household Soap	554.11 .12 .19 (34.01)	104.6	0	104.6	31,020	29.7%	30%
Tires & Tubes (cars)	629.133 (40.11.9)	425.0	3	422.0	125,125	29.7%	30%
Cars	732.1 (87.02)	1,655.8	58	1,597.8	540,816	33.8%	45%
Motorcycles	732.91 (87.09)	224	26	198	44,112	22.3	35%

Table 2.1-3 (Continued)

Item	SITC (BTM)	Gross Imports (\$000)	Re-exports (\$000)	Net Imports (\$000)	Duty Paid	Rate of Duty Paid (%)	Legal Duty Rate
Photo cameras	861.4 (90.07)	92	26	66	7,521	11.4	30%
Watches	864.11 (91.01)	1,695	1,837	--142	1,000		50%
Whisky	112.45 (22.09.5)	1,122 (25,860 gal.)	575 (10,158 gal.)	547 15,702 gal.)	7,274	1.3% (\$.46/gal.)	\$66/gal.
Mens' and Boys' Undergarments	841.133 .134 .139 (61.03)	105	55	60	9,160	15.3%	45%
TV Receivers	724.110.0 (85.15.1)	1,399	850	549	132,169	24.1	45%

Table 2.1-4
 Import Duty Comparisons
 1983

Item	SITC (BTN)	Gross Imports (\$000)	Re-exports (\$000)	Net Imports (\$000)	Duty Paid	Rate of Duty Paid (%)	Legal Duty Rate
Beer	112.31 .32 .39 (22.03)	578 (70,893 gal.)	31 (2,770 gal.)	547 (68,123 gal.)	214,971	39.3% (3.16/gal.)	\$12/gal.
Fertilizers	561.11 .12 .13 (31.02)	109.8 (2,153 tons)	0	1,098 2,153 tons	0	0	\$12.50/ton
Household Soap	554.11 .12 .19 (34.01)	983	0	725	176,448	24.3%	30%
Tires & Tubes (cars)	629.133 (40.11.9)	608	1	607	180,053	29.7%	30%
Cars	732.1 (87.02)	1,435	2	1,433	541,925	37.8%	45%
Motorcycles	732.91 (87.09)	288	41	247	47,451	19.2	35%

Table 2.1-4 (Continued)

Item	SITC (BTN)	Gross Imports (\$000)	Re-exports (\$000)	Net Imports (\$000)	Duty Paid	Rate of Duty Paid (%)	Legal Duty Rate
Photo cameras	861.4 (90.07)	68	11	57	3,507	6.2	30%
Watches	864.11 (91.01)	4,912	4,665	247	17,559	7.1	50%
Whisky	112.45 (22.09.5)	1,122 (25,860 gal.)	575 (10,158 gal.)	547 15,702 gal.)	7,274	1.3% (\$.46/gal.)	\$66/gal
Mens' and Boys' Undergarments	841.133 .134 .139 (61.03)	36	16	20	9,075	45.4%	45%
TV Receivers	7.241.100 (85.15.1)	3,238	2,693	545	107,487	19.7	45%

Of the eleven commodities shown, data on watches appear to be inconsistent due to the re-export measurement problem mentioned earlier. Fertilizer is generally exempt from duties, as are other agricultural inputs. The focus of our interest lies in the two right-hand columns. They list the tariff duty rate that was actually paid in 1983 and 1984 as well as the legal duty rate listed in "The Law ..." Five commodities have experienced much lower actual duty rates than the legal rate. These commodities are beer, motorcycles, photographic cameras, whisky and television sets (*13). Commodities can, of course, receive an exemption from import duties if they are the object of development concessions, or may be exempt by virtue of specifications in "The Law ..." Thus, for cars, one must expect the average rate actually paid to be a bit lower than the legal rate of 45%. Actual rates on cars were 33.8% in 1983 and 37.8% in 1984. Duties paid on mens' and boys' under garments were about the legal rate in 1984 but well below in 1983. Since there is a large re-export trade in these items, we suspect that measurement problems are distorting the data somewhat. Still, unexplained gaps remain.

If the data presented are in any way representative, there is apparently severe underpayment of import duties in some categories. Much of the difference between actual duties paid and the legal rates is surely due to legal concessions and exemptions. However, the gap between what is paid and what the legal rate is leaves too much room for a reasonable amount of exemption. In some cases, exemption seems to be the rule. The problem of a large number of import duty exemptions was also a concern expressed by the World Bank team's Economic Memorandum on Belize (1984). Our inquiry confirms their impression.

Some of the gap in import duties paid and those that are legally chargeable can also be due to poor administration and enforcement. The tariff code is complex, and the customs staff small, so enforcement would be difficult. Customs officials may decide in some cases whether goods are exempt from duties. Other duty exemptions must be approved by the Ministry of Finance,

but these must be interpreted by customs officials. Duty exemptions come in a variety of forms. They may be in the form of letters or memos signed by relevant officials, and handwritten notes have been used. We were also told of exemptions conveyed verbally. Room for error does exist. Clearly, goods may also enter or leave Belize outside the view of customs. Smuggling is rumored to be pervasive -- but this should not affect the data discussed above.

Section 2.2 Licensing and Quantitative Restrictions

Belize requires import licenses for fifty general classes of items and prohibits the importation of twenty-one other items. A list of affected items is attached as Appendix C. The list reveals that many common consumer goods are subject to import licensing such as beans, detergents, eggs, flour, potatoes, sugar, rice and many others. Prohibited items also include many consumer goods. Fish, fresh meat, all pasta products, matches and toilet paper imports are all prohibited.

Import licensing and prohibition are the factors most destructive to economic efficiency found by this study in Belize. They are convenient instruments of graft and favoritism and create great uncertainty among producers. Quantitative restrictions on trade have well-known economic effects related to pricing and efficiency, but these are greatly overshadowed by the capricious way that restrictions are managed in Belize. In addition, quantitative restrictions reduce public revenue from tariff duty collections. Though duties are chargeable on items imported under licenses, since the quantity of goods imported is restricted, so are duties paid.

Import licenses and prohibitions also bestow a monopoly or quasi-monopoly position on some individuals. Because of that, these individuals can charge higher prices for the goods affected, earning a so called "monopoly rent" in the process. Indeed the main economic justification for licenses and

prohibitions is to raise prices for certain individuals, thereby giving them the incentive to produce the items in question. The incentive is the higher price due to restricted supply, but monopoly rent accrues to those persons who have been granted import licenses. It can be shown that for any quantitative restriction such as a license, which sets an above-market price, the same price can be achieved with an appropriate tariff. Thus, for a given price incentive, either a quantitative restriction or a tariff can be used. With a quantitative restriction the monopoly rent accrues to individuals. With a tariff the monopoly rent accrues to the public sector in the form of tariff revenue. In Belize, as elsewhere, the choice to set quantitative restrictions rather than tariffs as tools to limit import, carries with it the consequence of lost revenue. A switch to tariffs, from quantitative restrictions need not affect imports nor protection for domestic producers, but carries the favorable effect of increased revenue.

Every person interviewed during this study, with the exception of one or two who are directly involved in administering licenses and prohibitions, complained that they are instruments of graft. Receipt of an import license conveys a monopoly position on the bearer and is therefore normally a profitable item to own. Accusations abound of licenses being granted to relatives, politically favored individuals, or simply to the highest bidder. It is frequent in developing countries that some graft occurs. Often, accusations of graft are accompanied by little evidence that it has actually occurred. In many places a feeling that graft must have occurred is often a substitute for a true understanding of how a license was acquired. A few accusations of graft are to be expected. In Belize, however, the number of cases that can be cited by business people and public officials is enormous. Also, given the number of people involved in business and public life in Belize, where "everybody knows everybody," who receives what favor from whom is easily observed. In this context, the conviction with which knowledgeable Belizeans express concern about graft, is convincing "evidence" that it is widespread.

In practice there is little functional difference between the list of items on the import license list and those on the import prohibition list. Some items on the license list are in effect prohibited when licenses are not granted. For example, fresh fruits are on the license list, but generally prohibited except at Christmas time. Lumber, beans and rice are licensed only when there is a shortfall in domestic supplies. Items on the prohibited list are also made available from time to time when domestic supplies are short. Brooms and mops, jams and jellies come to mind. Though macaroni, spaghetti and all pasta is on the prohibited import list it is available in most grocery stores (*14). Indeed, comparing the list of prohibited items with printouts of recorded imports, one can find that prohibited items are imported despite the prohibitions (*15).

The unpredictable way in which import licenses are granted causes great uncertainty for producers. Some producers go into business with the understanding that competing goods will be either prohibited or limited through licenses. Yet they never know whether the quantitative limits will be applied. Cases can be cited where producers who have been provided with a limit or prohibition on competing imports suddenly, and unexpectedly find, that a license to import has been issued. This is not a defense of quantitative restrictions, but an observation of the ad hoc nature of import policy. This uncertainty is very destructive of incentives to invest and produce in Belize.

Even if quantitative restrictions were not instruments of corruption they would still inflict unnecessary inefficiency on the Belizean economy. Quantitative restrictions' main effects are to increase price and usually decrease quality. Examples are rife. Brooms and mops, ice cream, jam, pasta, matches, peanut butter and toilet paper are all on the import prohibition list and are frequent targets of consumer complaints (*16). For these products, and undoubtedly many more, prices are higher (*17) and quality lower than would otherwise be the case. Consumers must bear both costs.

The fact that quantitative restrictions raise prices and limit both quality and quantity available, encourages smuggling. Belize's frontiers with Guatemala and Mexico and its coast, are particularly difficult to police. Customs control is strained. It is very common to find goods in local markets that are evidently smuggled in, since no licenses have been given to import them (*18). Outside Belize City such goods are particularly common. Thus, even if the quantitative restrictions were legitimately established and administered, smuggling will occur. Indeed, the tighter the import restriction, the greater are the rewards to smuggling.

Besides subverting whatever purpose import restrictions may have had in the first place, smuggling also cuts into public revenue. Duties on trade constitute about one-half of public revenue. Contraband obviously does not pay duty and therefore threatens the government's main source of revenue. To the extent that quantitative import restrictions encourage smuggling, they also subvert the central government's efforts to raise adequate revenue.

Finally, the logic behind why goods are on the license and prohibitions lists is not consistent. One official involved in administering import licenses said that he did not know the reason why items were on the list because the list was created by the previous government. While the list is often justified as protection for local producers, there are many items which are not now and probably never will be produced in Belize.

Secondly, the list contains some items in which Belize probably has a comparative advantage. These would normally be export items, not items that require protection from imports (*19). Items such as citrus, fish, fresh meat and posts and poles (among others) do not seem to merit inclusion on an import restriction list. Many others are questionable. The procedure by which items end up on the lists seems entirely ad hoc. One manufacturer interviewed told of requesting some tariff protection for his product, only

to find that a short time later it appeared on the prohibited list -- something that he did not request nor want. After he protested, the item was shifted to the licensing list where it currently resides. Just as inclusion on the restrictions lists is ad hoc, no regular procedure exists for removing items. Little or no review is done of progress toward meeting whatever the goals were that led to an item's inclusion on the list.

In summary, the quantitative restrictions in place in Belize are destructive of incentives to produce efficiently, of consumer welfare and of public resources. Worse, and of overriding concern, they are potential instruments of graft and corruption that have far greater destructive effects than those imposed on simple economic efficiency. Furthermore, these problems are recognized by almost everyone contacted during this research and there appears to be considerable support for removing quantitative restrictions entirely.

Section 2.3 Other Taxes on Imports

Two major taxes are levied on imports which are functionally equivalent to an additional tariff duty. First, a stamp tax is levied on all imports, with few exceptions (*20). Stamp duties were 5% of c.i.f. value until recently when they were raised to 10%. While the Stamp Tax acts like a tariff its protective effect is much more neutral since it affects most goods equally. It is not a tax which should cause major reallocations of expenditures by consumers.

The second tax, the Revenue Replacement Duty, or RRD, has a much greater impact on the goods to which it applies than does the Stamp Tax. The RRD was put in place in 1978 following Belize's membership in CARICOM. Upon entering CARICOM it was reasoned that some tariff revenue would be lost due to the combination of duty-free trade within CARICOM as well as adaptation of the common external tariff. To replace the revenue lost in this way the RRD was put in place (*21).

The RRD applies to twelve classes of goods. These are listed in Table 2.3-1 along with their BTN and SITC code, the applicable RRD and normal tariff. The RRD is applied to c.i.f. plus tariff, so in part it is a tax on a tax. During 1984 the RRD on beer, aviation spirit, gasoline and diesel were raised from 40%, 30%, 30% and 10% respectively to the levels shown.

Otherwise the RRD has remained pretty much as originally set (*22). Several of the points to note about the RRD is first that it raises duty level on items already subject to tariffs which are high by Belizean standards. Second, only three of the items on the list are produced in Belize, sugar confectionary, beer and cigarettes. However, for these three items, the level of protection is extremely high. With the Stamp Tax (10%) and the duties shown in Table 2.3-1, the level of total duty (tariff + RRD + stamp) on sugar confectionary is 71%. In ad valorem terms it is 330% for cigarettes and 285% for beer when calculated as a percentage of actual c.i.f. cost in 1984 (*23).

Revenue Replacement Duty rates also illustrate the extent to which goods enter Belize under duty exemptions. Tables 2.3-2 and 2.3-3 show the amounts of RRD that would have been collected had the full RRD applied in 1983 and 1984 respectively. We can compare these figures on the RRD that could have been collected had full rates applied, with actual collections. This will give a general idea of the size of exemptions. A difficulty arises in that trade data are collected on a calendar year basis and RRD data on a fiscal year. The fiscal year is April 1 - March 31. Since the two do not match exactly, some error is introduced, but since most of any fiscal year and a calendar year overlap, error should be small.

Table 2.3-1

	BTN	SITC	Revenue Replacement Duty (%)	Tariff
Sugar Confectionary	17.04	262.01	15	40%
Perfume, cosmetics toilet preparations other than bay rum, shampoo, toothpaste, tooth powder	33.06.9	553.09	25	50%
Motor cars (cars and trucks)	87.02	732.1 732.31	15	45%
Photographic cameras	90.07	861.4	15	30%
Cinematographic cameras	90.08	861.5	5	30%
Watches	91.01	864.11	5	50%
Phonograph recordings	92.12.9	891.22 891.29	25	35%
Beer	22.03	112.31 112.32	50	\$12/gal.
Cigarettes	24.02.2	122.2	70	21.50/lb
Aviation spirits	27.10.21	332.12	30	.52/gal.
Other motor spirits (gasoline)	27.10.22	332.13	35	.54/gal.
Distillate fuel (diesel)	27.10.32	332.32	15	.32/gal.

NOTE: Revenue Replacement duty is also charged against whisky, brandy, gin and liqueurs coming in from CARICOM countries.

During the 1983-84 fiscal year only \$6.5 million (*24) in RRD was collected. In calendar year 1983 almost \$10 million would have been collected had full rates applied. During fiscal 84-85, collections were \$7.2 million (*25), whereas full rates for 1984 would have yielded \$10.2 million (*26). Thus, of the RRD that could have been levied (theoretically), actual collections were only about 65% for both years. The "undercollection" rate for 1984 would probably be even greater had we had good data on aviation spirits. (Re-export data again causes a problem.)

Significant increases in the RRD came during 1984. For perspective we have provided a right-hand column on Table 2.3-3 showing what RRD collections would be at full 1985 rates applied to 1984 trade. Note that \$11.9 million would be collected. Estimates for fiscal 1984-85 (*27) are that \$8.3 will be collected. If this occurred, collections would again run about 70% of the theoretical maximum if the volume of 84/85 trade is the same as it was in 1984. In short, it appears that about 30% of traded goods to which the RRD applies are exempt from duty.

Table 2.3-2
Full Revenue Replacement Duty: 1983

	Imports	Re-Exports	Net Imports	Full RRD
Sugar Confectionary	400	29	373	78
Perfume, etc.	201	73	128	48
Motor Cars, trucks	7049	101	6,948	1,511
Photographic Cameras	92	26	66	13
Cinema Cameras	12	3	9	1
Watches	1,695	1,837	--	--
Recordings	560	443	117	39
Beer	518	2	516	536
Cigarettes	1,299	1	1,298	1,961
	(70,011 lb)	(52 lb)	(69,959)	
Aviation	809	361	448	103
Spirits	(225,518g)	(100,591 g)	(124,927 g)	
Gasoline	13,975	0	13,975	3,457
	(6,132,601 g)		(6,132,601 g)	
Diesel	19,875	427	19,448	2,226
	<u>8,94,921</u>	<u>162,870 g)</u>	<u>8,782,051</u>	
			POTENTIAL RRD TOTAL	9,973

Table 2.3-3
Full Revenue Replacement Duty: 1984

	Imports	Re-Exports	Net Imports	Full RRD	RRD 1985 Rates
Sugar Confectionary	479	138	341	72	72
Perfume, etc.	268	126	142	53	53
Motor Cars, trucks	6,435	107	6,328	1376	1376
Photographic Cameras	68	4	64	12	12
Cinema Cameras	23	0	23	1	1
Watches	4,912	4,665	247	18	18
Recordings	553	1,360	--	--	
Beer	578	42	536	608	676
	(70,893 g)	(2,900 g)	(67,993 g)		
Cigarettes	1,266	71	1,195	1,276	1,276
	(87,403 lb)	(2,668 lb)	(84,735 lb)		
Aviation	818	1,888	--	--	--
Spirits	(244,454 g)	(871,296 g)			
Gasoline	12,617		12,617	4,407	5,609
	(6,314,233 g)		(6,314,233 g)		
Diesel	16,584	398	16,186	<u>2,331</u>	<u>2,804</u>
	(7,995,370 g)	(152,909 g)	(7,842,461 g)	<u>10,159</u>	<u>11,897</u>

Section 2.4 Export Taxes and Incentives

Belize has export duties on very few items. A 5% duty is levied upon exports of wood and fish. Raw sugar exports are subject to a 2% duty. A few other small duties on minor items such as chicle, coconuts, sponges and wild animals and plants are levied, but these items are not important exports nor are their duties large.

Normally duties on exports act as a deterrent to exports unless either demand for or supply of the export good are very inelastic. Sugar exports are not likely to be affected by the 2% duty since both supply and demand for sugar are very inelastic. The supply of wood is likely to be inelastic since the marginal cost of wood production is rather low compared to fixed costs, so the duty on wood exports is likely to have little effect. Fish exports are another matter. There is no reason to believe that the elasticity of supply is low and the international demand for fish is certainly of high elasticity. Belize's fish exports probably are adversely affected by the tax. Obviously, a detailed study would be required of either fish or wood exports to make a definitive statement about either.

Export licenses are required in Belize. In most cases these are used to ensure that exports are properly registered and appropriate amounts of foreign exchange are delivered to the Central Bank. If this is the case then it would be better to simply require export registrations rather than licensing. The latter implies that permission must be granted to export whereas registration implies a freedom to export as long as exports are properly accounted for.

There is at least one case where export restrictions have been used and where the reasons for restrictions are questionable. Until 1983 there had been a ban on exporting live meat animals. The ban was justified on the grounds that the national herds would otherwise be depleted. In March of 1985 the ban on exports of live animals was reinstated on the same grounds.

The official policy was that the national herd of 60,000 animals was being depleted. In fact no real estimates of the national herd exist. Furthermore, in any herd there are some animals which should be disposed of. In many cases about one fourth of a herd should be disposed of and replaced in each year. Given the lack of knowledge of the size and condition of the national herd, a ban on exports must be considered a rather arbitrary policy.

To gain an idea of the effect of the live animal export ban, consider the exports that did take place during the 1983-85 period. They were:

1983 May-Dec	2,414 animals worth (*28)	\$ 850,000
1984	3,765 animals worth	\$1,300,000
1985 Jan-Feb	1,108 animals worth	\$ 390,000

Thus, the export ban on live animals eliminates an export item worth about \$1 million per year (*29). Furthermore, the proportion of the national herd involved, assuming that the herd is 60,000 head, amounts to only about 5%, well within a reasonable allowance for herd improvement.

Summary

The survey of characteristics of the trade regime in Belize has brought out the following general observations:

- tariff duties actually collected are not high on average;
- the average hides the fact that some goods are taxed heavily, others not at all;
- little variation in duty rates is observed across industrial categories;
- the Revenue Replacement Duty raises duties on a few goods to

- extremely high levels;
- many goods face quantitative restrictions;
 - the trade regime element most inhibiting economic efficiency is the arbitrary way in which quantitative restrictions are applied;
 - import duties per se probably have much less unfavorable impact upon efficiency than the system of quantitative restrictions;
 - many exemptions to all restrictions can be found;
 - few taxes or restrictions affect exports directly.

Section 2: Footnotes

*10 This document is difficult to come by. Some out-of-date copies are in circulation. The various editions carry no dates or other printed indication as to which has precedence. The only outstanding sign of precedence is that the copy currently is blue. A copy is available in the office of the Chamber of Commerce library.

*11 The accounting procedure for fuels is different from what it is for other imports. When fuels are imported they are stored in tanks that are under the control of customs. As fuel is sold, duties are paid -- but only as it is drawn from the tanks. Other imports are assessed a duty as they are imported. Thus, the accounting for duties paid on fuel is different than it is for other imports and data on duties paid on fuel are not comparable to data on duties paid on other items.

*12 A scientific sample would require drawing a random sample of goods for examination from the full list of items in the tariff code. The list contains thousands of items, many of which are not imported into Belize and many more which are imported in trivial quantities. Many enter duty free. Thus, a random sample is likely to be composed of a rather uninformative set of figures.

*13 Part of the apparent shortfall in duties paid on beer and whisky is due to measurement error. British troops in Belize are allowed to bring these items in duty free. Unfortunately, no separate records are kept of beer and whisky imported by the UK force and by Belizeans. Thus, one cannot tell how much dutiable beer and whisky entered the country. Nevertheless, duties paid seem small.

*14 The rumor is that pasta imports were allowed for only two parties, who then supplied the domestic market.

*15 Items include fresh meat, milk, fish, pasta products, citrus products, jams and jellies, and peanuts. In some cases quantities are small.

*16 One manager of a large grocery store said that his peanut butter sales are less than 10% of their former level. He has purchased a peanut butter making machine for his home use to avoid having to use the local product.

*17 Local producers will try to defend themselves by claiming that prices are not higher. The peanut butter producer points out that imported peanut butter would cost about \$6 per 16 oz. jar. His product sells for \$5. But price comparisons are legitimately made only among products of comparable quality. The local product should sell for less given its current quality (since the c.i.f. value of imported peanut butter was only \$2.91 per 16-oz. in 1984, the local producer implies that the markup is about 100% on this product if imported. That is high by comparison with similar products.) Similar claims are made by the match producer, though he has a double burden to bear, since if his matches are compared with paper matches rather than wooden ones he fares very poorly in quality and price. These comments should not be taken as criticism of either producer's sincere concern with improving his product quality and price.

*18 During the course of this study another team was in Belize studying the Belize Marketing Board. They were shown a truckload of rice (on the prohibition list) imported in sacks labeled "corn". Unlicensed flour from Guatemala was observed being unloaded in downtown Belize City.

*19 There is one reason why import controls may be placed on export items. By cutting off foreign supplies, the local market can be isolated from the rest of the world. This market segmentation allows local producers to charge higher prices locally, exporting their remaining production. This practice only hurts domestic consumers with no spillover into enhanced production.

*20 Exceptions are listed in Appendix D.

*21 It is not clear whether at the outset any calculations were done of lost revenue due to CARICOM membership or of revenue expected from the RRD.

*22 There is also a special RRD on liquors imported from CARICOM. This is apparently to prevent liquor from being shipped via CARICOM countries to Belize duty free, thereby avoiding Belize's normal import duties on liquor.

*23 Recall that the actual tariffs paid on beer are much lower than the legal rates allow. The same is true of cigarettes.

*24 Abstract of Statistics, 1985.

*25 Ministry of Finance estimate.

*26 We have assumed that the RRD rate increases that occurred in 1984 on beer, aviation spirits, gasoline and diesel, were averaged out over the year.

*27 From Ministry of Finance.

*28 Assumes that export price is \$.70/lb. and that animals average 500 lbs. each.

*29 It is not certain that live animal exports would have continued as before. Much exporting was to Martinique and Guadalupe. This market outlet would have ceased in any event since alternative sources of supply have been arranged.

Section 3: Exchange Regime

Section 3.1 Belize's Exchange Control System

Belize's foreign exchange controls are described in the document Exchange Control Regulations, 1976 (Statutory Instrument No. 30 of 1976) which is available from the Central Bank. In general, the exchange controls in Belize can be summarized by the following points:

- only dealers authorized by the Monetary Authority (i.e., the Central Bank) can buy and sell foreign currency;
- residents and non-residents need permission to buy foreign currency for whatever purpose;
- authorized dealers are allowed to sell foreign currency up to \$1,500 for non-business travel and up to \$6,000 for business travel per year;
- requests in excess of these amounts must be approved by the Central Bank;
- exporters are required to register their exports with the Central Bank, guaranteeing delivery of their foreign exchange earnings;
- importers must apply to the Central Bank for a permit to buy foreign exchange. They must show an invoice for the goods to be imported and justify the need for the imported item;
- Belizean residents who wish to borrow abroad and where debt service will be in hard currencies must apply for permission to do so;
- Foreigners investing in Belize must register their investments. This is largely a reporting requirement since the Central Bank has no power over the permission to invest and there are no limits on profit repatriation;

- Belizean residents are not allowed to maintain bank accounts denominated in foreign exchange, nor are they permitted to hold bank accounts in other countries.

In practice the foreign exchange laws are applied flexibly. Permission is routinely given for importers to buy foreign exchange. However, importers report that there is pressure on them from two quarters. First, many suppliers who used to extend 30-60 days credit, now no longer do so. They now require sight drafts or letters of credit before goods are shipped. The problem seems to have to do more with perceptions about Central America than problems with Belize per se. Second, some importers report that once a permit to buy foreign exchange is acquired, the foreign exchange holdings of commercial banks may not be adequate to supply the exchange permitted. They then turn to the black market.

There are apparently a great number of foreign exchange transactions that occur outside the control of the monetary authorities. Conversations with importers reveal that when commercial banks do not have adequate foreign exchange to meet their needs, there are other sources from which dollars can be acquired (*30). Also, it is apparent that some Belizean residents do have bank accounts outside the country. This is not surprising given the large number of Belizeans living in the United States.

In most situations where there are exchange controls and a number of transactions occurring outside the control system, there is a large discount on the local currency in illegal markets. People who have recently dealt in those markets report a 10-15% discount on Belize dollars, which is not large compared to discounts in many countries. About a 5% discount can be expected merely as a "convenience" factor. Legally exchanged currencies incur costs of about 2.5% spread between bank charges and an exchange tax. Apparently, while the law gives the right to policy makers to act in a restrictive fashion if they choose to, in Belize they have not been overly restrictive. One can conclude that the exchange system is probably free

from major distortions.

It is likely that if the monetary authorities attempted to increase their restrictions on foreign exchange transactions they would be unable to do so. The openness of the economy and the amount of foreign exchange that is probably held by Belizeans outside the control of the monetary authorities would mitigate against any attempt at rigid controls. Indeed, exchange occurring outside the controlled system provides an important service. Pressures that would normally build up due to foreign exchange shortages at the official rate, do not when people needing foreign exchange have access to it outside the official sources.

Section 3.2

Real Exchange Rates

Calculations of "Real Exchange Rates" (RER) are often used to help evaluate changes in the international competitiveness of countries. There are a number of concepts that are used to determine "the" real exchange rate, and the concept of the RER is only one. The essential idea behind RER calculations is to adjust the nominal exchange rate for relative movements in domestic and foreign prices. The objective of the calculations is to obtain an idea about changes in the international purchasing power of a currency, given:

- (1) the nominal exchange rate for the currency, and
- (2) differences between price level changes in the country issuing the currency (the "home country") and the outside world.

Real exchange rates (RER) between two currencies (e.g., between the U.S. and Belizean dollars) are determined as follows:

Let E denote the nominal (spot) exchange rate defined as the domestic currency price of the foreign currency, P the domestic price (an index) of a bundle of domestic goods and P^* the foreign price (index) of a bundle of foreign goods. The real exchange rate is defined as $RER = (EP^*/P)$, or the price of the foreign bundle of goods expressed in domestic currency relative to the price of the domestic bundle of goods. Thus, suppose that the domestic currency price of the U.S. dollar is equal to 2, the price of a U.S. bundle is \$15, and the domestic price of the domestic bundle is 30, then the real exchange rate is $(EP^*/P) = (2 \times 15/30) = 1.0$. Now suppose the nominal exchange is devalued to 2.5 domestic currency units per dollar while prices are unchanged. Then the real exchange rate becomes $RER = (2.5 \times 15/30) = 1.25$. The RER has gone up, and the price of the U.S. bundle of goods has increased by 25% compared to the home bundle of goods. Typically, rather than prices, we use index numbers, with given base years. So in our example, the domestic and U.S. price bundles might be (on a base, say, of 1980 = 100), $P^* = 100$ and $P = 200$, so the real exchange would be $RER = (2 \times 100/200) = 1.0$. The important thing to recall is that an increase in the RER means an increase in the relative price of foreign goods (a "depreciation"), while a fall in the RER means a decline in the relative price of foreign goods (an "appreciation").

With rigidly fixed nominal exchange rates, movements in the RER are entirely due to movements in the domestic and foreign price levels. The RER for the domestic economy would fall (appreciate) or rise (depreciate) according to whether the inflation rate at home is higher or lower than the inflation rate in foreign countries. With floating exchange rates or adjustable nominal exchange rates, changes in the RER are attributable to both nominal exchange rate fluctuations and to movements in relative prices.

For Belize, which has maintained a fixed exchange rate with the U.S. dollar (BZ.\$2 = U.S. \$1) it is clear that the Real Exchange Rate with the U.S. dollar will be affected only by relative differences in price changes in the two countries. The fact that the Belize dollar is tied to the U.S. dollar,

and that the U.S. dollar is freely floating against other currencies, means that the Belize dollar also floats against those other currencies. Thus, if we consider the RER between the Belize dollar and the pound sterling (or marks, yen, etc.) we will see that changes in the RER are affected by both nominal exchange rate differences and by changes in relative prices.

Measures of RER's obviously depend on a choice of measures of prices. It is well known that published price indexes (whether consumer price index, CPI, wholesale prices, WPI, or implicit GDP price deflators, PGDP) are typically, though not strictly, comparable across countries. The non-comparability arises for a variety of reasons, including differences in the coverage of goods and services, the frequency of observation and collection, differences in weighting patterns across countries and over time, price controls and taxes, public sector goods, etc. For the purposes of this study the price measures used were dictated by measures that were readily available. In Belize the only routinely calculated and published price index is the consumer price index, and therefore it was the one used here. In the U.S. and the U.K., Belize's main trade partners, a variety of price indices are available. Preferable among them is a wholesale price index, since it represents price movements among traded commodities better than the CPI. In our calculations we have used both the CPI and WPI for the U.S. and U.K.

Table 3.2-1 shows price index information for Belize, the U.S. and the U.K. for the years 1978-84, and for the first half of 1985. For the U.S. and U.K. both the CPI and WPI are shown. One should note, that the CPI behavior for Belize is pretty much reflective of the CPI for the U.S. Though the Belizean inflation rate is a bit higher than inflation in the U.S., its major movements parallel those in the U.S.

Bilateral RERs between Belize and the U.S. and U.K. are shown in Table 3.2-2. The U.S. is Belize's main trade partner, receiving about 50% of Belizean exports. Because the Belizean economy is such an open one and the currency tied to the dollar, changes in Belizean consumer prices largely

reflect changes in U.S. prices. As a result we see in Table 3.2-2 (Column 1) that the RER between the Belizean and U.S. dollars has changed little since about 1980. The RER is calculated to have changed from BZ.\$2 = U.S.\$1 to BZ.\$2.04 = U.S.\$1 over that period. Changes of this size are probably small enough to ignore, especially given our measurement problems.

Table 3.2-2 shows sets of index numbers along with the exchange rates. 1980 is the base for those index numbers. To interpret the index numbers, compare the index for any year to the figure for 1980 (i.e., 1.00). If the index rises (a depreciation) then the proportional depreciation is the difference between 1.0 and the specific index in question. Similarly, if the number is less than 1.0, an appreciation is indicated, and the difference between the number shown and 1.0 indicates the proportional appreciation. For example, in the second column of Table 3.2-2, the index for 1985 (mid-year) is 1.02, indicating a 2% depreciation of the Belizean dollar against the U.S. dollar between 1980 and 1985. Given the nature of our data, a 2% change is probably not significant.

TABLE 3.2-1
Price Indices (1980=100)

	Belize	U.S. CPI	U.K. CPI	U.S. WPI	U.K. WPI
1978	74.0	79.2	74.7	77.9	79.1
1979	93.4	88.1	84.8	87.6	87.7
1980	100.0	100.0	100.0	100.0	100.0
1981	113.0	110.4	11.9	109.1	109.5
1982	122.1	117.1	121.5	111.3	118.0
1983	125.1	120.9	127.1	112.7	124.4
1984	132.1	126.1	133.4	115.4	132.2
1985	132.8**	130.2*	142.3*	115.1*	n.a.

*End 1985 second quarter

**August 1985

Sources: Belize CPI constructed from data in the World Bank's Economic Memorandum on Belize (Oct. 29, 1984) p. 146 and from Belize Consumer Price Index (CSO, Belmopan September 1985). CPI for the U.S. and U.K. and WPI for the U.S. are from IMF, International Financial Statistics (Sept. 1985). WPI for the U.K. constructed from IMF International Financial Statistics: Yearbook (1985).

Table 3.2-2
Real Exchange Rates

	<u>U.S. (CPI-based)</u>		<u>U.S. (WPI-based)</u>	
	<u>BZ.\$/\$</u>	<u>Index</u>	<u>BZ.\$/\$</u>	<u>Index</u>
1978	1.87	.93	2.11	1.05
1979	2.12	1.06	1.86	.94
1980	2.00	1.00	2.00	1.00
1981	2.05	1.02	1.93	.97
1982	2.09	1.04	1.82	.91
1983	2.07	1.03	1.80	.90
1984	2.10	1.05	1.75	.87
1985*	2.04	1.02	1.73	.87

*Mid-year

	<u>U.K. (CPI-based)</u>		<u>U.K. (WPI-based)</u>	
	<u>BZ.\$/t</u>	<u>Index</u>	<u>BZ.\$/z</u>	<u>Index</u>
	4.02	.84	4.30	.90
	4.89	1.02	4.16	.87
	4.78	1.00	4.78	1.00
	3.86	.81	3.68	.77
	3.24	.69	3.11	.65
	2.85	.60	2.87	.60
	2.30	.48	2.34	.49
	2.43	.51	--	--

While the Belize dollar does not seem to have changed its real value, vis-a-vis the U.S. dollar on the basis of the CPI, this is not the case when we use the U.S. WPI as a point of comparison. Since one of our objectives in this study is to make statements about Belize's export competitiveness, the U.S. WPI is probably a better point of comparison than the CPI. The WPI is widely recognized as a better indicator of the prices of traded goods than the CPI. U.S. importers of Belizean goods will consider Belizean prices as wholesale prices when they "shop around" for their sources of supply; similarly with Belizean importers "shopping" in the U.S. The second set of figures in Table 3.2-2 indicate that there has been an appreciation of the Belizean dollar via the U.S. dollar when calculations are on the basis of the U.S. WPI. The U.S. goods that cost BZ.\$2 in 1980, now cost only BZ.\$1.73 (mid 1985) on a wholesale basis, an appreciation of the Belizean dollar of about 13%.

When comparing the Belizean dollar with the pound sterling we see that the former has appreciated greatly. (The same conclusion is reached whether we consider the U.K.'s CPI or WPI.) This is not surprising. The U.S. dollar to which the Belizean dollar is tied, has appreciated greatly against sterling and so the Belizean dollar has too. The nominal exchange rate between the U.S. and U.K. currencies moved from U.S.\$2.39/£ in 1980 to only U.S.\$1.16/£ in 1984. The Belizean dollar reflects the same nominal appreciation. The REER between the Belizean dollar and the U.K.'s pound shows an appreciation of the former of about 50% since 1980. The pound's worth of goods that a Belizean bought in 1980 for BZ.\$4.89 are now bought for only about BZ.\$2.43, when viewed in terms of 1980 exchange rates and prices. Conversely, Belizean goods are, in British eyes, now twice the price that they were in 1980, after accounting for relative inflation differences.

Nominal and Real Effective Exchange Rates

The discussion above has focused on the time path of bilateral nominal and

real exchange rates. It is also useful to consider the evidence from multilateral nominal and real exchange rates. These are referred to as nominal effective exchange rates and real effective exchange rates or, NEER and REER respectively. Essentially, the nominal effective exchange rate is the price in domestic currency of a relevant basket of foreign currencies, just like a price index is the price of a basket of goods and services. The NEER does not account for changes in relative price levels. The REER accounts for both nominal changes in the price of the basket of currencies, and the changes in relative prices tha' have occurred.

Considering the price of a basket of currencies avoids possible pitfalls or hasty conclusions based merely on the price of a single bilateral exchange rate. One does not want to conclude that the price inflation rate is, say, 50% per year merely because the price of one particular good has risen by 50%. Similarly, one does not want to conclude that the domestic currency is heavily overvalued in the foreign exchange market merely because it appears overvalued relative to one specific currency. Thus, in the case of Belize, one has to be careful in concluding that the currency is generally overvalued merely because it appears overvalued relative to the U.S. dollar or U.K. pound. It is for this reason that effective exchange rates are useful indicators.

Further, the NEER and REER have to be "relevant" prices of baskets of currencies. Obviously what the price of the Fiji dollar is doing on the foreign exchange market is irrelevant to Belize if there is no trade in goods, services or assets with the Fiji Islands. This raises two methodological issues. Which currencies enter the basket of relevant currencies, and what weight should be attached to the chosen currencies? These questions are identical to those that arise when one is constructing, say, the Consumer Price Index, and deciding on the coverage of goods and services and the weighting pattern. For the purpose of this report we have chosen to weight currencies according to their share in Belize's exports. Hence, if the U.S. represents 50% of total Belizean exports, the weight of

the U.S. dollar in the Belizean NEER or REER is .5, and so on for other countries. It should be added that other weighting schemes could have been chosen, such as import shares, or total trade shares. However, for our purposes the export share weights appear the most relevant since they are more closely related to the competitiveness of the Belizean economy in international markets.

Belize is almost unique in that its exports are so preponderantly to the U.S. and U.K. Since independence in 1981, the percentage of Belizean exports destined to these two countries has generally ranged between about 75-90% of total exports, though the proportion of Belizean exports to the U.K. has declined steadily since at least 1978. In 1984 the U.K. received about 21% of Belize's exports (down from 31% in 1981) and the U.S. received about 58%. Beyond these two countries there is no single country receiving a consistently large proportion of Belize's exports. CARICOM countries have received about 10-12% of Belizean exports over the 1982-84 period, but those are spread among all CARICOM members. Canada too is beginning to become an important market, but the proportion there remains small.

In our NEER and REER we have used as the relevant "basket" of currencies only the U.S. dollar and the pound sterling. No other single country receives a large amount of Belizean exports, and contracts with CARICOM members would be specified in U.S. dollars or pound sterling in any event. Even if other countries' currencies were included in the calculations, their weights would be very small and have almost negligible effects on the indices.

Finally a choice has to be made whether to use fixed weights or variable weights over time. Variable weights have the advantage of being more representative of evolving trade patterns, just as changing weights in the CPI would generally represent a more accurate representation of expenditure shares. The disadvantage is that export shares may randomly change from year to year because of exogenous events totally unrelated to

competitiveness, such as natural catastrophes, strikes, etc. We have experimented with both moving and fixed weights. The major tenor of the results is not sensitive to this methodological choice. Here we shall report the results of using the fixed weights scheme. The fixed weights used were the average relative share of the U.S. and U.K. as destinations for Belizean exports over the 1982-84 period.

The formula for the Nominal Effective Exchange Rate (NEER), for each time period, t, is:

$$NEER_t = \sum_j W_j * R_t * E_{jt}$$

Where:

W_j = the weight assigned to the currency of country j

R_t = value of one unit of a numeraire currency (in this case the U.S. dollar) in terms of domestic currency at time t (in the case of Belize this is a fixed amount, BZ.\$2 = \$1)

E_{jt} = value of a unit of the currency of trading partner j at time t, expressed in units of the numeraire currency

The result of this calculation is the Belizean dollar price of a fixed bundle of currencies consisting of dollars and pounds sterling. We will express this figure as an index number where 1980 = 1.00.

The formula for the Real Effective Exchange Rate (REER) adjusts the NEER for changes in relative prices. The formula is:

$$REER_t = \frac{NEER_t}{P_t}$$

Where:

$$P_t = \sum_j w_j (P_t / P_{jt})$$

and: P_t = Price index for the home country (i.e., Belize)
at time t

P_{jt} = Price index for trading partner j at time t

The result of the calculation is the Belizean dollar cost of a given bundle of goods in the U.S. and U.K. Again, we express this as an index number with the base 1980 = 1.00.

The calculated NEER and REER indices are displayed in Table 3.2-3. The REER is calculated in two ways. One uses the CPI in the U.S. and U.K. as the relevant price index. The other uses the WPI for those countries. In either case, the price index for Belize is the CPI -- the only index available. All indices show approximately the same thing: that there has been an appreciation of the Belizean dollar of about 25% since 1980. The REER based on WPI, for the U.S. and U.K. shows somewhat greater appreciation of the Belize dollar, though this calculation cannot be carried through to mid-'85. The indices are approximately the same because inflation rates in each of the three countries (U.S., U.K., Belize) have been about the same. The preponderant factor affecting the index is the appreciation of the U.S. dollar against sterling and therefore the appreciation along with it of the Belizean dollar against sterling.

Table 3.2-3

	<u>NEER Index</u>	<u>CPI-based REER Index</u>	<u>WPI-based REER Index</u>
1978	.98	.96	.97
1979	.96	.89	.90
1980	1.00	1.00	1.00
1981	.88	.87	.86
1982	.82	.79	.76
1983	.78	.77	.73
1984	.71	.69	.65
1985	.75	.75	--

Note: No WPI was available for the U.K. in 1985

Our calculations are similar to recent ones made by IMF personnel. They too have made NEER and REER calculations for Belize. Their method employed only the CPI as the relevant price index, but they included the currencies of several other trade partners (*31) in the calculations. Also, three alternative weights were used: export shares, import shares and total trade shares. Their REER figures reveal an appreciation of the Belize dollar by between 15% and 21% since 1980, depending upon the weights used.

Section 3.3 Trends in Real Exchange Rates: Discussion

Much of the apparent deterioration in Belize's balance of trade can be attributed to the appreciation of the U.S. dollar against sterling and the fact that many Belizean sugar export contracts are denominated in sterling. Thus, over the past few years, a contract specifying a constant delivery of sugar per year in sterling has implied an ever decreasing amount of sugar revenue when measured in dollars. All of Belize's sugar export contracts with the U.K. and the rest of the EEC are denominated in sterling, so the effect of this phenomenon is large. Sugar sold under sterling-denominated contracts in 1980 yielded revenue of \$31.0 million and only \$24.2 million in 1985. If however, the sterling sales of 1985 could have been converted at 1980 exchange rates, the Central Bank of Belize estimates that revenue would have been \$49.3 million. Thus, export revenue on sugar exports alone are \$25 million less in 1985 than they would otherwise have been had 1980 exchange rates prevailed. The Central Bank estimates that the dollar revenue lost on sugar sales due to the dollar's appreciation vis sterling, cumulatively since 1980, amounts to approximately one full year's sugar crop (*32). Bananas too are exported under sterling contracts so a similar effect is felt here. A side benefit to dollar appreciation is that Belize's debt denominated in sterling (something less than half) is more easily serviced.

Sugar contracts aside, the appreciation of the Belize dollar must surely be detrimental to export earnings, and to domestic competitiveness in

import-competing industries. It has been shown statistically, in other Central American countries and elsewhere that currency appreciations are associated with deteriorations in the current account of the balance of payments (Saidi and Loehr, 1985; Maciejewski, 1983). Currency devaluations are often recommended to improve upon current account balances.

Given the Belizean economy it is possible that devaluation would have little effect. Mansur (1983) has pointed out that if the prices of non-tradable goods are flexible and the price system is neutral (i.e., wages and prices rise by the same proportion as the devaluation) then devaluation has little or no real effect on the balance of payments equilibrium. In Belize, non-tradables are a relatively small part of total economic activity and there is no reason to believe that they are inflexible in price. Prices largely reflect international prices and changes in prices are likely to reflect changes in exchange rates. Wages may be inflexible, but due to the openness of the economy, workers are not likely to suffer from a "money illusion" and demand that wages keep up with prices. Indeed, during the inflation of the early 1980's, private sector wages were quickly adjusted to keep up with rising prices. For these reasons, a devaluation may bring transitory improvements in the trade balance, but lasting effects will only be gained through appropriate monetary and fiscal policy.

There are also several institutional factors which would speak against attempting a devaluation at this time. First, the fact that there is an active black market in Belize and in that market Belize dollars are discounted only slightly, indicates that there is no great oversupply of Belize dollars in the economy. Secondly, where capital and foreign exchange markets are poorly developed (as in Belize) the announcement of a devaluation often sets in motion expectations of further devaluation. These expectations could indeed cause a destabilizing black market to develop creating a problem where one does not now exist. This is of particular concern in countries like Belize, where large amounts of foreign currency are probably being held outside the control of monetary authorities.

Expectations of this sort can lead to speculation and overly great swings in the value of the Belizean dollar. Third, the monetary authorities in Belize have acted responsibly in restraining inflation in the country. In most developing countries with a pegged exchange rate, overvaluation problems result from allowing domestic inflation to exceed international levels. This has not occurred in Belize. Finally, the main reason for the appreciation of the Belize dollar is that it has been tied to the U.S. dollar and the latter has appreciated greatly in the past four years. The U.S. dollar is expected to depreciate against most major currencies. Thus, retaining the tie to the U.S. dollar implies a relative depreciation for the Belize dollar. In retrospect, it would have been better for Belize to have tied its currency to the pound sterling in 1981. It would have automatically depreciated along with the pound had that been the case.

One might question whether Belize would be better off pegging its currency to a currency other than the U.S. dollar, to the SDR or to some other currency composite. Currently, since it is the U.S. dollar which is expected to depreciate it would be preferable to simply let the U.S. dollar's downward drift carry the Belize dollar with it. Pegging to any other currency or the SDR would likely cause an appreciation of the Belize dollar against the U.S. dollar -- a move which should be carefully avoided. Floating the value of the Belize dollar could be very risky. The economic openness of Belize, the ill-developed foreign exchange market in the country and the expectations that flow from an initial devaluation that would accompany a float, could set in motion escalating devaluations of the Belize dollar. These, once started, may be difficult for the Central Bank to control, and destructive to efficient resource allocation in the country.

Summary

Our discussion of the exchange regime in Belize can be characterized by the following observations:

- the Monetary Authority has the legal power to strictly control foreign exchange transactions;
- the Monetary Authority has chosen to apply its power flexibly;
- signs of an overvalued currency can be found in
 - a) a premium on foreign exchange in black markets,
 - b) shortage of legally acquired foreign exchange for those with permits to buy it,
 - c) delays in legally acquiring foreign exchange once a permit is issued.
- the above mentioned signs of overvaluation do not indicate a great deal of overvaluation;
- Real Effective Exchange Rate calculations indicate that the Belize dollar has appreciated by as much as 25% since 1980.
- most appreciation of the Belize dollar can be attributed to appreciation of the U.S. dollar;
- devaluation of the Belize dollar is probably not advisable at this time;
- careful monetary and fiscal policy are required to maintain Belize's competitive position.

Section 3: Footnotes

*30 One should note that if importers must rely upon the black market for foreign exchange they cannot count the premium they must pay as part of their c.i.f. cost of imports. This is particularly damaging for importers of price-controlled items.

*31 Trade partners were U.S., U.K., Canada, Japan, Netherlands, Mexico.

*32 Note that exchange rates and sugar prices have little to do with the amount of sugar that Belize exports. Most sugar is sold under quotas. Belize's quota in the EEC under the Lome convention is 42,000 tons. the quota in the U.S. under the 1982 sugar quotas was 29,000 tons. Total Belizean sugar exports in 1984/85 were about 95,000 tons. Sugar exports in 1981 were 90,000 tons.