

Belize's Regional Integration Options: Guatemala and Mexico

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Acronyms

BAHA	Belize Agricultural Health Authority
BDF	Belize Defence Force
BEL	Belize Electricity Limited
BELTRAIDE	Belize Trade and Investment Development Service
BLPA	Belize Livestock and Producers Association
BTL	Belize Telemedia Limited
CARICOM	Caribbean Community
CBR	Crude Birth Rate
CDR	Crude Death Rate
CFZ	Commercial Free Zone
COMTRADE	Commodity Trade
CPI	Consumer Price Index
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FAOSTAT	Food & Agricultural Organization Statistics
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoB	Government of Belize
IDB	Inter-American Development Bank
MT	Metric Tonnes
PSA	Partial Scope Agreement
SIB	Statistical Institute of Belize
SICA	Sistema de Integración Centroamérica
SITC	Standard International Trade Classification
TPP	Trans-Pacific Partnership
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
VPCA	Venezuelan Petrocaribe Agreement
WTO	World Trade Organisation

I. Executive Summary

1. **Export-led growth is the most sustainable way for Belize to raise its long-run rate of growth of GDP per head** to meet the aspirations of its people and to put external debt servicing on a more secure basis.
2. **Expanding exports of goods and services to Guatemala and Mexico would be a useful step in this direction.** Although the two countries represent a relatively small proportion of Belize's total exports of goods and services at present, the available evidence suggests that there is strong potential for growth and diversification from the current small and narrow base. Even including unrecorded goods trade, export volumes are under potential.
3. **Tourism and non-travel services to Guatemala and Mexico could help to increase the value of exports.** Although there are no data at all on the volume of trade in services with Guatemala and Mexico, available anecdotal evidence suggests that there is a large services trade deficit with both countries that could be diminished if tourism flows were to be stimulated. Other services, such as transport, business outsourcing and finance, also have potential for expansion.
4. **Recommended policies to reduce barriers to trade** with both Guatemala and Mexico:
 - Increase capacity to estimate unrecorded exports of goods. Although the main products crossing the border without being recorded are known, the volume and value are not. This information is needed to find where Belize's revealed comparative advantage lies, since the goods with the highest value can be assumed to be the most competitive in the Guatemalan and Mexican markets.
 - Increase Belize's exportable surplus in general so that increased exports to these two markets do not simply displace exports to other countries with no net gain to Belize.
 - Revise and expand the Partial Scope Agreement (PSA) with Guatemala, as it has not given the necessary stimulus to Belizean exports. At the same time, a PSA with Mexico needs to

be concluded if Belize is not to continue to face discrimination in the Mexican market.

- Take measures to promote service exports to both Guatemala and Mexico, especially in the area of tourism.

The new paved road to Jalacte provides an outstanding opportunity to expand both goods and service exports to Guatemala and from there to other parts of Central America. It is also recommended that, as far as possible, unrecorded imports should be recorded, since there may be a substantial loss of customs duties at present.

II. Introduction

Belize is a small, open economy. As such, its economic performance is highly correlated with what happens to exports of goods and services. When these perform well, the Gross Domestic Product (GDP) grows at a fast rate. When exports perform poorly, GDP does the same. This correlation between export growth and GDP growth has been demonstrated on numerous occasions, including in a recent report by the author that looked at the role regional integration could play in enhancing Belizean export performance.¹

This is a follow-up to that report looking in more detail at the role integration can play in relation to Belize's two territorial neighbours: Guatemala and Mexico. Belize is now on a long-run growth path of GDP that is too low (see next section). If Belize wants to achieve a higher sustainable long-run rate of growth, it needs to export more goods and services. There is no other way that is sustainable, since all other growth strategies will lead to balance of payments difficulties in a short period of time.

There are no simple solutions for achieving a higher rate of growth of exports since the obstacles are numerous and complex. Yet there is much that can be done since Belize suffers from an unintentional anti-export bias as a result of the way the financial and tax systems as well as trade and educational policies operate.² Indeed, so strong is this bias that it gives an unfair advantage to foreign companies that do not face the same cost of capital and often receive tax advantages not available to domestic firms.

This report does not seek to address all the obstacles that Belizean exporters face. Instead, it looks at trade with the two countries with which Belize shares a territorial border. The reason is simple. Countries tend to do more trade with their neighbours, *ceteris paribus*, than with other countries. Yet when we examine Belizean trade with these two countries, domestic exports are very small (see Table 1).

¹ See Bulmer-Thomas (2013).

² See Martin (2015), pp.64-5.

Table 1. Belizean External Trade in 2015 (BZ\$m)

	Domestic Exports	%	Gross Imports	%
Total	535.33		2,059.07	
To:			From:	
Guatemala	6.39	1.2	154.72	7.5
Mexico	21.98	4.1	218.01	10.6

Source: SIB (2016)

Note: domestic exports exclude re-exports

In the case of Guatemala this is particularly surprising since a Partial Scope Agreement (PSA) has been in force since 2010 that should have stimulated Belizean domestic exports. Indeed, it is the **only** PSA that Belize has so far ratified with any other country. It allows for a reduction of tariffs on a broad range of goods by both sides and Article 5 states:³

1. The Parties agree to reduce or eliminate customs duties imposed in connection with the import of goods listed in Annex I (Tariff Preferences that Belize Grants to Guatemala) and Annex II (Tariff Preferences that Guatemala Grants to Belize) of this Agreement, when the good complies with the origin criteria.
2. Each Party agrees to grant goods produced in the other Party access to its market in the following categories:
 - a) Category “A”: tariff preferences granted on originating goods at a margin of preference between 50% and 100%, shall be fully implemented on the date that this Agreement enters into force;
 - b) Category “B”: tariff preferences granted on originating goods at a margin of preference between 50% and 100%, shall be implemented in three (3) equal annual cuts, beginning on the date that this Agreement enters into force;
 - c) Category “C”: tariff preferences granted on originating goods at a margin of preference between 50% and 100%, shall be implemented in five (5) equal annual cuts, beginning on the date that this Agreement enters into force.

³ See <http://www.belize.org/tiz/belize-guatemala-partial-scope-agreement>

Belize negotiated in good faith to ensure that goods of interest to its exporters entered into Categories A, B and C. All the tariff reductions agreed under the PSA have now been implemented since five years have now passed. Most goods in the PSA were placed in Category A, for which tariff reductions have been in force since 2010, and include fish (fresh and refrigerated), beans and maize (subject to quota limits) as well as many fruits and vegetables.

Although a PSA with Mexico has been under consideration for some years, none has so far been ratified. The main obstacle has been Belize's original preference for an agreement limited to goods, while Mexico preferred to include services and investment. However, talks were put on hold while Mexico completed negotiations for the Trans-Pacific Partnership (TPP) that was signed by the 12 parties in February 2016. Belize has now indicated a willingness to include services in the agreement and negotiations between Belize and Mexico for a PSA are expected to start again soon.

III. The Belize Economy since 2010

The Belizean economy has weathered the storms since the global financial crisis in 2008/9 relatively well. Gross Domestic Product (GDP) at current prices has risen each year and inflation has been so low that GDP at constant prices has also risen annually. The main area of expansion has been in the service sectors, especially tourism, as Belize continues its long-run shift to being a service-based economy.⁴ However, the primary sector has performed strongly as well with significant increases in the production of many agricultural goods.

Most of the criticism of the economy has therefore not been directed at macroeconomic performance, but at imbalances in the fiscal accounts. In its latest report on the Belize economy, for example, the Economic Commission for Latin America and the Caribbean (ECLAC) stated:⁵

“Fiscal deficits and unsustainable public debt remain the major policy challenges. The government has pledged itself to medium-term fiscal consolidation. However, this effort was not advanced in calendar year 2015, as fiscal policy was expansionary.”

These concerns were underlined when the Prime Minister delivered the budget speech on 8 March 2016 and reported that the fiscal deficit was expected to increase to 5.1% of GDP in 2015/6 from 2.3% of GDP in 2014/5.

Concern has also been raised about the size of the current account deficit in the balance of payments. It is well known that Belize runs a large deficit in the trade balance that is partially offset by a surplus in net services. However, there is still a balancing item that requires foreign finance over which Belize has little or no control. In the words of ECLAC again:⁶

⁴ See Bulmer-Thomas and Bulmer-Thomas (2012), Table 6.1.

⁵ See ECLAC (2015), p.1.

⁶ See ECLAC (2015), p.1.

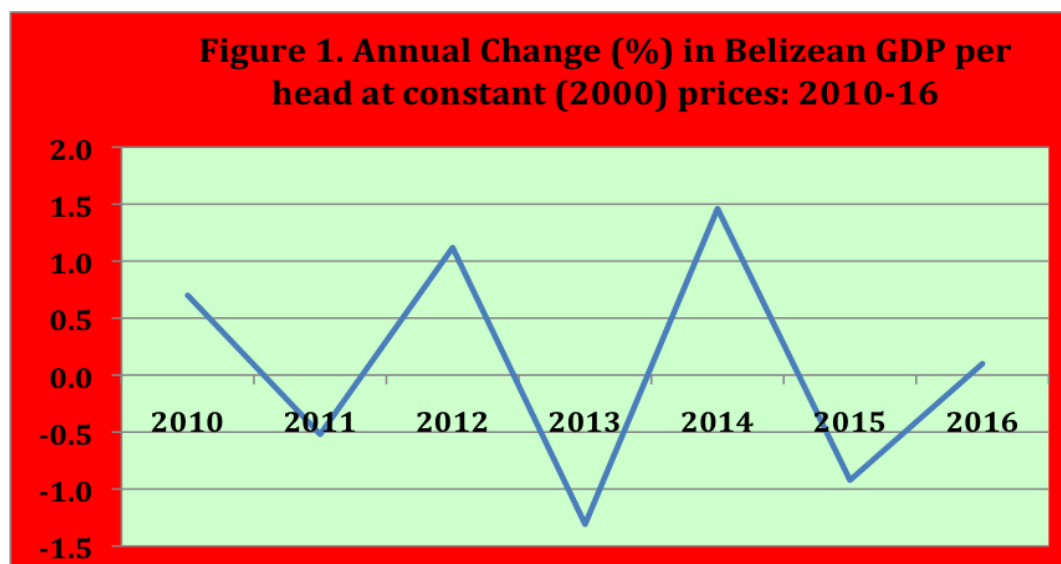
“The current account deficit widened to 9.5% of GDP in 2015 from 8.0% of GDP in 2014. This increase stemmed from a higher visible trade deficit, which offset an improvement in the surplus on the services account.....The surplus on the capital and financial account is projected to contract by 47% to \$130 million led by an 18.2% decline in foreign direct investment (FDI).”

These words were written by ECLAC before the budget speech on March 8th, which revealed that the current account deficit had in fact increased by even more and was now estimated to be 10.2 per cent of GDP in 2015.

The Government of Belize (GoB) is fully aware of all these problems, as interviews for this report made clear. The fiscal position deteriorated in 2015 in part as a result of an acceleration of government spending before the general elections held in November. At the same time, no government in future can rely on low-cost funding from the Venezuelan Petrocaribe Agreement (VPCA) to cover the fiscal deficit to the same extent as before. And the widening of the balance of payments current account deficit in 2015 was partly due to one-off measures taken in settlement of disputes with the former owners of Belize Electricity Limited (BEL) and Belize Telemedia Limited (BTL).

This is not to suggest that fiscal and balance of payments imbalances are not a matter of concern, but it is clear that GoB is cognizant of the issues and is taking steps to address them.⁷ Whether these are successful remain to be seen since there are many external shocks that could throw the government’s plans off course. These include a higher than expected bill for the final settlement of the BTL dispute, a sudden end to all VPCA inflows and a new global financial crisis triggering a decline in tourism receipts. However, there is not much more that needs to be said in this report about these problems at this stage.

⁷ The budget for 2016/17 announced on 8 March 2016 anticipates a change in the primary surplus compared with the previous fiscal year from -2.46% to +1.0% and a change in the overall deficit from -5.05% to -1.68%.



Source: derived from SIB with official estimates for 2015/16

What is a matter of concern that has not perhaps been given sufficient attention is the low expectation regarding macroeconomic performance. Although GDP at constant prices may have grown in each year since 2010, that is not true of GDP per head. The reason, of course, is due to the increase in population since the last census.

Although there are figures on births and deaths, there are no accurate figures on net migration and so all population numbers since the census in 2010 must be treated with caution. Nonetheless, the Statistical Institute of Belize (SIB) estimates annual population growth of 2.6 per cent since 2010 and this is a sufficiently high number to wipe out positive growth in GDP per head in some years. Indeed, as Figure 1 shows (using forecast numbers based on official sources for 2015-6), there is now a worrying tendency for positive years of growth in real GDP per head to alternate with negative ones.

The population estimates since 2010 provided by SIB provide for a natural increase in population (births less deaths) of nearly two per cent per year. This is based on a Crude Birth Rate (CBR) of around 23 per 1000 and a Crude Death Rate of 4.5 per 1000, i.e. a net increase of 18.5 per thousand or annual growth of 1.85 per cent, using the most recent figures on vital statistics provided by SIB.⁸ The difference

⁸ SIB uses figures provided by the Ministry of Health, but these are not made available on the Ministry of Health website. How accurate these figures are is a matter of debate since the Ministry of Health has now admitted that about five per cent of births are unrecorded. Assuming that almost all deaths are recorded, the natural increase in population could therefore be a little higher than 1.85%.

(0.75 per cent) between estimated population growth (2.6 per cent) and the natural increase (1.85 per cent) is then due to estimated net inward migration.

Net inward migration has been positive in Belize for many years, so it is probably a reasonable assumption to assume that it is continuing. The result is that GDP per head in 2016 at constant prices, assuming that GDP expands in that year by 2.0 per cent in line with official projections, will be no higher than in 2010.⁹ In fact, it will be fractionally lower.¹⁰

Belize has a young population, so a large proportion is not of working age. However, even after making all sorts of allowances, it is surely unacceptable that GDP per head has been stagnant since 2010 and likely to remain so. Unless population growth declines, it is therefore essential for Belize to raise its macroeconomic performance and aim for a higher growth of GDP.

If the real rate of growth of GDP rose to five per cent per year, for example, this would imply an increase in annual real GDP per head of 2.4 per cent and a doubling of living standards every 30 years or so. This should not be considered unduly ambitious. Indeed, there are many countries that expect to achieve this and some of them are in comparable situations to Belize.

Such a target means a renewed emphasis on export-led growth, since this is the only route by which Belize can achieve a higher sustainable rate of growth of GDP over the long-term. Alternative strategies, based on household consumption, public expenditure or investment, can deliver high growth in the short-term, but are not sustainable over the long-term because of the impact on the balance of payments. This report should therefore be seen as a modest contribution towards helping Belize to achieve a faster rate of export-led growth.

⁹ The official figure had been 2.5%. However, the budget on 8 March 2016 revised this down to 1.5-2.0%.

¹⁰ It is common to see figures in secondary sources showing that Belizean GDP per head at constant prices has been rising since 2010. This only happens, however, when GDP per head is first shown at current market prices and then an adjustment is made for consumer price inflation (CPI). However, in Belize the GDP deflator is invariably higher than CPI. When the GDP deflator calculated by SIB is applied, then the increase in GDP per head at constant prices since 2010 disappears.

IV. Trade Performance and Prospects

If the Belizean economy were to grow annually in real terms at five per cent, what would this mean for exports of goods and services by 2020? Assuming a GDP deflator of two per cent, the average of the last few years,¹¹ this implies an increase in GDP at current market prices of seven per cent.

The share of exports of goods and services in GDP is at present around 65 per cent. As this is high by the standards of neighboring countries, a conservative assumption is that the ratio stays at the same level.¹² Assuming population continues to increase annually at 2.6 per cent, this implies exports of goods and services per head (including re-exports) in 2020 of approximately US\$3800 at current prices.



Source: derived by author from World Bank, World Development Indicators

This may seem a very high number given that exports of goods and services per head in 2014 (including re-exports) were only just over

¹¹ Derived from national accounts data in SIB.

¹² An unchanged export/GDP ratio implies balanced growth rather than export-led growth. Thus, this is the very **minimum** that Belize should hope to achieve since export-led growth is the most effective way for Belize to raise its long-run GDP growth rate.

US\$3000. However, as Figure 2 shows, Belizean exports of goods and services per head in 2010-14 were by no means the highest in Central America and the Caribbean (the two regions to which Belize belongs). Indeed, several countries – Panama, Barbados, St. Kitts, Costa Rica and St. Lucia – had higher values of exports of goods and services per head.¹³ Furthermore, Figure 2 excludes the non-independent countries such as the Cayman Islands whose figures for exports of goods and services per head are also much higher than for Belize.

A target of US\$3800 for exports of goods and services per head by 2020 is therefore not unrealistic. However, it is not a simple matter either and requires a clear strategy for how this might be achieved. The National Export Strategy, adopted in 2012, is very clear on the qualitative changes needed to bring about a big increase in exports, but is more circumspect when it comes to the quantitative changes required.¹⁴

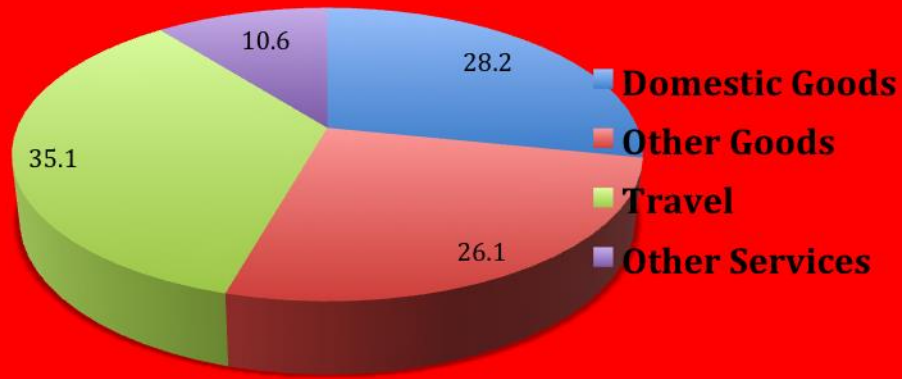
This is not surprising in view of the relatively complex structure of Belize's exports. Whereas Central American countries (with the exception of Panama) have tended to concentrate on exports of goods and Caribbean islands have focused more on services, Belizean exports are more equally divided between the two. In addition, Belize's exports of goods are usually defined to include re-exports with most of these sold through the two Commercial Free Zones (CFZ) on the western and northern borders.¹⁵

¹³ The reader should remember that these figures include re-exports, which are relatively more important in Belize than in the other countries. Strictly speaking, therefore, it would be better to compare domestic exports of goods and services rather than merchandise exports of goods and services, but this is difficult to do given the different treatments of re-exports in the region.

¹⁴ See BELTRAIDE (2012).

¹⁵ The treatment of re-exports, however, is not consistent. SIB, for example, in its External Trade Bulletin excludes CFZ figures from re-exports, but the Central Bank in the Statistical Appendix to its Annual Report includes them.

Figure 3. Composition of Belizean Exports (%) in 2014



Source: derived by author from Central Bank of Belize (2014)

Using 2014 as the benchmark, we can see in Figure 3 the composition of Belize's exports between the different categories. Merchandise exports (domestic and other goods) account for 54.3 per cent of the total and service exports (travel and other services) for 45.7 per cent making the two roughly equal. Merchandise exports are then divided between domestic goods (28.2 per cent) and re-exports (26.1 per cent). Meanwhile service exports are divided between travel (35.1 per cent) and the rest (10.6 per cent).¹⁶

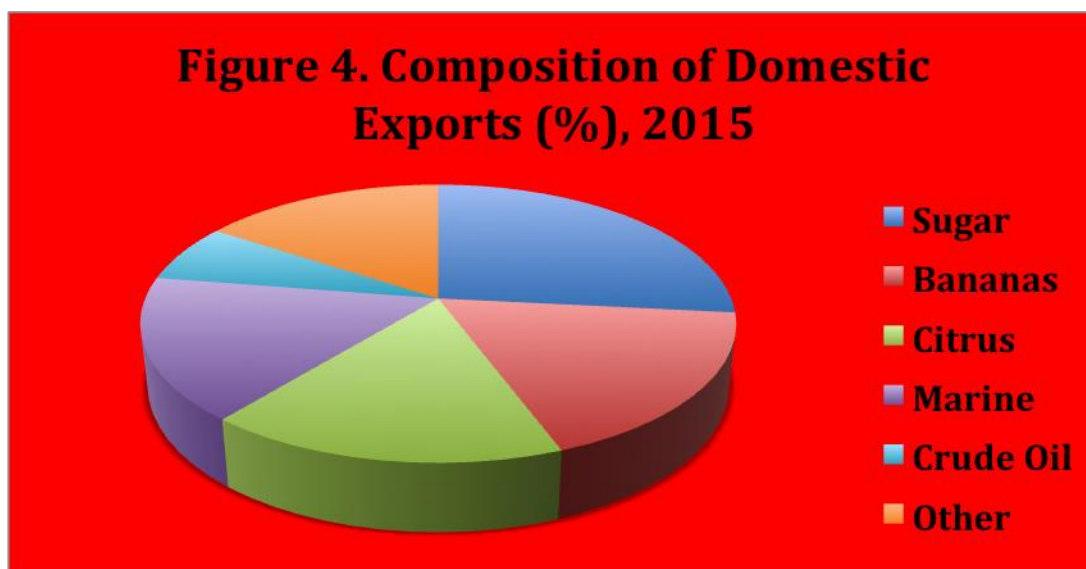
Just as the composition of total exports is complicated, so is the destination. Re-exports from the CFZs, it can be assumed, go almost entirely to Mexico.¹⁷ However, other re-exports go mainly to the United States followed – at some distance – by Central America, Mexico and the European Union (EU).¹⁸ There are no data for the destination of service exports although the destination of travel exports can be roughly estimated from the source countries for overnight visitors almost all of whom come from the United States of America (US), Canada and the EU.

¹⁶ Exports of services other than travel for Belize consist of transport, telecommunications, computer and information services, financial services, other business services and government services.

¹⁷ Of the two CFZs, the one on the northern border near Corozal is far more important than the one at Benque Viejo in terms of the value of sales. That is why we can be sure that most re-exports from CFZs go to Mexico as Mexicans are almost the only ones to use the one on the northern border.

¹⁸ According to SIB 49.5% of "other re-exports" went to the US, 9.3% to Central America, 7.3% to Mexico and 6.6% to the EU in 2015. See SIB (2016).

Figure 4. Composition of Domestic Exports (%), 2015

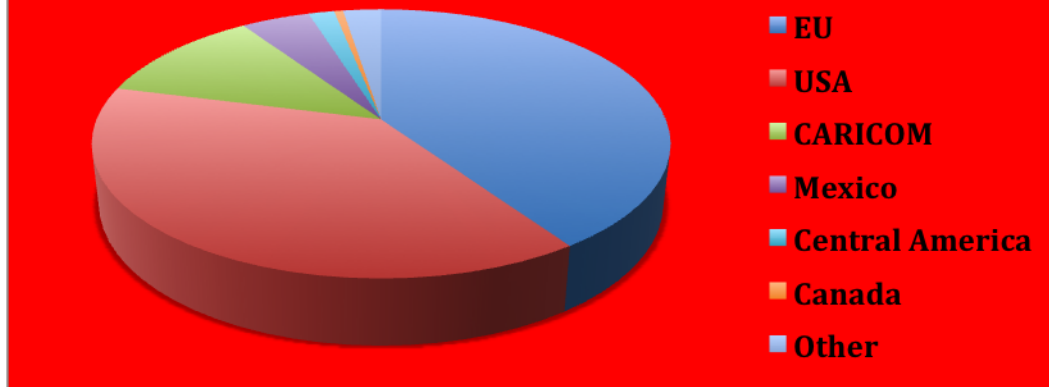


Source: derived by author from SIB (2015) and SIB (2016)

The only categories of exports for which detailed figures for both product composition and destination are available are domestic goods. Using the latest available figures from the SIB, these consist mainly of sugar (and molasses), bananas, citrus, marine products and crude oil, as Figure 4 shows. What is striking is the low share now taken by crude oil, as a result of both falling volumes and prices. Other domestic exports consist mainly of papayas, sawn wood, pepper sauce, citrus oil, R.K. beans, black eye peas, pulp cells, animal feed and corn meal.

The destination of domestic exports can also be given with some accuracy and the pattern has not changed much in many years. The most important trade partner for domestic exports is the EU as a result primarily of the historical links with the United Kingdom (UK). See Figure 5. Indeed, the UK accounts for over 70 per cent of EU demand for Belizean domestic exports. The EU is then followed closely by the US with the EU and US combined accounting for

**Figure 5. Belizean Domestic Exports
by Destination (%), 2015**



Source: derived by author from SIB (2015) and SIB (2016)

around 80 per cent of domestic exports. These two markets are then followed, at some considerable distance, by CARICOM with 11.6 per cent.

What is striking about Figure 5 is the low proportion of domestic exports going to the neighbors. Mexico in 2015 received 4.1 per cent and the whole of Central America (including Panama) only 1.7 per cent, of which over half went to Guatemala. These low figures provide the rationale for a focus on Guatemala and Mexico in the rest of this report.

V. Belize Trade with Guatemala

Guatemala is one of two countries that share a territorial border with Belize. The two countries completed negotiations for a Partial Scope Agreement (PSA) in 2006 and this went into force in 2010. In 2014 the two sides held the first meeting of the Administrative Commission established by the PSA. A second meeting was held in 2015.¹⁹

The western border between Belize and Guatemala is porous and unrecorded trade is widely assumed to be significant. None of those interviewed for this report were willing to hazard a guess as to the size of unrecorded imports and only one was willing to estimate the value of unrecorded exports. The estimate was BZ\$6-7 million, which is roughly the same as recorded domestic exports in 2015. This is plausible. Cattle, for example, are one of the more important unrecorded exports and my own estimate of the value is BZ\$1.5 million in 2015 (about a quarter of the total).²⁰

Belizean exports to Guatemala are not published in detail by Belizean government institutions. For exports by product, it is therefore necessary to go to one of the international sources to which Belize provides the detailed information required. I have used a variety of sources including the United Nations commodity trade database (COMTRADE) and UNCTAD's trade database (UNCTAD), both of which use the SITC classification preferred by Belize and provide data by year not only on Belize's exports to Guatemala but also Guatemala's imports from Belize.

In theory bilateral trade data from both partners should be the same subject to a small difference to allow for transport costs, but in practice there are sometimes big differences.²¹ Normally, these are ignored by researchers who prefer to use one source rather than the other in the interests of consistency. However, the discrepancies are

¹⁹ In addition, a large number of bilateral agreements were signed in 2014 on the margins of the SICA meeting in Placencia.

²⁰ See Section VII, Point 1.

²¹ There are also differences among the international sources themselves. The data in COMTRADE, for example, do not always agree with those in UNCTAD - yet alone those taken from IDB, SICA, ECLAC etc.

not necessarily random and can provide insights into the nature of unrecorded trade if used carefully. I have therefore used both Belizean exports to Guatemala (imports from Guatemala) given in Belizean sources and Guatemalan imports from Belize (exports to Belize) given in Guatemalan sources.

The discrepancies can be seen in Figure 6, which records Belizean exports to Guatemala (Guatemalan imports from Belize) between 2010, when the PSA went into force, and 2014. In 2011, for example, Belizean exports to Guatemala using Belizean statistics were almost twice as large as Guatemalan imports from Belize using Guatemalan sources. Furthermore, with the exception of 2014, the value of Belizean exports to Guatemala was higher than the value of Guatemalan imports from Belize despite the fact that one would expect the opposite (exports are valued fob and imports cif).



Source: UNCTAD

UNCTAD data refer to total merchandise trade. They therefore do not distinguish between domestic exports and re-exports. None of the international sources can be used to separate the two.²² It is possible, however, to do so using Belizean sources for 2013-5 since SIB in its external trade bulletins publishes on a monthly basis the gross value of domestic exports and re-exports to Guatemala.²³ The results for 2013, 2014 and 2015 are shown in Table 2.

²² In theory COMTRADE allows this, but in practice it is not reliable.

²³ Unfortunately, it cannot be done before 2013 as SIB did not publish the data (there are partial data for 2012, but only for seven months).

Table 2 shows that domestic exports are roughly half the value of total merchandise exports. In other words, a large part of exports to Guatemala consist of re-exports and this is confirmed by examination of UNCTAD and COMTRADE figures showing the importance of items in the export list that Belize is known not to produce.

Irrespective of whether merchandise or domestic exports is the point of reference, there is no doubt that Belizean exports to Guatemala as recorded by official statistics are very small. Exports to Guatemala (domestic or merchandise) as a share of total domestic or merchandise exports have averaged around one per cent.

Table 2. Belizean Exports to Guatemala (US\$000): 2013-5

	Domestic Exports	Re-exports	Total Exports	Domestic Exports as %age of Total Exports
2013	2268.1	2487.7	4755.8	47.7
2014	4839.9	4755.9	9595.8	50.4
2015	3196.4	2661.3	5857.7	54.6

Source: SIB (2015) and SIB (2016)

The main recorded domestic exports from Belize to Guatemala in 2014 are shown in Table 3, which shows the value in UNCTAD as recorded both by Belize exports to Guatemala and Guatemalan imports from Belize. Only six products have a value in excess of US\$25,000 and only one a value in excess of US\$1 million.

Furthermore, the most important (crustaceans) had a value of zero in the previous year, suggesting that there is great volatility from one year to the next. And there are also big discrepancies in the value of the goods as recorded in Belizean and Guatemalan sources (see especially the numbers for maize).

Table 3. Belizean Domestic Exports to Guatemala (US\$000), 2014

	Belizean Exports to Guatemala(1)	Guatemalan imports from Belize(2)	Difference (1-2)	Difference as %age of (1)
Crustaceans	2098.0	2603.8	-505.8	-24.1
Maize	332.3	842.7	-510.4	-153.6
Fruit & Vegetable Juice	213.7	284.7	-71	-33.2
Sugar, Molasses & Honey	52.4	67.8	-15.4	-29.4
Feeding Stuff for animals	348.4	68.6	279.8	80.3
Petroleum Oils	176.1	237.9	-61.8	-35.1

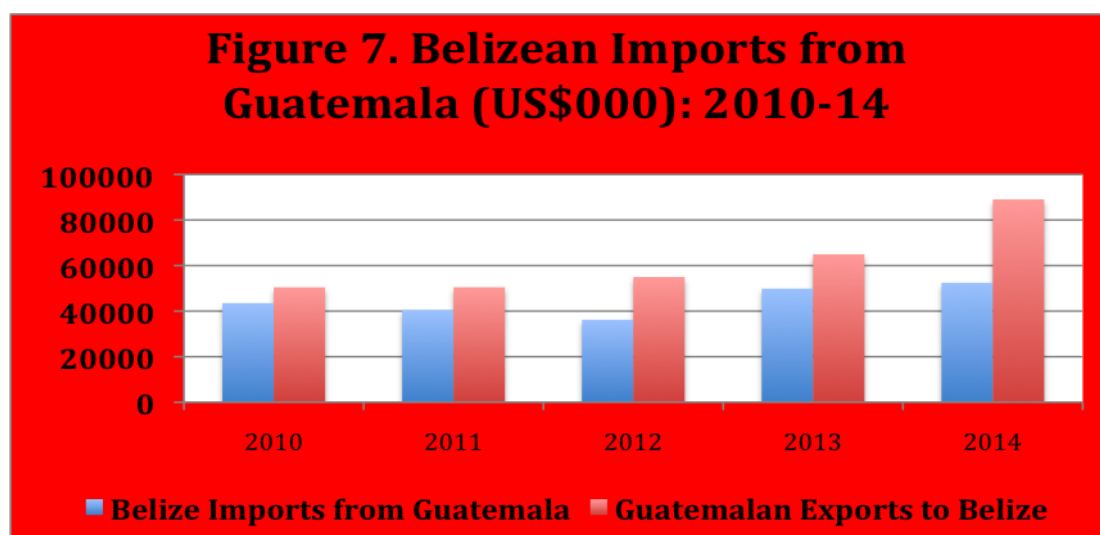
Source: UNCTAD

Note: The first column shows Belizean exports to Guatemala using Belizean sources and the second shows Guatemalan imports from Belize using Guatemalan sources

Whether we look at merchandise exports since 2010 (see Figure 6) or domestic exports since 2013 (see Table 2), there is no doubt that the recorded value of Belizean exports to Guatemala is very small. Figure 6, for example, uses merchandise exports for 2010-4 and suggests a decline from the peak in 2011. Table 2 uses domestic exports for 2013, 2014 and 2015 and shows a rise followed by a fall. It would therefore appear that there has been little positive impact from the PSA, although this may be a statistical illusion in view of the importance of unrecorded trade (this will be examined in more detail in the following two sections).

If recorded Belizean exports (domestic or merchandise) to Guatemala are very small in value, what about recorded Belizean imports from Guatemala? Belizean imports from Guatemala are shown in Figure 7, which demonstrates not only their importance in terms of value, but also that they have risen significantly since the PSA went into force. This suggests that in the case of Guatemalan exports to Belize, but not Belizean exports to Guatemala, the PSA is working as intended. Indeed, a comparison with Figure 6 shows that in many years they are nearly ten times bigger than Guatemalan exports to Belize.²⁴

²⁴ International sources did not provide 2015 data at the time of writing. However, using SIB monthly data the value of Belizean merchandise imports from Guatemala in 2015 was BZ\$154,721,600 (US\$73,360,800). This is an increase on 2014 (using Belizean sources) and twelve times larger than Belizean merchandise exports to Guatemala in Table 2.



Source: UNCTAD

Among Guatemalan exports to Belize in 2014, there are many goods items that exceeded US\$2,000,000 in value. This is shown in Table 4. Most of these are assumed to be domestic exports from Guatemala rather than re-exports, although it is impossible to be certain. The goods include mainly manufactured goods and agro-industrial products.

Table 4. Guatemalan Exports to Belize (US\$000), 2014

	Exports to Belize using Guatemalan data (1)	Imports from Guatemala using Belizean data (2)	Difference (2-1) as %age of (1)
Animal Feed Stuff	12920.4	12863.1	-0.4
Fertilizer	9112.09	8992.1	-1.3
Plastics	4208.5	3700.0	-12.1
Transport Vehicles	4035.0	2923.0	-27.6
Liquefied propane	3635.7	3812.2	4.9
Insecticides etc.	3149.2	3274.9	4.0
Plastic tube, pipe etc	3040.5	4573.2	50.4
Metallic Structures	2634.9	2791.3	5.9
Paper, paperboard	2623.6	3793.8	44.6
Iron, steel bars etc	2523.0	2405.9	-4.6
Edible proc prod	2484.0	2317.8	-6.7
Lime, cement etc	2319.7	2166.1	-6.6

Source: COMTRADE

When Guatemalan exports to Belize by product are compared with Belizean imports from Guatemala in 2014, there are sometimes big differences as Table 3 makes clear. For example, Guatemalan exports

of motor vehicles are nearly 30 per cent larger than Belizean imports of the same products suggesting widespread smuggling to avoid paying duty. On the other hand, Guatemalan export of paper and paperboard is 50 per cent **less** than Belizean imports of the same products and there is no obvious explanation for this.

In conclusion, Belizean imports from Guatemala are much larger than Belizean exports to Guatemala. Not surprisingly, therefore, they represent a significant share of total Belize imports. The share was 7.5 per cent in 2015 (see Table 1), an increase from 6.7 per cent in 2012 that suggests the PSA has worked much better for Guatemala than for Belize. Guatemalan exports to Belize, however, are still a tiny fraction of total Guatemalan exports (0.5 per cent in 2012 rising to 0.8 per cent in 2014).

VI. VI. Main Barriers to Trade with Guatemala

The recorded value of Belizean domestic exports to Guatemala in 2015 was US\$3.2 million (see Table 2). This is roughly US\$10 per head of Belizean population. By contrast the recorded value of gross imports from Guatemala into Belize was around US\$90 million when using Guatemalan figures on its exports to Belize. This is equivalent to around US\$250 per head of Belizean population. Thus, it is clear that Guatemala does not appear to face any major obstacles in its exports to Belize, while Belize appears to have great difficulty in exporting to Guatemala – at least on the basis of recorded trade.

There is also a small reexport trade from Belize to Guatemala through the CFZ at Benque Viejo, whose value is not expected to change much in the near future as a result of the allegations of money-laundering surrounding the zone.²⁵ There are also reexports from Belize to Guatemala of many things such as scrap metal that vary enormously from one year to the next.

There is no assumption that bilateral trade should be balanced between any pair of countries. However, Guatemalan exports to Belize in many years are nearly ten times greater than Belizean exports to Guatemala. The imbalance in trade between Belize and Guatemala is therefore extremely large and the outlier here is undoubtedly the recorded value of Belizean exports to Guatemala as it only averages one per cent of total Belizean exports and does not appear to have benefited from the PSA.

Guatemala, with a population in excess of 16 million, is a large market with a relatively open economy. Its imports in 2014 from all sources were US\$18.3 billion, while Belizean domestic exports to Guatemala in that year were US\$4.8 million. If Belizean exports were to have reached even one-tenth of one per cent of the value of Guatemalan imports in 2014, they would have needed to be nearly four times higher. Furthermore, Belizean exports to Guatemala **fell** in 2015 to US\$3.2 million.

²⁵ Unfortunately, the Central Bank of Belize only publishes aggregate figures for the two CFZs. However, those interviewed estimated the CFZ at Benque Viejo to have a turnover around 10% of the CFZ on the northern border.

Trade models often forecast bilateral trade based on population, GDP per head, geographical distance, common language, trade agreements and so on. Guatemalan exports to Belize seem to fit this model, but not Belizean exports to Guatemala since they are lower than what might be expected from the way the models work. The first issue, therefore, is whether this is a statistical illusion due to the presence of large unrecorded exports from Belize to Guatemala.

In a report I wrote for the IDB three years ago, I said:²⁶

“Such a large imbalance in bilateral trade might suggest that at least some Belizean exports are unrecorded. This, as we shall see, turns out to be the case so that the imbalance is almost certainly not as large as appears.....All observers of this bilateral trade affirm that much of Belize’s exports (especially cattle and basic grains) are unrecorded. The most important is maize from the Mennonite community in Spanish Lookout, which is collected by Guatemalan trucks, paid for in Belizean dollars in cash (purchased no doubt in Melchor de Mencos) and shipped back to Guatemala through Bullitt Tree. There is also a thriving unrecorded flow of agricultural exports through Arenal and Jalacte.”

There is no reason to diverge from this opinion today and it is confirmed to some extent by Table 3 showing that for most products the recorded value of Belizean exports to Guatemala (e.g. maize) is much lower than the recorded value of Guatemalan imports from Belize. It is also confirmed by a number of producers who have been willing to speak freely on the issue. Nathan Jagger (owner, Banana Bank Agco), for example, stated in 2015:²⁷

“We grow corn, beans, black eye peas and we have been able in the last five years to export a lot of this produce into Guatemala and we hope that we are going to be able to do rice and cattle....We have been exporting for the last five years or so.”

If unrecorded exports **are** as large as recorded exports(see Section V), then domestic exports to Guatemala (recorded and unrecorded) would represent around two per cent of Belizean domestic exports. An upper limit of 3-4 per cent is probably the most that Belize can

²⁶ See Bulmer-Thomas (2013), pp.31-2.

²⁷ Quoted on Channel 7 News, August 6, 2015.

expect given that domestic exports to Mexico (a much bigger market) represent less than five per cent. Thus, the poor performance of Belizean domestic exports to Guatemala would not disappear completely if unrecorded exports were included, but it would be less serious.

In addition to unrecorded exports from Belize to Guatemala by legitimate businesses, there is an illegal export of goods by Guatemalan migrants to which I also drew attention in an earlier report and which the Belizean authorities are doing their best to suppress:²⁸

“There are other unrecorded exports,which are highly controversial and are a matter of great concern to the Belizean authorities. These include illegal shipments of xate, gold, protected fauna (e.g. scarlet macaws) and tropical hardwoods including rosewood. Most of these illegal exports are as a result of the presence of Guatemalan temporary migrants in the Chiquibul forest and further south in Toledo.”

The most valuable of these illegal exports is now gold, which is sold for roughly US\$25 per gram in Guatemala.²⁹ There are believed to be around 40 Guatemalans operating regularly in Belize every week and extracting perhaps 100 grams each. This would give a value for gold exports alone of US\$5 million annually. If correct, this means that gold exports alone are more than the value of recorded domestic exports to Guatemala.

Figures on merchandise trade, recorded and unrecorded, do not include trade in services. Is it possible that Guatemala is an important market for Belizean service exports? Guatemalans constitute a large proportion of passengers (around 10 per cent) visiting Belize according to figures provided by the Department of Immigration and Nationality. Most of these, however, are not tourists in the usual sense and may stay only a few hours. Many are therefore like Belizeans who go to Melchor de Mencos for the day and do some shopping, but there is not much evidence that retailers and wholesalers on the western border rely heavily on sales to Guatemalans.

²⁸ See Bulmer-Thomas (2013), p.32.

²⁹ See Channel 7 New, April 18, 2016.

<http://www.7newsbelize.com/index.php#story12>

In addition, some Guatemalan families send their children to school in Belize and a few Belizean transport companies earn revenue from cross-border activities. It is therefore likely that Belizean exports of services to Guatemala constitute a higher proportion of total service exports than do merchandise or domestic exports, but the income generated is not sufficient to suggest that service exports to Guatemala are of great importance.

Published trade figures also say nothing about cross-border investments. Here we have to rely on anecdotal evidence. It is generally accepted that Guatemalan investors have been active investors in Belize, especially in the hotel, sugar and energy sectors, but there is virtually no evidence that Belizean companies have been significant investors in Guatemala.

Belizean domestic exports to Guatemala were expected to benefit from the PSA that went into force in 2010. Category A products, which were subject to an immediate reduction of 50 to 100% in customs duties, include tilapia, yellow maize (up to 20,000 MT at 0% duty), black beans (up to 875 MT at 0% duty), rice, toilet paper, doors, windows, wooden and wicker furniture, matches, most citrus fruits and concentrates, mangos, guavas, watermelons, pineapples and plantains. In addition, the PSA includes additional products such as cattle, red beans, poultry and pepper sauce where tariff reductions would be phased in over a longer period.³⁰

Table 3 suggests that the PSA has made virtually no difference to the recorded value of Belizean domestic exports. Indeed, some of the products in Table 3 are not even the beneficiary of tariff reductions under the PSA while most of those products that should have benefited do not appear in the list. This is very frustrating for the Belizean officials responsible for implementing the PSA and an Administrative Commission was finally established in 2014 with representatives from both countries to help resolve outstanding issues.

The Commission has established four technical committees, two of which are dedicated to (a) Sanitary & Phyto-Sanitary Measures and

³⁰ For a complete list, see Annex II of the PSA (available at http://www.sice.oas.org/trade/blz_gtm/index_e.asp)

(b) Rules of Origin. This is important since both Sanitary & Phyto-Sanitary Measures and Rules of Origin are often used as forms of non-tariff trade restrictions in international commerce. Indeed, phyto-sanitary issues are more important for Belize than Guatemala since Belizean domestic exports are overwhelmingly primary products where phyto-sanitary measures are often a major barrier to trade. It is too early to say what effect the establishment of these two committees will have, but it is unlikely to be very great in the context of other barriers.

Other barriers faced by Belizean domestic exports to Guatemala include the fact that there is still only one official customs post between Belize and Guatemala (at Benque Viejo/Melchor de Mencos). In addition to the problems of the restricted trade route and border bottlenecks, this customs post only gives easy access to the most sparsely populated part of Guatemala. For those crossing at this point, the most densely populated (and richer) parts of Guatemala in the south are still a long way away. And if there are delays in processing goods at this border, Belizean exporters have no alternative official crossing points. With many other points at which goods can cross the border to circumvent the inconvenience and cost of taking exports through the official post, it is unsurprising that unrecorded exports are important.

When the PSA was signed, GoB stressed the potential for Belizean exporters. It stated:³¹

“There are great export opportunities to be gained from the PSA.....Guatemala imports products that Belize can easily supply on a predictable and consistent basis. These products are orange juice.....kidney beans, fresh fish....crustaceans.....meat and edible meat offal, live poultry, live swine, bovine animals and maize.”

It then went on to analyze Guatemalan imports of these products from different countries and to argue that Belize should be able to take its place among the suppliers.

In the case of recorded exports only one of these products (crustaceans – see Table 3) has exceeded US\$1 million in value. However, it is worth noting that Guatemalan gross imports have been

³¹ See <http://www.belize.org/tiz/belize-guatemala-partial-scope-agreement>, p.1

stagnant since 2011 so that Belize would only have been able to expand its domestic exports to Guatemala at the expense of other countries. Since Belizean exports are not generally competitive on price, this is a difficult challenge.

One further barrier remains that affects Belizean exports to Guatemala, although it has become an issue for all exporters as well. This is the lack of correspondent banks not just in Belize but also in Guatemala, making payments from Guatemala very slow and expensive. One of those interviewed, for example, explained how payment is sometimes routed through Turkish banks and can take weeks if not months to reach Belize, by which time commissions and other costs may have reduced receipts by as much as five per cent.

VII. Actions to be taken in relation to Guatemala

The Belizean authorities are well aware of the desirability of increasing trade, especially exports of goods and services, with Guatemala. The actions proposed here are consistent with this objective. They are as follows:

1. Estimate unrecorded exports

A first requirement is to estimate the volume and value of unrecorded exports. This will enable the Belizean authorities to acquire an impression of where Belizean revealed comparative advantage can be found, the assumption being that these commodities are the ones most likely to do well if all exports were recorded.

The list of these products, but not their volume or value, is well known. It includes cattle, pigs, poultry, maize and beans. What is needed for each of these products is an estimate of domestic production and consumption by volume, from which net exports by volume can then be derived. Recorded net exports must then be deducted to leave unrecorded net exports. Which of these unrecorded net exports go to Guatemala rather than Mexico must then be established (this will involve some guess work). Prices can then be applied to the volumes to give the value of unrecorded net exports to Guatemala.

An example makes this clear. In 2011, Belize produced 63,000 MT of maize (see Table 7 below). If consumption is estimated at 52,000 MT, this leaves net exports of 11,000 MT. Recorded net exports (see Table 7) were 8,000 MT. This leaves 3,000 MT as unrecorded net exports. Assume two-thirds went to Guatemala and one-third to Mexico. The average import price paid by Guatemala for maize is around 25 US cents per kg, so unrecorded exports of maize to Guatemala would be valued in 2011 at US\$500,000 or BZ\$1 million (and about half this value for Mexico).

In the case of cattle, we can be more precise. The Belize Livestock and Producers Association (BLPA) already has a great deal of information as a result of its check points at various places around the country on

both the Guatemalan and Mexican borders. The BLPA estimates the volume of all contraband cattle in 2015 as 9950 head of cattle. If we assume half of these go to Guatemala with an average export price of US\$1500, this gives the value as nearly US\$0.75 million. This should be compared with recorded exports of **all** domestic goods in 2015 of US\$3.1 million (see Table 2).

2. Record unrecorded imports

Everyone is aware that a large part of the import trade in domestic goods is unrecorded. At the same time, the authorities know the main transit points. Customs posts at these border crossings would not only give the authorities greater knowledge of the quantity and value of the trade, but would also lead to an increase in government revenue.

Imports from Guatemala are not all duty-free. Even those goods benefiting from tariff preferences under the PSA are subject in many cases to tariffs, albeit at lower rates than before. If we assume that unrecorded imports from Guatemala are about the same in value as recorded imports (c.US\$80 million), that an average tariff of five per cent would be collected and that the authorities succeed in collecting half this amount, this would still amount to c.US\$2 million (c.BZ\$4 million). This is more than enough to pay for the border posts.

One of the main crossing points for unrecorded imports is at Jalacte in Toledo. The paved road to the border is now almost complete and one can see the Guatemalan village of Santa Cruz de las Fronteras from the Belize Defence Force (BDF) post where the paved road will end. Guatemala has no plans to build a road on her side of the border, but it is safe to assume that unrecorded exports from Guatemala will increase now that the road into Belize is so good.³²

The Belizean authorities are not planning a customs post. There is a superb facility for sanitary and phyto-sanitary purposes on the new road near Jalacte, but this will not be used to collect import duties. Instead, Belizean authorities are pinning their hopes on the new road becoming an avenue for Belizean exports to El Salvador rather than

³² There are already five buses each day leaving Jalacte for the rest of Belize and this number will surely grow.

Guatemala. This may or may not prove to be correct, but it seems short-sighted not to use the new facility as a customs post as well.

3. Concentrate on those domestic exports that are competitive in price.

For decades Belize exported forest products and imported the bulk of its food requirements. As the value of forest products declined, Belize began to export agricultural goods. These, however, have traditionally been sold in foreign markets under preferential terms. It is only comparatively recently that Belize has been able to sell agricultural goods to other countries without the benefit of preferences. However, there are still many products that Belize produces that are not competitive in overseas markets.

For those domestic exports benefiting from the PSA with Guatemala, Belize enjoys roughly the same treatment as suppliers from other countries. The reason is that Guatemala has free trade agreements with Canada, United States, the rest of Central America (excluding Belize) and many other countries. Thus, Belize does **not** enjoy preferential treatment in Guatemala compared with many other countries even for those goods that are listed in the PSA, while for other goods it faces in effect discriminatory tariffs.

This means that being competitive on price is essential for Belize. If we take the two products where Guatemala records significant imports from Belize (see Table 5), we find the following prices:³³

Table 5. Prices for Guatemalan Imports of Shrimp and Maize, 2014

	Prices (US\$ per kg)				
	Total	Belize	El Salvador	Honduras	Mexico
Shrimps and prawns, frozen	7.56	8.50		4.73	14.02
Other maize, unmilled	0.24	0.26	0.27	0.19	0.37

Source: COMTRADE

³³ I have used the United Nations database COMTRADE as it has quantities as well as values from which unit values (prices) can be derived.

The prices for imports from Belize are slightly higher than the average for total imports (i.e. imports from all sources), but Belize is **not** the highest price supplier for crustaceans nor for maize. This suggests that Belize is competitive in these two products and should continue to focus on exporting them to Guatemala.

Table 6. Prices for Other Guatemalan Imports, 2014

	Prices (US\$ per kg)				
	World	Belize	El Salvador	Honduras	Mexico
Beans	0.92	1.41	0.81		1.09
Papayas	0.14	0.43	0.09	0.11	
Orange Juice	1.44	1.87	0.82	0.72	1.81

Source: COMTRADE

Note: the numbers in the column for Belize are in red as they have to be estimated (Guatemala recorded no imports of the three products in 2014). The numbers are therefore the average price of Belize exports to other countries.

Now consider what happens with those products that Guatemala currently does not import, but which the Belizean authorities would like to see exported. By definition, there is no Belizean unit price in the Guatemalan import statistics, but we can use the average price of Belizean exports for the same product. The results for three products (beans, papayas and orange juice) are shown in Table 6 and they show that the Belize unit price is much higher than the average price Guatemala pays to import the product. Furthermore, the Belize price is higher than that from all other sources listed.

Table 6 suggests that Belize is not yet competitive in these three products as far as the Guatemalan market is concerned. This can change, of course, and Belize is making progress in becoming more competitive across a wide range of agricultural goods. However, it is unrealistic to expect an increase in domestic exports to Guatemala of goods whose prices are much higher than Guatemala normally pays.

That is why it is so important for Belize to estimate unrecorded exports to Guatemala (see 1 above). This will give a sense of where Belizean revealed comparative advantage lies and therefore of the products which can be promoted. Only those products whose export

price is close to the average import price paid by Guatemala have a realistic chance of competing.

4. Expand PSA with Guatemala

For reasons that are entirely understandable, the PSA with Guatemala is very limited in scope. It includes only a small number of goods, it does not involve complete tariff liberalization of all the goods listed and it excludes services and investment. This helps to explain the limited impact the PSA has so far had on Belizean recorded exports to Guatemala. If trade liberalization is desirable, as it surely must be if Belize is to achieve a faster rate of export-led growth, then the PSA needs to be re-examined.

There is a strong case for expanding the PSA to include a greater range of goods with more ambitious targets for tariff liberalization. There is an even stronger case for including services where Belize (see 7 below) may have better prospects than in the case of goods. Including investment should also be considered, although this is likely to be of benefit mainly to Guatemala and could be more politically sensitive.

5. Increase the Number of Products with an Exportable Surplus

There is no point in increasing domestic exports to Guatemala of goods if this reduces the quantity sold in other markets. This is especially true if the price received is lower, as may well be the case. Thus, a priority for Belize is to increase the range of products for which Belize has an exportable surplus and where sales to Guatemala need not come at the expense of other markets.

Table 7 shows net exports for those commodities for which Belize had an exportable surplus in 2011. In addition, I have added two products (poultry meat and bovine meat) that are often considered to be exportable, but for which there were no recorded exports in the year.

Table 7 shows very clearly the problems Belize faces if it wishes to increase significantly its domestic exports to Guatemala. The commodities for which there are already large exportable surpluses (sugar, bananas, oranges and grapefruits) are difficult to sell to Guatemala as the latter itself has an exportable surplus in these

products. In other products the Belize exportable surplus is either very small (e.g. maize, beans, fish) or non-existent (e.g. bovine meat and poultry meat).

Table 7. Belize Net Exports by Commodity (MT000), 2011

	Production	Exports	Imports	Net Exports
Maize	63	9	1	8
Sugar	99	83	0	83
Beans	4	2	0	2
Oranges	186	161	0	161
Grapefruit	26	7	0	7
Bananas	77	74	0	74
Fruits, Other	36	32	1	31
Poultry Meat	14	0	0	0
Bovine Meat	2	0	0	0
Fish, Seafood	118	8	2	6

Source: FAOSTAT

This does not mean the situation is hopeless, but it is important to be realistic. Some exports are unrecorded, others are recorded in small quantities and Belize may acquire an exportable surplus in additional products. In addition, there may be small niche opportunities even in those products where Guatemala has an exportable surplus as a result of better prices for Guatemala in foreign rather than in the domestic market.

A good example is provided by the Petén market, which is as expensive (if not more so) for most Guatemalan companies to supply as it is for Belizean firms as a result of the differential in transport costs. As a result, there may be major possibilities for Belize to supply such products as biomass energy even if the ex-factory price in Belize is higher than in Guatemala.

6. Simplify export procedures

Exporters and those considering exports complain loudly about the complexity of trading with Guatemala. The target of their ire is usually the Belize Agricultural Health Authority (BAHA), but often it is the equivalent bodies in Guatemala or Central America that they should be concerned about. BAHA is sometimes merely the messenger of bad news and should not be blamed for that.

An example of this problem is provided by the sanitary and phytosanitary measures applied by BAHA to the export of maize. The fumigant that Guatemala requires before maize can receive an import certificate is methyl bromide. This is not used in Belize, so the technical committee established under the Administrative Commission asked the Guatemalan authorities to reconsider. However, Guatemala applies the criteria set by OIRSA, which is a Central American organization established under the Central American Common Market. Thus, OIRSA would have to change its criteria before Guatemala could do so.

It can therefore take a long time to change the criteria and no doubt some of this is used by Guatemala as a convenient non-tariff barrier. In the meantime, however, BAHA does need to look closely at the way it operates to see if it is possible to make exporting to Guatemala easier. Until it does so, it is more than likely that many farmers – especially the Mennonites close to the border – will prefer the convenience of unrecorded exports where checks do not occur.

In the case of cattle, the sweep carried out in the last few years should lead Belize to be declared free of tuberculosis, brucellosis and mad cow disease. Since cattle are on the free list in the PSA, this should result in recorded exports of cattle to Guatemala for the first time. However, the same is not true of poultry, which is not only not on the free list but also not yet certified as free of disease. Thus, a comparable effort will need to be made with poultry as has been made with cattle.

7. Promote service exports

Although a large number of visitors arrive from Guatemala every year, hardly any of these are tourists. At the same time, more and more hotels have Guatemalan ownership, in whole or in part, making it possible to advertise Belizean tourism to a Guatemalan audience.

The Belize Tourism Board needs to work with the hotels to encourage this. The obstacles, however, are considerable as a result of the lack of transport links between the two countries, especially by air. It is not realistic to expect Guatemalan tourists to come for a week's holiday if half of the time is spent travelling.

The Guatemalan hoteliers and the Guatemalan government presumably have no objection to an increase in the number of Guatemalan tourists coming to Belize. Some Belizeans may object, in view of the tense bilateral relationship. However, it is very much in the interest of Belize that more Guatemalans should come to know the country as it really is rather than as portrayed in the Guatemalan media.

The new road from Jalacte provides an excellent opportunity for more tourists (not just Guatemalans) to come to Belize. As this is not an official border crossing, however, vehicles cannot legally cross the border. This needs to be reconsidered so that Guatemalan and Belizean tour operators can move freely in both directions in order to facilitate the movement of visitors.

Needless to say, the arrival in Toledo of a regular stream of tourists would be a huge boost to the southern economy of Belize and benefit the villages in the district. Normally, visitors to Belize visit other districts first and only go to Toledo if they have sufficient time and money. Making Toledo the first point of entry could have a big impact on the local economy.

8. Suppress Illegal Exports to Guatemala

Unrecorded domestic exports from Belize to Guatemala takes place mainly in goods that are themselves legal. What is illegal is the export of goods that are on a restricted list or banned altogether. This trade needs to be suppressed as a matter of urgency and it is to be hoped that the acquisition of two helicopters by GoB in 2016 will make this easier to do.

9. Facilitate cross-border payments

Since many Belizean exports to Guatemala are unrecorded, exporters of these goods prefer to be paid in Belizean dollars. These are usually purchased by Guatemalan importers in Melchor de Mencos. By contrast, imports from Guatemala – recorded and unrecorded – are usually settled in US dollars that are increasingly difficult for Belizeans to acquire.

All of this imposes barriers to trade and adds to the cost of doing business. GoB is fully aware of the problem and the visit in January of

the Prime Minister to the United States to address the problem of correspondent banks, as well as the discussion of the issue at the CARICOM summit in Placencia in February, 2016, may bring some relief. However, Guatemalan banks face similar problems to those in Belize so it is not just CARICOM countries that need to show solidarity on this issue.

A solution to the problem of correspondent banks in both countries therefore needs to be found as a matter of urgency. Indeed, it will be difficult for the value of recorded trade to increase significantly without such a solution.

10. Fiscal reform to promote exports

It is no secret that the Belizean fiscal system is not compliant with the rules of the World Trade Organisation (WTO) and that GoB was given until December 2015 to rectify the situation. In the words of the US State Department:³⁴

“Belize, along with other developing countries, has until 2015 to comply with World Trade Organization (WTO) requirements regarding Fiscal Incentives, Export Processing Zones, and Commercial Free Zones. The government is exploring various models that would bring the country into compliance.

Regulations require that incentives granted to an enterprise be awarded based on the investment’s socioeconomic contributions to the Belizean economy: employment creation, transfer of skills and technology, and foreign exchange earnings or savings. All approved projects must benefit the public and must fit within the government’s overall development plan. However, the WTO does not allow for incentives to be issued based on export performance as such a program hinders free trade.”

The deadline for fiscal reform was not met and negotiations are going on, with the assistance of the IADB and other external institutions, to see how the fiscal system can be reformed to make it WTO compliant.

³⁴ See <http://www.state.gov/e/eb/rls/othr/ics/2013/204602.htm>

GoB believes that it is being unfairly pressured by outside bodies on the grounds that they are using fiscal reform in order to promote their own agenda of trade liberalization. There may be some truth in this, although it is always difficult to be sure unless one is a participant in the negotiations.

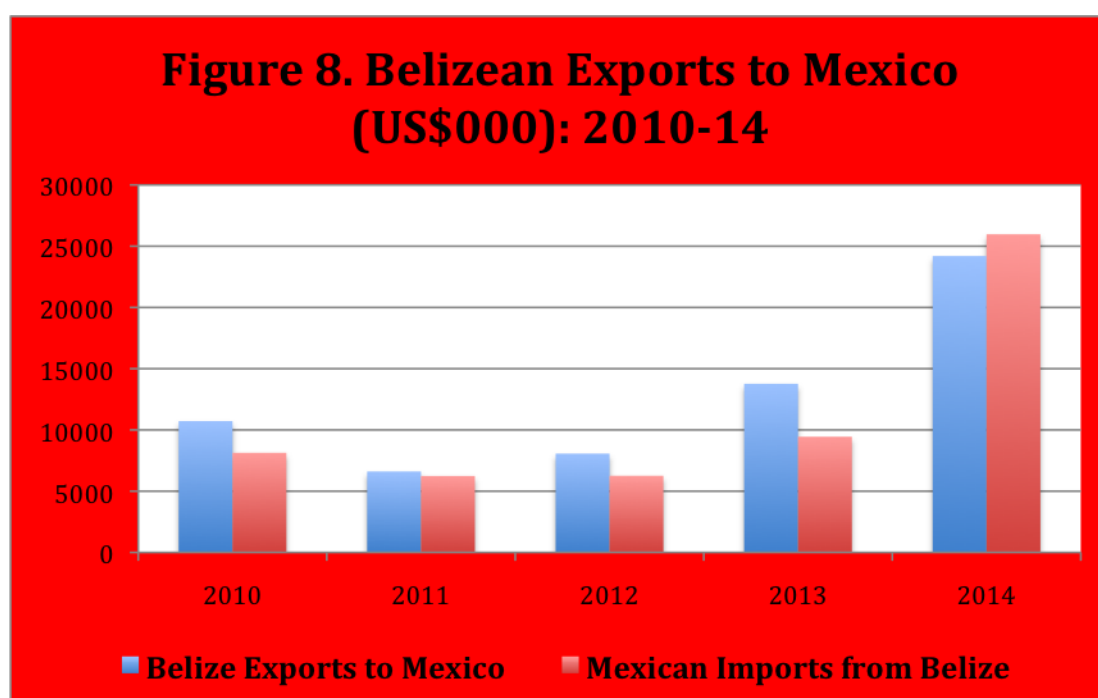
What is important is that the fiscal reform, when implemented, should promote domestic exports of goods and services. The danger is that making the fiscal system WTO compliant by eliminating or reducing some of the subsidies to exports ends up making domestic exports more expensive.

Import tariff reduction is a favorite target of external institutions, but this is not likely to help exports very much. Not only is GoB very dependent on tariff revenue, but also the direct impact of tariff reductions on imports from Guatemala would far exceed the indirect impact on exports to Guatemala. The reason is that all actual and potential domestic exports are primary goods and use relatively few material inputs while service exports, especially tourism, are not particularly price sensitive.

GoB should therefore proceed with caution on fiscal reform and resist being pressured into actions merely to meet the preferences of external institutions. Action has to be taken and must be WTO compliant, but it is for GoB to decide what is acceptable and not other outside bodies. As Belize is a very small economy, it is possible that the WTO will accept less radical steps than would be required of a larger country. Small is sometimes beautiful.

VIII. VIII. Belize Trade with Mexico

Mexico is the other country with which Belize shares a territorial border. The frontier is well-defined and the sole official border crossing has been upgraded. As with Guatemala, however, there is assumed to be a large unrecorded trade and there is as yet no PSA. Relations between the two countries are cordial and Belize City recently twinned with Chetumal.



Source: UNCTAD

Belizean merchandise exports to Mexico are much larger than those to Guatemala. After falling from 2010 to 2011, merchandise exports then expanded rapidly between 2011 and 2014 (see Figure 8). As with Guatemala, there are discrepancies between the value of Belizean exports to Mexico and the value of Mexican imports from Belize, but the differences are not enormous. However, it is puzzling that Mexican imports (valued cif) are lower than Belizean exports (valued fob) in every year except 2014. We would expect the opposite.

Unlike what happens with Guatemala, most Belizean exports to Mexico are domestic rather than re-exports (goods sold through the CFZ are not included in Figure 8). Belizean merchandise exports to

Mexico in 2014 were 4.1 per cent of Belize's total exports (including CFZ sales), 6.8 per cent of Belize's total exports (excluding CFZ sales) while Belizean domestic exports to Mexico in that year were 8.6 per cent of all Belize's domestic exports.

This might appear to be a very encouraging picture, despite the absence of a formal PSA between the two countries, but the underlying picture is less positive as Belize's exports to Mexico consist almost entirely of shrimp (between 79.4 and 98.5 per cent of Belize's domestic exports to Mexico between 2010 and 2014). The growth in Belizean recorded exports to Mexico in those years was therefore entirely due to one product. And when shrimp sales to Mexico collapsed in 2015 due to disease, the share of Belize's domestic exports going to Mexico fell to 4.1 per cent in 2015 (see Table 8).

Table 8. Belizean Domestic Exports to Mexico, 2010-5 (BZ\$mnn)

	2010	2011	2012	2013	2014	2015
Value	14.69	11.48	8.94	24.7	53.03	21.98
% of total	2.7	1.7	1.3	3.7	8.6	4.1

Source: SIB (2016)

Belizean imports from Mexico are much more important than Belizean exports to Mexico. However, there is a big discrepancy between the value of Mexican exports to Belize and Belizean imports from Mexico reported in international sources with the former being much larger despite the fact that we would expect the opposite since exports are valued fob and imports cif. I have therefore used the data from SIB (see Figure 9), which include 2015 and show a big increase between 2010 and 2013 without much change subsequently.



Source: SIB (2016)

The most important Belizean import from Mexico is electricity. The international sources give very different values, so I have used the information in the Annual Report of BEL. This gives the volume imported from Corporación Federal de Electricidad (CFE) in Mexico, but not the value. I have therefore applied the average cost of power reported in the BEL Annual Report. The figures are given in Table 9 and the estimated value of electricity imports represents around one-quarter of the value of total imports from Mexico.

Table 9. Imports of Electricity from Mexico to Belize: 2013-14

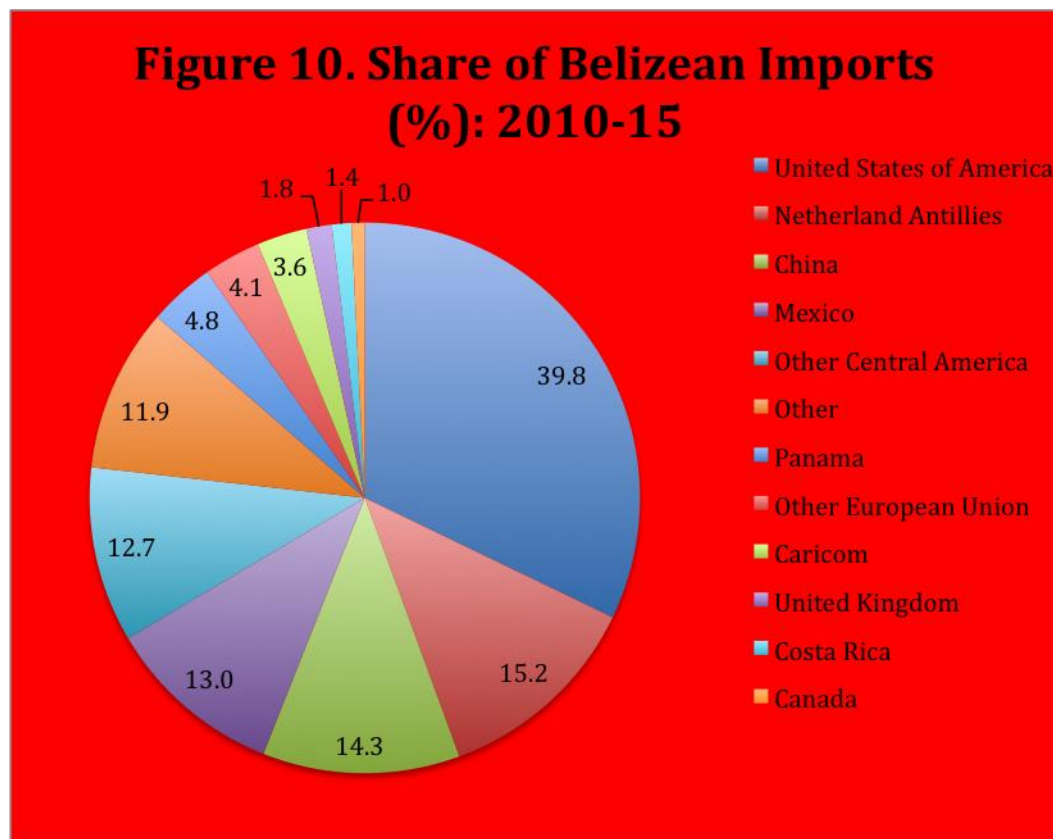
	2013	2014
MWH imported from CFE by BEL	234070	233151
Total MWH purchased by BEL	550953	566192
Total Cost of electricity purchased by BEL(BZ\$mn)	113.2	118.1
Cost per MWH (BZ\$)	205.5	208.7
Cost per MWH (US\$)	102.7	104.3
Cost of Imports from CFE (US\$000)	24047.54	24324.31

Source: BEL (2015)

In addition to purchases of electricity from Mexico, Belizean imports of importance consist of feeding stuff for animals, iron and steel products and many other manufactured goods. However, Belize also imports (in excess of US\$1,000,000) edible products, vegetables and cereal preparations.

Using only Belizean sources, the importance of imports from Mexico as a share of gross imports has averaged 13 per cent since 2010 (see

Figure 10). This makes Mexico one of the most important sources of imports from Belize after the US and comparable to China and Central America.



Source: SIB (2016)

Mexican exports to Belize, however, are a negligible proportion of total Mexican exports. They do not even reach one tenth of one per cent. The reason, of course, is that Mexico is a global exporter of the highest rank with exports now reaching nearly \$400 billion per year.

IX. Main Barriers to Trade with Mexico

In the case of trade between Belize and Mexico, it is necessary to distinguish between recorded and unrecorded merchandise trade, electricity purchases, sales from the CFZ near Corozal to Mexicans, other re-exports and trade in services. It is also worth noting that a large part of the unrecorded commerce between the two countries consists of Belizeans going across the border to Chetumal to do their shopping. In addition, some Belizeans have found a way of accessing the CFZ near Corozal, the legality of which is highly dubious.

The value of recorded Belizean domestic exports to Mexico is greater than that of Belizean domestic exports to Guatemala. However, it consists essentially of one product (shrimp) with other products either of negligible importance or subject to high volatility (papayas, for example, have been an important domestic export in some years but not others).

There is no PSA with Mexico, although one is under consideration. This means that Belizean products face tariff barriers not faced by competitor countries that have free trade agreements with Mexico. This includes all of Central America, the United States, Canada and many other countries. This puts Belizean exporters at a disadvantage except in those products subject to zero tariffs. However, the agricultural products from Belize of interest to Mexico are all subject to tariffs.

Belize and Mexico did sign in September 2015 a Memorandum of Understanding (MOU) to foster trade and investment between the two countries.³⁵ It establishes a formal relationship between the Belize Trade and Investment Development Service (BELTRAIDE) and ProMéxico. It is too early to evaluate the impact, but it is unlikely to have much effect on domestic exports from Belize. It is more likely to be of benefit in the promotion of cross-border investment.

As with Guatemala, there is an unrecorded trade in domestic exports. This consists of goods that cross the Río Hondo at a series of

³⁵ This was part of a broad range of bilateral agreements covering such things as educational exchanges, environmental cooperation and technical assistance. Altogether 13 agreements were signed with four more under discussion.

disembarkation points and are known to include cattle, basic grains and meat products. It is not possible to estimate the value with any accuracy, but elsewhere in this report I have estimated the value of unrecorded cattle exports to Mexico at US\$750,000 and of unrecorded maize exports at US\$250,000.³⁶ This gives a figure of US\$1 million for cattle and maize alone and we can double this to US\$2 million (BZ\$4 million) to give a rough estimate of all unrecorded exports.

Belize receives a number of visitors from Mexico, although much less than in the case of Guatemala, and some of these are tourists in the conventional sense. However, these overnight visitors constitute only two per cent of the total. There are also very few – if any – Mexican children that cross the border each day to go to school. Belizean companies export some transport services to Mexico, but it is probably safe to assume that Belizean service exports to Mexico constitute only a small proportion of total service exports and probably less than Mexico's share of domestic exports.

As with Guatemala, Mexico is increasingly important as a source of cross-border investment – especially in the tourism sector. Indeed, some of the most important recent investments in hotels have been made by Mexican groups. As close neighbors of Belize, they are aware of developments and are among the first to take advantage of opportunities. In addition, they have access to funding at much lower rates than Belizeans. By contrast, there are very few cross-border investments by Belizean companies in Mexico.

The lack of a PSA is a significant barrier to the expansion of domestic exports to Mexico. It has been under discussion for many years, but there is no sign of a final agreement. There are undoubtedly goods that Belize could sell to Mexico if tariff barriers were reduced or even eliminated. Examples are livestock, fruits, vegetables, basic grains and beer. Even if Belizeans exporters confined themselves to Quintana Roo, Mexican imports are very important. The state has many cities with populations much larger than the whole of Belize and transport connections are good.

Non-tariff barriers are often mentioned as a possible obstacle to increased trade. This is a legitimate observation and the use of phyto-

³⁶ See Sections V and VII.

sanitary measures by customs officials can be a problem. A PSA would not entirely resolve the problem, but it would certainly help. It would also make it easier for Belizean exporters to seek help in those cases when their exports are blocked.

The potential of Mexico as a trade partner for Belize in goods and services is enormous. Mexico's population is seven times bigger than Guatemala and its GDP per head is higher. Its imports are also much higher than those of Guatemala on a per capita basis. The bilateral relationship is very cordial and there is a desire on both sides to see closer cooperation. It is an enormous opportunity for Belize.

X. Actions to be taken in relation to Mexico

The absolute value of merchandise trade with Mexico is larger than with Guatemala, but is still much lower than is considered desirable by the Belizean authorities, especially with regard to domestic and service exports.

Belizean exporters of domestic goods are at a severe disadvantage in respect of Mexico in view of the absence of a PSA. Mexico has free trade agreements with almost every country on the mainland of the Americas and also with many countries outside the region. Thus, the playing field is not level for Belizean exporters.

Some of the recommendations for action to be taken in relation to Mexico are effectively the same as for Guatemala. To avoid repetition, the reader will be referred to the relevant part of the previous section where appropriate.

1. Finalise a PSA

The first action to be taken is to complete negotiations for a PSA. This is almost a *sine qua non* since without a PSA it is very difficult for Belizean exporters to compete. A PSA with Mexico is in many ways more important than the one with Guatemala, since the Mexican market is much bigger, the transport links are much better and the bilateral relationship is very cordial.

The Belizean authorities initially wished to restrict the agreement to goods only (as is the case with Guatemala). Recently they have indicated a willingness to include services, but not investment. This is due to a natural sense of caution on the Belizean side as a result of the lack of experience with free trade agreements. The Mexican authorities wish to include services and investment, which is the case with the free trade agreements they have signed with many countries.

Negotiations for a PSA have been delayed not only by the difference in approach of the two sides, but also by the priority given by Mexico to negotiations for a Trans-Pacific Partnership (TPP). Those negotiations have now ended and the Mexican side has indicated a

willingness to restart talks with Belize. It is very much in the interest of Belize to include services and investment, so that the Mexican position on this issue seems the correct one.

2. Estimate unrecorded exports

Domestic exports cross the border to Mexico at various points on the Río Hondo, although only one of these points (Santa Elena) is an official customs post. The goods exported are similar to those in the case of Guatemala, although maize and beans are less important, and the same methodology should be applied (see Section VII).

3. Record unrecorded imports

The transshipment points for unrecorded imports are all across the Río Hondo and therefore not difficult to detect. There is no need for additional customs posts as the one at Santa Elena is easily accessible and big enough to handle any increase in recorded imports. What is needed, therefore, is additional expenditure on human resources to ensure that almost all cross-border imports are routed through the official customs post.

Since there is no PSA, it is fair to assume that there is a significant loss to GoB public revenue as a result of unrecorded imports. This is probably not as big in relative terms as that with Guatemala, but it may be bigger in absolute terms. Assuming unrecorded imports from Mexico are half the recorded value (using Mexican figures), that they are subject to an average tariff of 10 per cent and that Belize secures half of the value, this is equivalent to \$US3 million (BZ\$6 million).

4. Concentrate on those domestic exports that are competitive in price

In recent years domestic exports from Belize to Mexico have effectively consisted only of shrimp. As with Guatemala, a price comparison shows that the unit price of Belizean shrimp is indeed competitive in the Mexican market (see Table 10). The same is probably true for papayas, which have sometimes been imported by

Mexico from Belize. It may also be true for maize. However, the table also shows that for other products Belize is not competitive.³⁷

Table 10. Prices for Mexican Imports, 2014

Prices (US\$ per kg)			
Product	World	Belize	USA
Crustaceans	6.35	4.05	4.90
Maize	0.23	0.26	0.23
Beans	1.06	1.41	1.06
Papayas	0.41	0.43	0.41
Orange Juice	1.05	1.87	1.05

Source: COMTRADE

Note: some of the numbers in the column for Belize are in red as they have to be estimated (Mexico recorded no imports of the three products in 2014). The numbers are therefore the average price of Belizean exports to other countries.

In the case of cattle, where there are no recorded Belizean domestic exports to Mexico, a declaration in 2016 that Belize is free of all cattle diseases can be expected to have a big impact. There would then not only be no reason not to record currently unrecorded cattle exports, but there would also be a big incentive to increase sales.

It may also be true that meat exports become competitive if and when Belize is free to export cattle to Mexico. From the Belizean perspective, it makes more sense to export the high value added products such as meat cuts rather than the cattle themselves.

5. Increase the Number of Products with an Exportable Surplus

It is just as important, as in the case of Guatemala, that Belize expands the range of its products with an exportable surplus. Thus, there is nothing to add to what has already been said in Point 5 of Section VII. However, it is worth noting that the Mexican import pattern is changing constantly as a result of its integration with the US and Canada. As Mike Singh, former CEO in the Ministry of Trade, has explained:³⁸

³⁷ Since Mexico does not import these products, the unit price is taken either from the unit price of Guatemalan imports from Belize or the unit price of Belize world exports.

³⁸ Quoted in Channel 7 News, August 27, 2015

“Mexico has grown to the point where their cost of producing primary products may not be as low as it was when they were focused on primary production. So that means their products that are being exported via NAFTA into the United States and Canada are taking up a lot of the volume. This means there is a void in their domestic market, so products like grain, cattle, meat products and shrimp are all better sourced from another country.”

There will therefore be opportunities for Belizean exporters if the country can produce a larger exportable surplus. However, that is also true for other countries so Belizean exporters still have to be competitive on price.

6. Encourage beer exports

The monopoly on beer sales in Belize enjoyed by Bowen & Bowen ended in November 2015 and Mexican beer has started to enter the market on a recorded as opposed to unrecorded basis. This also happened with imports from Guatemala, but it is Mexican beer that is making the biggest impact.

Bowen & Bowen have so far shown no interest in tackling export markets, content in their own words to have “a declining share of a growing market” in Belize. This seems very short-sighted, as there may come a point where a declining share amounts to an absolute fall in sales.

Belizean beer cannot compete on price, but it can compete on quality and build a niche market in many urban centres in Quintana Roo. There is already ample anecdotal evidence that Belizean beer is considered “cool” by many Mexicans so that Bowen & Bowen should be strongly encouraged to experiment with exports.

7. Simplify export procedures

See Point 6 in previous section.

8. Promote service exports

The number of overnight visitors from Mexico to Belize is still very small. Yet Mexicans, and there are nearly 110 million of them, enjoy

taking holidays in resorts close to Belize. Transport links are improving all the time and Belize enjoys a favorable image in Mexico even if it is seen as an expensive destination.

The Belize Tourist Board will need to work with the hoteliers and travel companies to come up with imaginative solutions. Belize will never be a cheap destination for Mexicans, but there are many who could easily afford to add a few days in Belize to their vacations on the Yucatán peninsula.

Currently only one rental company in Mexico (American Rent a Car) allows its cars to be taken across the border to Belize. This can be a source of frustration for those renting from other companies.³⁹ If all rental companies in Quintana Roo authorized drivers to take their cars to Belize, there would be a significant increase in overnight visitors.

9. Facilitate cross-border payments

See Point 9 in previous section.

10. Fiscal reform to promote exports

See Point 10 in previous section.

³⁹ Crossing the border in March, I witnessed an exasperated Polish couple turned back by Belizean officials and forced to return to Mexico as they had rented from the “wrong” company. They naturally blamed the Belizean authorities, not realizing that the target of their ire should have been the rental companies in Mexico.

XI. Summary and Conclusions

Belize needs to raise its long-run rate of growth of GDP per head if it is to meet the aspirations of its people and put external debt service on a more sustainable path. Export growth is the easiest and safest way to achieve this. Expanding trade, especially exports, with Guatemala and Mexico should be seen in this context.

This report concentrates on trade with Guatemala and Mexico. When re-exports are stripped out, what is striking is the low level of recorded domestic exports to both countries, the massive imbalance in the bilateral trade in goods and the complete absence of evidence on trade in services.

Not only is the value of recorded domestic exports to both countries very low, but it is concentrated in one or two products. Shrimp exports dominate sales to Mexico and are very important in sales to Guatemala. The shrimp industry, however, is susceptible to disease and Belize is no exception. Indeed, sales collapsed in 2015 leading to a drop in the already low value of domestic exports to both Guatemala and Mexico.

The value of unrecorded domestic exports to Guatemala is estimated at US\$3.5 million. This is similar to the value of recorded domestic exports in 2015. For Mexico it is estimated to be smaller in absolute terms (around US\$2 million), which is equivalent to 18 per cent of recorded exports in 2015. Thus, the level of domestic exports (recorded and unrecorded) is not perhaps as low as first appears, but it is still disappointing. And the assumed list of unrecorded domestic exports is also very limited and confined to a small number of agricultural goods.

This report identifies the major barriers to enhanced trade, especially exports of goods, with Guatemala and Mexico. It also identifies a series of steps that can be taken in relation to both markets that – at relatively low cost – could increase exports of goods (increasing imports is less important as these are already large and in line with what one might expect from geographical proximity).

It may well be the case, however, that the best prospects for increasing trade with Guatemala and Mexico are through exports of services rather than goods. Exports of services are not as price sensitive as exports of goods and Belize has enjoyed considerable success in exporting services in recent years. Yet it is difficult to see how Belize can make much progress without revising the PSA with Guatemala to include services and without concluding a PSA with Mexico that also includes services.

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