



# **Belize's Regional Integration Options**

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## Acronyms

ACP	Africa, Caribbean, Pacific
BAHA	Belize Agricultural Health Authority
BCIE	Banco Centroamericano de Integración Económica
BELTRAIDE	Belize Trade and Investment Development Service
CACM	Central American Common Market
CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARIFTA	Caribbean Free Trade Area
CBB	Central Bank of Belize
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CCJ	Caribbean Court of Justice
CET	Common External Tariff
CFZ	Corozal Free Zone
CSME	Caribbean Single Market and Economy
CXC	Caribbean Examinations Council
DR	Dominican Republic
EC	European Community
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
ICT	Information and Communications Technology
ISI	Import-Substituting Industrialisation
LDC	Less Developed Country
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organisation
PSA	Partial Scope Agreement
PTA	Preferential Trade Agreement
PUP	People's United Party
SICA	Sistema de Integración Centroamericana
SME	Small and Medium-Sized Enterprise
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
WDI	World Development Indicators
WTO	World Trade Organisation

## **I. EXECUTIVE SUMMARY**

One of the most common responses to globalization has been the strengthening of regional institutions. Countries use regional integration as a means to promote their interests at the same time as globalization erodes their national sovereignty. The basis of integration is intra-regional trade and functional cooperation in other areas is usually related to the strength of trade relations.

Belize forms part of three regions: the Caribbean, Central America and Mexico. Yet it is not fully integrated into any of these three regions despite forty years of membership in CARICOM and close geographical proximity to Central America and Mexico.

This has not always been the case. Nearly two hundred years ago, Belize was closely integrated with Central America. Indeed, Central America was for several decades its main trade partner. It became closely integrated with Mexico in the second half of the 19<sup>th</sup> century through trade and migration flows. It has never, however, been closely integrated with the Caribbean.

The reasons for the failure of close integration with the three regions today are complex. Some of these are economic, but others are political. In particular, the territorial and maritime controversy with Guatemala has cast a long shadow over Belize's integration into Central America.

The global environment is changing and Belize's privileged access to its two main export markets (the European Union and the United States) is being eroded. This is therefore an appropriate moment to re-evaluate the potential of integration into the three regions to which Belize belongs.

Belize now has the potential to export agricultural and agro-industrial goods that were beyond its capacity as little as ten years ago. It also has potential in non-tourism service exports. Its engagement with the world economy no longer needs to be confined largely to a handful of traditional exports and tourism.

Of the three regions, fuller integration into the Caribbean is the most problematic. Belize has participated fully in CARICOM since its launch in 1973, but CARICOM remains of marginal importance to Belize. Functional cooperation has also been taken as far as is realistic in view of the low level of intra-regional trade. CARICOM is facing difficulties and is currently re-evaluating its existing arrangements. Belize does not want to leave CARICOM nor does it need to do so, but a resolution of the current impasse requires action by all member states – not just Belize.

Fuller integration with Central America is more promising. A Partial Scope Agreement (PSA) with Guatemala went into effect in 2010, another PSA is planned with El Salvador and there is the possibility of a third with Honduras. However, Belize's trade with Central America (excluding crude oil exports to Costa Rica) is heavily concentrated on Guatemala and is likely to remain so. Successful integration with Central America is therefore very dependent on the bilateral relationship with Guatemala, which – despite the potential for increased trade - is clouded by non-economic considerations.

Part of the trade between Belize and Guatemala is unrecorded. This does not necessarily result in a loss of tax income as much of this unrecorded trade would not be subject to customs duties any way. However, it makes it hard to evaluate the success or otherwise of the PSA with Guatemala. Establishing improved infrastructure links with Guatemala, including roads and bridges, is therefore an important priority in order both to promote regional integration and to record more effectively current trade flows.

If trade with Central America grows rapidly, increased functional cooperation with Central America – in education, health, climate change mitigation, disaster risk management and security – is a distinct possibility. Indeed, there are areas where functional cooperation could improve even without much change in trade flows. In particular, Belize is not yet taking full advantage of all the regional institutions, such as Banco Centroamericano de Integración Económica (BCIE), to which it belongs.



Fuller integration with Mexico offers the greatest possibilities and without the non-economic complexities that affect relations with Guatemala. Leaving aside the Corozal Free Zone (CFZ), Belizean exports to Mexico are far below what they should or could be. The proposed PSA with Mexico offers Belize considerable opportunities to enhance trade with its northern neighbour. If it works well, Belize might even consider a full Free Trade Agreement with Mexico.

The PSA with Mexico should not be as restricted as with Guatemala. It needs to include services and investment. Those Belizean producers traditionally protected in the domestic market must also learn how to compete more effectively with imports from neighbouring countries.

## II. INTRODUCTION

It has long been recognized by all governments in Belize that the country cannot escape being heavily dependent on exports for its economic prosperity. Belize's population (less than 350,000) is still too small to provide a profitable domestic market for many producers of goods and services. At the same time, the demand for imports is high as a result of the level of income per head and the impact on consumption patterns of advertising, remittances and foreign travel. Exports of both goods and services are seen as the only way to solve this conundrum in a sustainable way.

This is recognized in recent official publications. These include Government of Belize, *Medium-Term Development Strategy 2010-13* (2010), Ministry of Foreign Affairs and Foreign Trade, *Bridging the Gap in Development Assistance: Belize's Aid for Trade Strategy* (2011), Government of Belize, *Final Report Preparing Horizon 2030* (2011) and BELTRAIDE, *National Export Strategy* (2013). It is confirmed by the in-depth study of the World Trade Organization (WTO), *Trade Policy Review Report of Belize* (2010). It is also reflected in the transfer of foreign trade from Belize's Ministry of Foreign Affairs to a more logical home in the Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection. All this suggests a high degree of consensus on the importance that needed to be given to foreign trade.

Because of this bipartisan policy, priority has been given to exports for many years. As a result, the ratio of exports of goods and services to Gross Domestic Product (above 50 per cent) is high by world standards. Even if the comparison is limited to countries with a population of less than one million, the export ratio compares favourably with what might be expected from cross-country comparisons.<sup>1</sup> It may be argued that this ratio flatters Belize because exports in the database used include sales from the Corozal Free Zone (CFZ), but their exclusion still leaves the country with an export ratio above what might be expected from cross-country comparisons. It is only if exports of goods and services are defined to exclude not only CFZ exports but also

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<sup>1</sup> Using the average export ratio from 2002-11 as the dependent variable, population and GDP per head (in current dollars) from 2002-11 as the independent variables and limiting the analysis to those countries in the World Bank database (World Development Indicators - WDI) with populations of less than one million, the 'estimated' value of the ratio for Belize is 42.5%. The actual value was 53.4%.

petroleum exports that Belize’s ratio looks less than impressive. This, however, is unnecessarily restrictive in view of the potential for oil exports to continue.

There is therefore no reason to argue that Belize is under-performing in terms of the ratio of exports of goods and services to GDP, taking into account the size of its population and its GDP per head. No doubt, the ratio could be higher and there would be much celebration if it was. However, Belize is not an ‘outlier’ as far as this ratio is concerned. Instead, what stand out are three different features of the export performance.

The first is the peculiar pattern of Belizean exports by destination. As Table 1 shows, the share of merchandise exports going to two neighbouring countries or regions (Mexico and CARICOM) is very low.<sup>2</sup> The share going to Central America is much higher, but this is misleading as it is dominated by exports of crude oil to a refinery in Costa Rica. If this is excluded, the share going to Central America is also very small (see Table 1). Indeed, the three neighbours together – Central America (excluding oil to Costa Rica), CARICOM and Mexico – accounted in 2011 for only around ten per cent of Belize’s merchandise exports.

**Table 1. Percentage Distribution of Belize’s Merchandise Exports by Country/Area, 2010-2011**

Partner	000 US\$		Percent	
	2010	2011	2010	2011
United States	170,880	227,124	48.3	56.9
UK	71,186	66,517	20.1	16.7
Rest of EU	14,836	9,005	4.2	2.3
CARICOM	17,472	25,802	4.9	6.5
CACM	53,864	25,914	15.2	6.5
CACM (excluding oil to Costa Rica)	8,047	7,985	2.3	2.0
Mexico	8,756	7,757	2.5	1.9
Canada	714	1341	0.2	0.3
Other	15,976	35,389	4.5	8.9
Total	353,684	398,849	100	100

Source: IDB INtrade/DataINTAL

<sup>2</sup> I have generally used the IDB/INTAL trade database as it provides disaggregated data by partner country and product. However, it should be noted that the figures for 2011 are different to those in the most recent Annual Report of the Central Bank of Belize, which imply that exports to Central America (including crude oil) fell to 0.8%. See Central Bank of Belize (2012), Table A.27, p.67. This must, however, be a mistake as it implies that crude oil sales were diverted from Costa Rica to another country in 2011 and that was not the case.

The figures in Table 1 require some further explanation. This time, they exclude sales from the CFZ, which no doubt helps to explain the low figure for Mexico, and they do not include exports of services. However, using overnight tourist visitors as a rough proxy for the destination of service exports, it is clear that their inclusion would make little difference since most of these tourists come from North America and the European Union. Thus, the striking feature about Belize's export performance is the small proportion that goes to the neighbours: CARICOM, Central America (excluding crude oil to Costa Rica) and Mexico.

Why is this a puzzle? The reason is that it is normal for countries to export to their neighbours. As a result of geographical proximity and lower transport costs, countries that are neighbours tend to be familiar with each other's markets and to be among the first to spot the new opportunities. They often speak, or at least understand, each other's languages. Furthermore, migration flows are usually strong between neighbours, providing a further link that can stimulate exports. And when visible trade between neighbours is strong, a virtuous circle is formed as a result of improved infrastructure links, functional cooperation across a wide-range of issues and a complementary flow of service trade in sectors such as energy and telecommunications.

One of the most powerful weapons in the economist's armoury is the 'gravity flow' model. For any country, this looks at the statistical relationship between the bilateral exports of that nation (the dependent variable) and a series of explanatory variables for each partner that include population, geographical proximity, common borders, shared language and whether a Preferential Trade Agreement is in force or not. Almost without exception in these studies, the value of bilateral exports has a strong **negative** correlation with the distance from the partner while there is a strong **positive** correlation in the case of a common language.

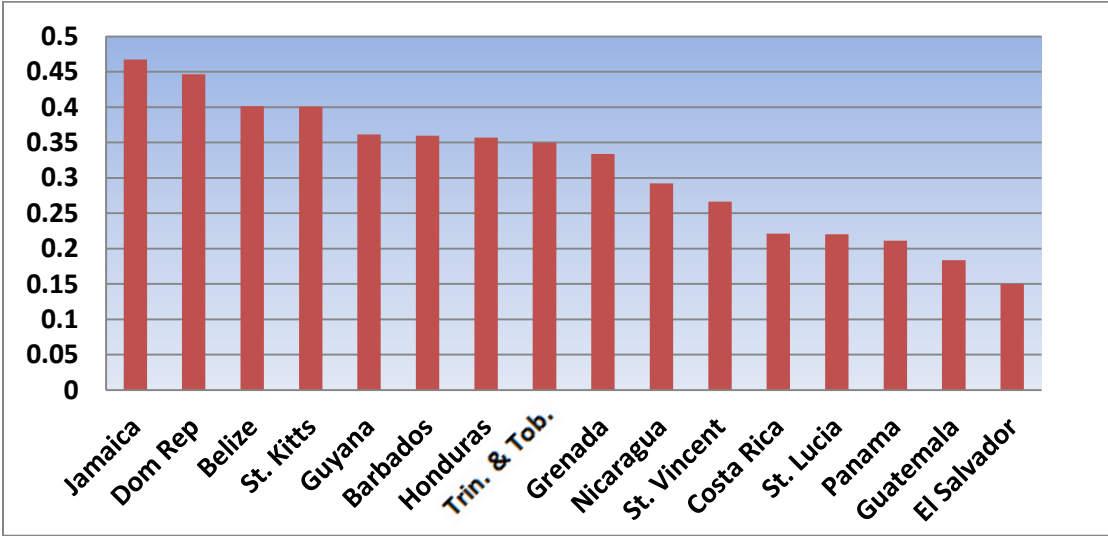
Belize is geographically close to Central America and Mexico and shares a common language with most CARICOM countries. Indeed, given the widespread use of Spanish in Belize, it could be argued that Belize shares a common language with Central America and Mexico as well. It might therefore be expected that Belize would have strong export ties with its neighbours. Yet, as Table 1 shows, it does not. And as a result of the weakness of the export links, the virtuous circle referred to above is lacking. The infrastructure links with the neighbours

are poor, service exports are very limited and functional cooperation is not as great as it could or should be.

As we will see in the next section, there are historical and political reasons for this state of affairs. These obstacles should not be exaggerated, however, and there is scope for improvement. With luck, this will lead not just to a realignment of exports from more distant markets to closer ones, but also to an increase in overall exports with a rise in the ratio of exports of goods and services to GDP. This in turn will ease the pressure on Belize’s balance of payments.

The second striking feature about Belizean merchandise exports is the small number of products that account for the bulk of sales. Since, in addition, service exports (equivalent in value to merchandise exports) are dominated by one ‘commodity’ (tourism), it is clear that Belize has a highly concentrated export structure. This is confirmed by Figure 1, which compares Belize with other independent countries in the Caribbean and Central American regions by looking at the concentration ratio in 2011 for merchandise exports.<sup>3</sup>

**Figure 1. Export Concentration Index, 2011**



Source: IDB INtrade/DataINTAL

<sup>3</sup> The index, based on the Herfindahl index of market concentration, has a maximum value of one and a minimum of zero. The higher the index, the more concentrated are merchandise exports on a small number of products. Service exports cannot be included as their destination is not reported by any of the countries in Figure 1.

In Figure 1 Belize is ranked third out of 16 countries. Only Jamaica and the Dominican Republic have a higher concentration ratio when it comes to merchandise exports. If it be argued that Belize has a small population and therefore can expect to export only a few products of significant value, it is worth pointing out that many of the countries with a lower concentration ratio (e.g. Barbados) have a similar or even smaller population than Belize. Thus, Belize not only exports very little to its neighbours, it also exports a very small number of goods to the world.

The third striking feature of Belize's performance is that the bulk of merchandise exports come from only a handful of relatively large companies.<sup>4</sup> Indeed, in some products or product groups only one company is involved. Small and Medium-Sized Enterprises (SMEs) are barely involved in merchandise exports from Belize. Given that the bulk of goods exports go to the rich countries of Europe and North America, this is not surprising. However, it means that SME involvement in goods exports is tiny. Indeed, SME involvement in exports is largely confined to tourism.<sup>5</sup>

This helps to explain the 'export pessimism' of much of the business community in Belize. Merchandise exports are highly concentrated in a small number of products each of which is shipped by very few firms. Many companies in Belize, including some big ones, are not involved at all in merchandise exports. And many service providers, large and small, are not involved in exports either. The main exceptions are travel and financial services, where a large number of big companies operate. It is only in eco-tourism that SMEs are involved in a significant way, although it is true that a number of SMEs are indirectly involved as suppliers to large exporters.

Regional integration cannot solve all these problems. If a way is found to increase merchandise exports to the neighbours, it will almost certainly require an expansion in the range of products sold by Belize. The same is true of service exports. However, ensuring that SMEs, which account for the bulk of employment in Belize as everywhere else, participate in this expansion is much more difficult. The obstacles facing SMEs in goods exports are formidable,

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<sup>4</sup> There is no survey data to show this. However, it is widely believed and well supported by anecdotal evidence.

<sup>5</sup> SMEs in Belize are very good at tourism. While this Report was being prepared, Trip Advisor announced that Belize had won its 2013 award for small hotels.

although they are surely less when exporting to the neighbours than to the rest of the world. This needs to be taken into account when designing a strategy for regional integration.

### **III. BELIZE AND ITS THREE REGIONS**

All countries belong to regions. Usually, these regions are geographically close since territorial proximity is often the defining feature. Angola, for example, is part of Southern Africa; Jordan of the Middle East; Paraguay of South America; and so on. However, some regions are not so ‘natural’ and are geographically highly dispersed. A recent example is the Asia-Pacific region, which did not exist as a ‘region’ 30 years ago. As a result, countries can belong to more than one region. Thus, Spain is part of Europe, but it is also part of Iberoamerica.

Belize is unusual in that it belongs to no less than three regions.<sup>6</sup> Geographically, it is part of Central America and shares a land border with Guatemala and maritime borders with Guatemala and Honduras. It also shares a land and maritime border with Mexico. Given that Mexico is part of North America, it could be said that Belize is part of the same region. However, Mexico is so large that it is better to think of Mexico as a region in its own right to which Belize also belongs. Finally, Belize is part of the Caribbean, which is defined here as all the islands plus Belize and the three Guianas.<sup>7</sup>

When British logwood cutters and their slaves first settled in Belize, relations with what are today Central America and Mexico, both at that time under Spanish control, were hostile. Trade was forbidden and conflict was frequent up to the last Spanish attack in 1798. Belize, however, also had very little contact with the British West Indies at that time, yet alone the rest of the Caribbean, since it did not become a British settlement until 1763 nor a British colony until 1862 – by which time it was of little interest to the United Kingdom.

The first of the three regions with which Belize established close ties was Central America. This started with the legalization of trade by the Spanish authorities in 1819 in the

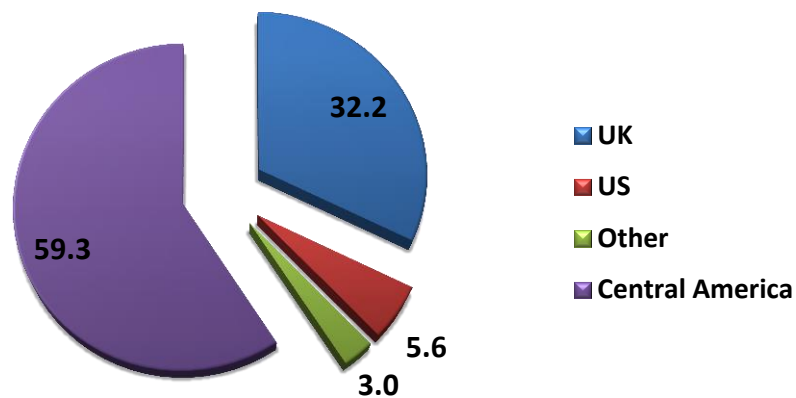
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<sup>6</sup> Belize is also part of the British Commonwealth and many other international organizations, but these are not ‘regions’ in the usual sense.

<sup>7</sup> See Bulmer-Thomas (2012), Chapter 1, for different definition of the Caribbean.

dying days of the Audiencia de Guatemala<sup>8</sup> and was soon followed by an explosion of the entrepôt trade between Belize (then the British Settlement in the Bay of Honduras) and Central America (at that time the United Provinces of Central America).<sup>9</sup> Central America's imports of manufactured goods, mainly of British origin, were shipped through the merchants of Belize and Central America's exports of commodities, mainly to the UK and US, also passed through Belize.

**Figure 2. Belizean Merchandise Exports (%), 1820-1850**



Sources: Derived from Bulmer-Thomas (2012) and Bulmer-Thomas (2012a)

This entrepôt trade was so important before 1850 that it dwarfed Belize's exports of domestic products (mainly logwood and mahogany). As a result, most of Belize's merchandise exports<sup>10</sup> went to Central America (see Figure 2). For the period 1820-50, the proportion was almost 60 per cent, a figure that has never been surpassed and perhaps never will be. Yet what is even more intriguing about this period is that the intense trade ties with Central America were controlled by Belizean merchants and took place despite the absence of roads or railways.

How was this possible? The answer is that Belizean merchants were quick to develop the means of communication and infrastructure links needed to exploit this new opportunity. Belize developed a thriving ship-building industry that was ideally suited to the shallow coastal waters and narrow rivers through which the commerce had to pass. In other words, trade was the driving

<sup>8</sup> This was the administrative unit set up by Spain for all Central America (including at that time Chiapas).

<sup>9</sup> Central America became independent from Spain in 1821, but was immediately annexed to Mexico. It became independent of Mexico in 1823 as the United Provinces of Central America (after losing Chiapas). This collapsed in 1838, after which the five member became independent republics.

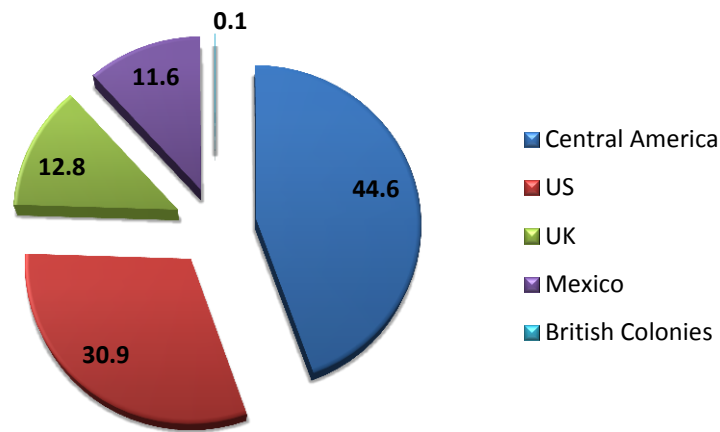
<sup>10</sup> Defined as the sum of domestic exports and re-exports.



force to create the non-trade linkages that today we would define as ‘functional cooperation’. Without the trade stimulus, the non-trade linkages would never have been developed.<sup>11</sup> The Belizean merchants were also very successful at lobbying for special treatment of the commerce by the British authorities.

With the opening of the Panama railroad in 1855 and investments in ports in Central America, the Belize-Central America trade declined in importance in the second half of the century. It did not disappear, however, and it was joined by a thriving entrepôt trade between Belize and Mexico (the forerunner of the Corozal Free Zone?). Thus, Belize was integrated into the second of its three regions in the late 19<sup>th</sup> century (see Figure 3). This time, the re-exports consisted not just of British manufactured goods, but also foodstuffs for the Belizean logging camps on the Mexican side of the border. There was also a strong contraband trade in weapons with Belizean merchants supplying the protagonists in Yucatán’s Guerra de Castas (1847-1901). Thus, integration with Mexico took place despite the civil war in the neighbouring country and despite the fact that the border with Mexico was not defined until the Anglo-Mexican Treaty of 1893.<sup>12</sup>

**Figure 3. Belizean Re-exports (%), 1879-1888**



Source: Derived from Bristowe and Wright (1890)

<sup>11</sup> The richest man in Belize, Marshall Bennett, took this to its logical conclusion and moved his whole commercial operations to Central America in 1829 where he was able to lobby the Central American authorities for favorable treatment. See Naylor (1988).

<sup>12</sup> Until then, Mexico claimed the whole of Ambergris Caye.

What about the Caribbean (the third region)? It is perhaps no surprise that there was no trade (including entrepôt commerce) before Belize became a British colony in 1862. What **does** surprise is that there was virtually no trade of any description before the end of the Second World War with the British West Indies and none at all with the rest of the Caribbean. As a result, Belize was on the margins of the first tentative steps towards (British) Caribbean integration that took place with the foundation of the West Indies Cricket Board (1921) and the University of the West Indies (1948). Indeed, when Belize was proposed in the 1948 Evans Commission, along with British Guiana, as a destination for migration from the rest of the British Caribbean, there was overwhelming hostility and the idea was dropped.<sup>13</sup> Belize also never joined the short-lived West Indian Federation (1958-62).

The lessons from this brief history are very clear. Without a solid foundation of trade, there can be no regional integration as it is understood today.<sup>14</sup> With a solid foundation, ways will be found to overcome obstacles in the path of non-trade cooperation. And it does not seem to matter if the trade is based on domestic exports or re-exports. Thus, if Belize today wants to be integrated more fully into any or all of the three regions to which it belongs, it will have to find ways of increasing intra-regional commerce – especially intra-regional exports of goods and services.

#### **IV. AN ASSESSMENT OF REGIONAL INTEGRATION**

Although Belize is a member of three regions, it has never been successfully integrated in all three at the same time. Indeed, there have been long periods when it has not been integrated into any of the three regions. This might not matter if the other markets to which it exports goods and services held out excellent prospects. However, as we shall see, that is not the case today. Thus, the absence of close ties to the three regions is a problem while closer ties represent an opportunity.

At present, as Table 1 makes clear, Belize does not have close export ties with Central America (if exports of crude oil to Costa Rica are excluded) or Mexico. The table refers to the

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<sup>13</sup> See Evans Commission (1948).

<sup>14</sup> There are, of course, exceptions as functional cooperation between Cuba and the United States in a number of specialized areas shows. However, this is not regional integration in any meaningful sense.

destination of merchandise exports, but – as argued above – other dimensions of regional integration tend to be complementary to trade flows. Thus, infrastructure links with both regions are poor, there is little cross-border investment, virtually no trade in services and cooperation on social policies and programmes is quite limited.

At first glance (see Table 1), export links to the Caribbean – at least to CARICOM – appear much stronger. However, this is a bit misleading. The share of visible exports going to CARICOM (an average of six per cent in 2010-11) is much higher than the share of gross imports from the Caribbean (an average of 3% over the same years).<sup>15</sup> There are virtually no service exports to the CARICOM and no re-exports. Instead, there are domestic exports of a tiny number of products that go almost exclusively to Jamaica and Trinidad & Tobago. Non-trade links are not much better with little or no cross-border investment and very poor infrastructure links.

The starting point, therefore, must be a recognition that Belize is not fully integrated into any of the three regions of which it is a part, despite having been a member of CARICOM for nearly 40 years. This unhappy state of affairs is not Belize's fault. Indeed, it is necessary to explain the historical and political background in order to understand why Belize is where it is today. Fortunately, this history does not rule out a change in Belize's relationship with the three regions. Indeed, the omens are encouraging in this respect – at least as far as Mexico is concerned.

The failure of integration with Central America owes a great deal to the Anglo-Guatemalan dispute over Belizean boundaries. As we have seen, in the 19<sup>th</sup> century trade ties with Central America were very strong and there were also cross-border investments. When Guatemala in 1939 denounced the 1859 Anglo-Guatemalan Treaty, the relationship quickly deteriorated. Indeed, Guatemala closed the land border in 1948 and the British government then sent armed forces to protect the colony of British Honduras (as it was called until 1973). Belize's nationalist leaders may have admired the social programmes of the Arévalo (1945-50) and

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<sup>15</sup> Trade between Belize and CARICOM is roughly balanced in most years. However, Belize merchandise exports to all countries are much smaller than Belize merchandise imports from all countries. Thus, merchandise imports from CARICOM are a much smaller proportion of total imports than merchandise exports to CARICOM as a proportion of total exports.

Arbenz (1950-4) governments, but this admiration changed following the military coup in 1954 that ushered in over 30 years of right-wing dictatorship.

When the border was closed in 1948, Guatemala itself was not integrated with the rest of Central America. This changed rapidly after the launch of the Central American Common Market (CACM) in 1960. Because of the Anglo-Guatemalan dispute, there was no possibility of Belize being invited to join this scheme. Thus, Central American regional integration went ahead without Belize. Trade ties between Belize and Central America remained miniscule, infrastructure links were dismal and a study in the 1960s by the United Nations Economic Commission for Latin America (ECLA) concluded that Belize would gain nothing by joining anyway.<sup>16</sup>

The Anglo-Guatemalan dispute also cast a long shadow over relations between Belize and Mexico, since the northern neighbour for a long time felt obliged to give qualified support to Guatemala. It was not until the 1970s that Mexico was prepared to endorse an independent Belize and even then there were ambiguities about the nature of its diplomatic position.<sup>17</sup> However, in the case of Mexico, integration with Belize was further complicated by the import-substituting industrialization (ISI) policies followed by successive Mexican governments until the mid-1980s. Liberalising trade with its small southern neighbour made no sense under the policies of ISI. As a result, trade ties were very small, infrastructure links were weak, there were no cross-border investments and non-trade cooperation was almost unknown.

The government of the People's United Party (PUP) led by George Price before independence was therefore left with little choice but to promote integration with the Caribbean (strictly speaking the former British West Indies). Belize did not join the Caribbean Free Trade Area (CARIFTA) in 1968, but it did join its successor (CARICOM) soon after its launch in 1973.<sup>18</sup> This, however, was more to do with politics than economics since the trade links were almost invisible and the prospects for improvement in the short-term not great.<sup>19</sup> Instead, the

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<sup>16</sup> See ECLA (1968).

<sup>17</sup> See Shoman (2010), Chapter 5.

<sup>18</sup> Belize was formally admitted to CARICOM in 1974.

<sup>19</sup> At the time, the only important export from Belize to the Caribbean was pine lumber shipped to Jamaica. This trade had started after the Second World War.

PUP government needed political support for its campaign in favour of independence and knew that it could count on the unqualified support of the former British colonies in the Caribbean.

This support was indeed forthcoming and was crucial in helping Belize to win its independence in 1981. Thus, there is an emotional attachment in Belize to CARICOM which has little to do with economics and regional integration in the usual sense and everything to do with politics and a sense of obligation. At its crudest, it means that many Belizeans do not want to undermine CARICOM at a time when it is passing through a period of re-evaluation. Frustration with CARICOM, a common feeling among all member states at present, does not translate in Belize into a desire to leave the organization – unlike in some other CARICOM states where a break-up of CARICOM is not seen as unthinkable.

If all this explains why Belize is still not fully participating in the three regions, what explains the current pattern of Belize's trade where merchandise exports are overwhelmingly sold to Europe and North America? When Belize became a colony in 1862, Britain had ended imperial preference and would soon abolish all tariffs. In return, the colony applied a low tariff on imports from all sources without discrimination in favour of the UK. Not surprisingly, import trade shifted from the UK to the US, which had become the bigger of the two economies soon after its Civil War (1861-5) and was much closer geographically.

US dominance of the Belizean economy was reinforced when Belize effectively adopted the US dollar as its currency in 1894. By 1900 it supplied nearly 60 per cent of Belize's imports (compared with just over 30 per cent from the UK). The UK held its own as a market for Belizean exports, however, as these entered the British market free of duties unlike what happened in the US, although US companies were invested in Belizean exports of mahogany, chicle and bananas.<sup>20</sup>

A further shift away from the UK to the US after 1900 might well have occurred if nothing had changed. However, the UK (re)adopted imperial preference after the First World War and this was reinforced in 1932 at the Ottawa Conference. Belizean tariffs followed suit, favouring Britain and other British colonies/dominions over the US. Thus, the pattern of trade was heavily influenced not only by tariffs, but also by imperial preference and – by implication –

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<sup>20</sup> See Bulmer-Thomas (2012a), Chapter 4.

trade discrimination against countries outside the British Empire. All this was taken a step further in 1950 following devaluation of the Belize dollar (now linked to the pound sterling) and in 1951 with the adoption of the Commonwealth Sugar Act giving Belize and other producers of sugar privileged access to the British market subject to quotas.

British imperial preference, and the associated pattern of trade, was one of the main reasons why the UK did not join the European Economic Community (EEC) at its birth in 1958. When it did eventually join in 1973, Britain's membership obliged the European Community (EC), as it was now called, to adopt the Lomé Convention in 1975. This gave preferential access to the EC for former or current European colonies (mainly British and French) subject to a number of quota restrictions. The Lomé Convention, renewed many times in various forms, set the framework for Belize's exports to the European Union (EU), as it was called from 1993, for several decades and demonstrated once again the importance of tariffs, preferences and quotas in determining Belize's trade patterns.

The US was appalled by the (re)introduction of British imperial preference and attacked it ferociously.<sup>21</sup> Prime Minister Churchill had great difficulty defending it during the negotiations on post-war architecture for the global economy. Yet it survived and in 1982 the US proposed its own version of the Lomé Convention. This was the Caribbean Basin Initiative (CBI), passed into law in 1984 as the Caribbean Basin Economic Recovery Act (CBERA). Belize, as an independent country, was a beneficiary and by this time was also receiving a small sugar quota from the US following the redistribution of the US sugar quota for Cuba. The CBI and the sugar quotas reinforced the pattern of Belize's trade and allowed the US to remain a key partner both for exports and imports.

These tariffs, preferences and quotas continued for so many years that a whole generation of Belizeans grew up thinking they would be permanent. However, that has proved not to be the case and Belize is now entering uncharted waters as a result of changes to trade policy both by the EU and the US. The only thing that is certain is that Belize will not have such privileged access to these two markets for merchandise exports as it did before, since the preferences are being steadily eroded by the US and EU allowing other countries access to their markets on

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<sup>21</sup> These attacks were somewhat hypocritical, as the US maintained its own version of imperial preference not only in relation to its colonies (e.g. Puerto Rico), but also Cuba (at least until 1959).

equal or better terms. Below we will see what those changes are or will be. However, here we may simply note that the changes give renewed emphasis to the search for mechanisms by which Belize can integrate more fully into its three regions.

## **V. GLOBAL CHANGES AND NEW OPPORTUNITIES**

The previous section demonstrated that the trade policies of the US and EU have played, and continue to play, a key role in the export and import pattern of Belize. Indeed, part of the reason why Belize is not more fully integrated into the three regions is the privileged access it has enjoyed to these two major markets. Furthermore, it is not just the trade policies of the US and EU that affect Belize's integration into the world economy. Their fiscal policies are also hugely important as they can affect the terms and conditions on which Belize can provide service as well as goods exports.

These trade and fiscal policies have been changing in recent years and in ways that are not always helpful for Belize. Thus, the privileged access that Belize previously enjoyed will not be so privileged in the future. This is even true of access to the EU under the Economic Partnership Agreement (see below). The trade and fiscal policies of these major economies respond to competing domestic pressures and pay little or no attention to small countries such as Belize. At the very least, this means that Belize needs to look again at the scope for greater integration with the three regions of which it forms a part.

What are these changes? Let us start with the EU. Its widening to embrace the nations of Scandinavia and Eastern Europe has brought in new members with little or no previous contact with the African, Caribbean and Pacific (ACP) countries. Their sympathy with the privileged access to the EU market enjoyed by ACP countries under the Lomé Convention and its successor, the Cotonou Convention, has been understandably limited. At the same time, the member states of the World Trade Organization (WTO) have been unwilling to continue providing a waiver for the privileged access to the EU of the ACP countries and the US government waged a successful campaign against the EU's banana protocol from which Belize and other ACP states previously benefited.

The result was the decision of the EU to forge a series of Economic Partnership Agreements (EPA) with sub-groups of ACP countries that are reciprocal rather than asymmetric. The first, signed with CARIFORUM (made up of the independent members of CARICOM plus the Dominican Republic)<sup>22</sup> was signed in 2008 and is currently being implemented. This will eventually give the EU duty-free access to the CARIFORUM states while providing access to certain services and guarantees on inward investment.

While this may be good news for EU states, it is not at all clear what the CARIFORUM countries receive in return. The best that can be said in favour of the EPA is that CARIFORUM states will not lose the duty-free access for most goods that they previously enjoyed, although the preferential margins will be much reduced. There is not much enthusiasm for the EPA in CARIFORUM and very little detailed planning about how it might be made to work in the interests of Caribbean states. Yet firms producing manufactured goods will come under pressure through imports from the EU and the same may be true of some farmers as well.

It is true that the EPA provides limited market access for the export of certain Caribbean services. However, the offer is by country (not EU-wide) and has so far had very little impact. It is also true that the EPA includes a regional preference clause (238), which means that any country in CARIFORUM giving preferential market access to the EU will have to do the same for other CARIFORUM states. This may help to break down the barriers to trade within the Caribbean, since three CARIFORUM states (Bahamas, Dominican Republic, Haiti) are outside the Caribbean Single Market and Economy (see below). Nonetheless, this has not happened as yet and no one in the Caribbean is particularly sanguine about the prospects.

What has helped to avoid a sense of panic is that the world prices of many of the products that previously enjoyed privileged access to the EU from CARIFORUM states have risen. Although the margin between the price received by CARIFORUM countries and the world price has fallen sharply, the overall rise in price has meant that exporters of traditional products have in many cases been able to survive. This, however, has nothing to do with the EPA and everything to do with the commodity price boom of the last decade.

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<sup>22</sup> In theory, CARIFORUM also includes Cuba. However, Cuba did not sign the Cotonou agreement and is therefore outside CARIFORUM in practice.



If world prices for these same commodities decline, CARIFORUM producers will struggle to stay in business and exports to the EU will suffer. At the same time, the EU is embarked on a series of Preferential Trade Agreements (PTAs) with other parts of the world that further erode any advantages that CARIFORUM states previously enjoyed. A good example is the Cooperation Agreement between the EU and Central America (including Panama but excluding Belize) that was signed in 2012. Under these circumstances, it is difficult to believe that CARIFORUM states, including Belize, will be able to maintain their share of the EU market. Since that market will be growing slowly for the foreseeable future as a result of the Eurozone crisis, it is quite possible that CARIFORUM merchandise exports to the EU will actually decline.<sup>23</sup>

What about the US? Unlike the Cotonou Convention, there has so far been no successful legal challenge to the asymmetric access provided to the US under CBERA and its various extensions nor to the US sugar protocol that provides duty-free quotas for a number of sugar-exporting countries. Thus, there is no immediate threat to the beneficiaries of CBERA that duty-free access, in some cases with quotas, for the relevant products will be reversed. However, the US has agreed a series of PTAs with countries that compete with the Caribbean. The most important are NAFTA (with Mexico and Canada), CAFTA-DR (with Central America and the Dominican Republic) as well as bilateral agreements with Chile, Colombia, Panama and Peru.

These countries now have access to the US market on better terms than those still benefiting from CBERA such as Belize. Not only are there no tariffs on almost all products, but there are no quotas either. It is true that in due course these countries must give duty-free access to US products to their own markets, unlike CBERA countries, but many Caribbean countries would welcome the chance to establish trade arrangements with the US that are the same as those achieved by, say, the Central American countries. Unfortunately, the US appears to have no interest in a PTA with the remaining CBERA countries. This means that countries like Belize must expect to see their privileged access to the US market being steadily eroded as all these PTAs are fully implemented in the next few years.

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<sup>23</sup> According to EUROSTAT, they have remained stagnant since the EPA was signed.

What about services sold to the EU and US? The most important service export from the Caribbean, including Belize, is still tourism. This covers overnight and cruise ship visitors. Taxes on airlines imposed by the US and EU states have a big influence on the price of travel and therefore influence the number of visitors. These taxes have been rising as a result of efforts by the states concerned to meet domestic and international obligations on greenhouse gas emissions. Numbers of overnight visitors did rise in 2012, but margins have been eroded. Meanwhile cruise ship visitors have been falling, although this cannot be blamed directly on US and EU trade or fiscal policies.

The second most important service export from the Caribbean is financial services, which have been under sustained attack from the US and the EU for many years. These states have understandable concerns about the loss of tax revenue implied by the growth of offshore industries in the Caribbean, so that the prospects for an expansion in the Caribbean are very poor. Thus, the much-touted opportunities for service exports from the Caribbean to the US and EU are in reality quite limited. And despite the wording of the EPA on this topic, it is difficult to see in practice a huge increase in Caribbean service exports to the EU.

Belize is affected by all these trends. Its preferential access to the US and EU in a range of products - sugar, citrus, bananas, shrimp, papayas – is being eroded or eliminated. The cost of travel to Belize has risen. There have been major disputes with cruise ship companies. Its exports of financial services have suffered. What has saved Belize, apart from oil exports, has been the rise in world commodity prices and the revival of overnight tourism as the US has come out of recession.

We therefore find that the two markets on which Belize has depended so heavily for decades no longer look so promising. When we add to this the prospect of slow economic growth in the US and EU for the foreseeable future, as both struggle with debt and deficit problems, aging populations and climate change adaptation, it is clear that Belize needs to look elsewhere to ensure that its exports of goods and services grow rapidly in the future.

Fortunately, there are opportunities for Belize outside the EU and US. Some put their hopes in the emerging countries, especially in Asia. China, for example, is now an important source of imports, accounting for nearly 15 per cent of the Belizean total in 2011. However,

Belize still exports very little goods to China (one per cent of visible exports in 2011) and Chinese tourists do not yet come to Belize in any significant number. And Belize faces problems in trade with China that make it difficult to expand quickly. First, Belize still recognizes Taiwan, not the People's Republic of China. Secondly, China is the main market for the rosewood that is illegally shipped from Belize and which has become highly controversial.

No doubt, these difficulties will be overcome in due course and China – as well as other emerging markets - will become a more important market for exports of Belizean goods and services. However, for the present Belize may well want to focus closer to home and, in particular, on the three regions to which it belongs. This will be the focus of the rest of this report.

## **VI. INTEGRATION WITH THE CARIBBEAN**

This year (2013) CARICOM marks its fortieth anniversary. Since its foundation in 1973, the organization has consistently promoted regional integration in the Caribbean. Along the way CARICOM can point to many substantial achievements including the Revised Treaty of Chaguaramas (2001), the launch of the Caribbean Single Market and Economy (CSME) in 2006, the Caribbean Court of Justice (CCJ) and the Caribbean Examinations System (CXC). Throughout this period, functional cooperation has moved in tandem with economic integration and spawned a vast array of organizations and institutions to which all CARICOM member states belong.<sup>24</sup> CARICOM has also signed Free Trade Agreements (FTAs) with Colombia, Costa Rica, Cuba, the Dominican Republic and Venezuela.

This year, therefore, ought to be an opportunity for universal celebration. It will not be, however, as regional integration in the Caribbean is mired in controversy. CARICOM has yet to build on its early promise and many commitments made under the CSME have not been carried out. There is a sense of pessimism among the countries that belong to CARICOM with regard to regional integration in the Caribbean. In particular, the two key countries in CARICOM (Jamaica

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<sup>24</sup> It should be pointed out that functional cooperation in the British Caribbean (e.g. in higher education) began long before CARICOM was launched and at a time when intra-regional trade was very small. However, most of this functional cooperation was driven from above by British imperial policy. It does not mean that major functional cooperation can survive independently of trade in the modern world.

and Trinidad & Tobago) no longer share the same commitment to the organization as before, although for very different reasons. Jamaica is struggling to revive a stagnant and uncompetitive economy overwhelmed by debt problems, while energy-rich Trinidad & Tobago now has ambitions that go way beyond what it can achieve in CARICOM.<sup>25</sup>

Belize has watched this turn of events with sadness. Almost a founder member of CARICOM (it was admitted a year after launch), Belize has supported all the commitments made by CARICOM members and done its best to implement them. The adoption of the Common External Tariff (CET) caused great difficulties for Belize, but it was carried out in a bipartisan spirit. The implementation of the Economic Partnership Agreement (EPA) with the EU is also problematic, but it is being done at a faster pace than in most CARICOM states. And Belize is one of the few countries to accept the CCJ as the final court of appeal in all matters.

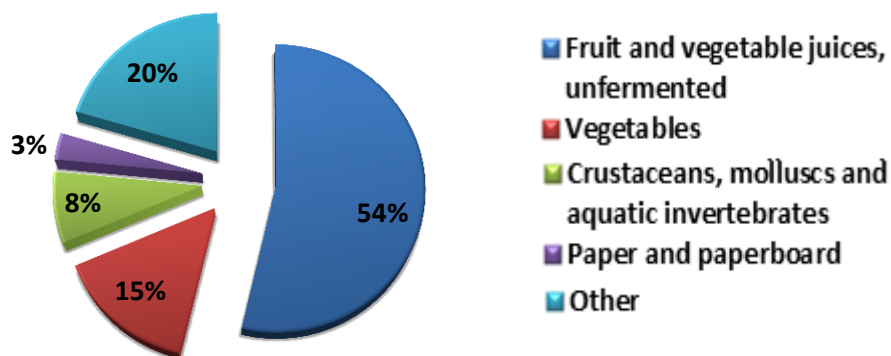
Yet Belize, if the truth be told, is only marginally involved in CARICOM even after 40 years of economic integration. Exports to and imports from CARICOM are a small part of Belize's total trade. Furthermore, Belize's exports – nearly all of which go to Jamaica and Trinidad & Tobago – are made up fundamentally of three products (citrus juice, vegetables and shrimp) that are essentially the same as those that were already being sold to the rest of the world long before CARICOM was established (see Figure 4). Only one (vegetables) can be said to be a 'non-traditional' export. In other words, CARICOM has not really succeeded in promoting in Belize new activities that could enlarge the menu of products available for export to the rest of the world. And CARICOM has done little to stimulate Belizean exports of manufactured goods despite the fact that this was one of the *raison d'être* for establishing regional integration in the first place.<sup>26</sup>

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<sup>25</sup> See Government of Trinidad & Tobago (2007).

<sup>26</sup> During the interviews for this report, I learnt that the Mennonites in Belize started exporting corn to a leading poultry manufacturer in Trinidad & Tobago in 2012. This is too recent to be reflected in the published annual trade statistics, which at the time of writing only go up to the end of 2011.

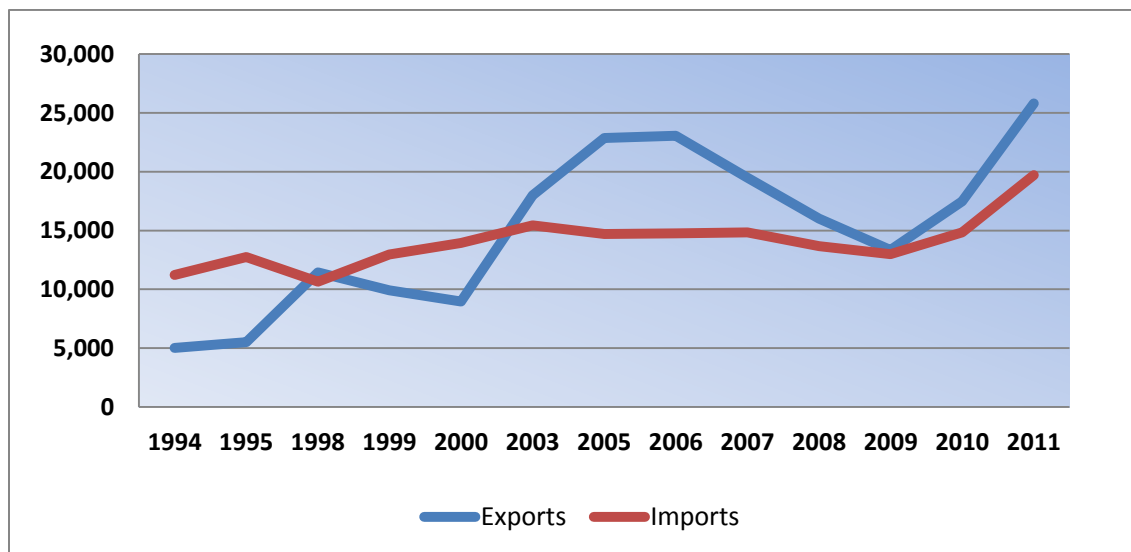
**Figure 4. Structure of Belizean exports to CARICOM (%), 2003-2011**



Source: IDB INtrade/DataINTAL

In Belize’s trade with CARICOM (see Figure 5) exports are usually a little higher than imports. Over the period 2005-11, for example, cumulative exports were US\$138 million while cumulative imports were US\$106 million. However, both exports and imports went into decline after 2006. Furthermore, it was not until 2011 that Belize’s exports to CARICOM surpassed the previous peak.

**Figure 5. Belize-CARICOM Merchandise Trade (US\$000), 1994-2011**



Source: IDB INtrade/DataINTAL

Given the nature of Belize's trade with CARICOM, it is not surprising that functional cooperation is also limited. In a formal sense Belize participates fully in almost all such activities (the main exception is the University of the West Indies). However, transport links between Belize and other CARICOM states are dismal. There are few Belizean nationals working in other CARICOM states and cross-border investments are very small. Belize participates actively in all regional meetings, but this is more out of political solidarity than in the expectation of substantial benefits in return.

There are, of course, specialized areas where cooperation takes place in CARICOM regardless of the trade links. These include, for example, the examination system for secondary schools. There are also areas of functional cooperation in the Caribbean, including health, security and climate change mitigation, which go beyond CARICOM and in which Belize participates.

It is not that Belize has turned its back on the Caribbean. In the last ten years Belize has exported more to the Dominican Republic (DR) than to all CARICOM states except Jamaica and Trinidad & Tobago. This may have something to do with the CARICOM-DR FTA and can therefore be seen as a successful example of regional integration. And Belize – as a 'less developed country (LDC)' - does not at present have to reciprocate trade preferences granted under these FTAs, which no doubt explains why its imports from the DR are so small.<sup>27</sup>

Over the same period, however, it has imported more from Cuba than from **any** CARICOM state despite the lack of reciprocity under the CARICOM-Cuba FTA. And Belize has imported more from the former Netherlands Antilles (mainly Curaçao) than from all CARICOM members except Trinidad & Tobago and exported more to the former Netherlands Antilles than to all CARICOM states except Barbados, Guyana, Jamaica and Trinidad & Tobago. Thus, much of Belize's trade with the Caribbean seems to have nothing to do with regional integration in the usual sense.

There are therefore three issues that need to be addressed in Belize's relation with CARICOM. First, does its membership prevent Belize from developing fruitful integration with the other two regions of which it is part? Secondly, are there unexplored areas for integration

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<sup>27</sup> This privilege for the CARICOM LDCs was supposed to be reviewed in 2004, but it has not yet changed.

between Belize and CARICOM or areas where much more could be done within the existing framework? Thirdly, where do Belizean interests suggest CARICOM should be heading as its member states seek to address the organization's difficulties?

CARICOM includes the Caribbean Single Market and Economy (CSME), but not all CARICOM countries are in the CSME. Those members of CARICOM that are not in the CSME (Bahamas and Haiti) are not required to implement the CET and are therefore free to sign FTAs with other countries or regions. Those that are in the CSME are committed to a CET and therefore cannot unilaterally sign a free trade agreement (FTA) with other countries or regions.

Belize, however, enjoys an exemption from this under Article 80 (5) of the Revised Treaty of Chaguaramas. It is worth quoting this in full, as it is a great tribute to Belizean negotiators at the time:

“Nothing in this Treaty shall preclude Belize from concluding arrangements with neighbouring economic groupings provided that treatment not less favourable than that accorded to third States within such groupings shall be accorded to the Member States of the Community, and that the arrangements make adequate provision to guard against the deflection of trade into the rest of CARICOM from the countries of such groupings through Belize.”

If Belize, therefore, wished to reach a FTA with partners outside CARICOM, it would in theory be able to do so. So far, neither Belize nor any other CARICOM country has done this although Costa Rica – a member of the Central American Common Market (CACM) and therefore committed to a CET in CACM – has signed a FTA with CARICOM after receiving a waiver from the other CACM members.

Several member states of CARICOM have reached a Partial Scope Agreement (PSA) with countries outside CARICOM. This has been possible only because the other member states have granted a waiver to the CET rules, but so far the waiver has never been withheld. Trinidad & Tobago has signed PSAs with Guatemala and Panama. Guyana has reached a PSA with both Venezuela and Brazil and most recently St. Kitts & Nevis signed on to the Guyanese PSA with Brazil. Belize, which under Article 80(5) of the Revised Treaty of Chaguaramas does not need a waiver from other CARICOM states, signed a PSA with Guatemala in 2006 that went into force in 2010.

If Belize, therefore, is content to sign with other countries PSAs or FTAs that do not grant concessions greater than those afforded to other CARICOM members, there is no need for a change of Belize's status within CARICOM. If, on the other hand, it wished to sign a PSA or FTA that went beyond what is provided under CARICOM, it might need to leave the CSME.<sup>28</sup> No country in the CSME so far, however, has left it and Belize would be reluctant to become the first, just as other CARICOM countries would be unhappy about setting a precedent. This is therefore a grey area, where clarity would only be achieved if Belize actually moved towards such a trade agreement. If it does not want to do so, there is no need to seek clarity at this stage.

There is, therefore, no need for Belize to change its status within CARICOM and, given the political debt to CARICOM referred to above, no desire to do so either at this stage. What, however, of the second question posed above? Are there unexplored areas for integration between Belize and CARICOM or areas where much more could be done within the existing framework?

It is unlikely that CARICOM will provide much of a stimulus to Belizean exporters of manufactured goods or services. Belize, on the other hand, is unusual among CARICOM states in that it has surplus land which is capable of generating net food exports. Indeed, this is already happening. If food continues to become more expensive in real terms, net food importers in CARICOM will need to examine in more detail the supply chains on which they depend. Belizean exporters of basic grains could benefit from this, although they will face competition in the future from EU states, as tariffs are phased out, and from Brazil in those countries that sign PSAs with the South American giant.

Belize may also be able to make more use of the network of CARICOM-FTAs. Its current status as an LDC means that it does not need to reciprocate the trade concessions provided by the partners outside CARICOM. It has been able to expand exports to the Dominican Republic, but has not had any notable success in exporting to the other countries with which CARICOM has signed FTAs. Belize, however, has recently implemented the CARICOM-Costa Rica FTA and this may be the most promising (leaving aside exports of crude oil which

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<sup>28</sup> Given the commitments made by member states under the CSME, it is very unlikely that Belize would want to sign a PSA or FTA with other countries that are not already in the CSME. Full implementation of the CSME, of course, is another matter altogether.



has nothing to do with the trade agreement). Belize may also be able to increase exports to Cuba, taking advantage at the beginning of the relatively large number of Belizean students studying on the island.

That leaves functional cooperation. This was recognized in the 1973 Treaty of Chaguaramas as an important area of integration. The activities referred to in Articles 4 (iii) and 18 of the Treaty are air transportation, meteorological science and hurricane insurance, health, intra-regional technical assistance, intra-regional public service management, education and training, broadcasting and information culture, harmonization of the law and legal systems of member states, the position of women in Caribbean society, travel within the region, labour administration and industrial relations, technological and scientific research, social security, other common services and areas of functional cooperation ‘as may from time to time be determined by the Conference’. The revised Treaty of Chaguaramas in 2001 reiterated the importance of functional cooperation and a Task Force was established in 2007 to report on the measures needing to be taken to strengthen it.

The main conclusions of the Task Force were that functional cooperation should not be considered merely a ‘pillar’ of the integration process – somehow independent of the other ‘pillars’.<sup>29</sup> Instead, it should be seen as complementary to economic integration and, furthermore, that it should involve cooperation between states and non-state actors such as Non-Governmental Organizations (NGOs). In addition, the task force put more emphasis on security as an area in which functional cooperation could go further.

Under these circumstances, we should not expect to find unexplored areas where Belize can reap big benefits from functional cooperation within CARICOM. This is an area which has been explored in depth and breadth. Where Belize does not participate fully, as in higher education, it is because it has chosen not to do so. It is not because of neglect or ignorance. And, despite the Task Force’s optimism to the contrary, it is hard to deny that low levels of intra-regional trade (and the narrow product range within it) **do** inhibit integration in non-economic areas. There will, for example, be no improvement in transport links unless the trade flows reach more significant levels.

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<sup>29</sup> See Task Force on Functional Cooperation (2008).

There are, of course, areas in which functional cooperation could be improved with the Caribbean in the broad sense, i.e. all the countries of the region and not just the member states of CARICOM. At present, there is some cooperation in health (especially with Cuba), in security and in climate change mitigation. However, cooperation in other areas – and, indeed, in these areas themselves – is held back by the lack of formal regional institutions covering the whole Caribbean as well as by the low levels of intra-regional trade.

Finally, what can we say about where Belizean interests suggest CARICOM should be heading as its members seek to address the organization's difficulties? I have argued elsewhere, and I can only repeat it here, that the biggest mistake in CARICOM has been the focus on deepening at the expense of widening.<sup>30</sup> CARICOM may represent half of the Caribbean countries, but – excluding the Bahamas and Haiti (not members of the CSME and still marginal to much of CARICOM) – it only represents 15 per cent of the Caribbean population and about 20 per cent of the region's trade. Thus, the focus on deepening through the CSME and other mechanisms ignores the fact that most of the Caribbean is excluded.

Widening CARICOM would not be easy, although a start could be made relatively painlessly with the Dominican Republic. Indeed, the regional preference clause (238) under the EPA may help to bring this about. It would be very much in Belize's interests for CARICOM to move in this direction – especially if one day Cuba was included. A wider CARICOM, embracing non-independent countries as well as sovereign ones, would provide Belize with the formal framework for what has been happening already at an informal level in its trade patterns. And a wider Caribbean would be much better placed to speak for Belizean interests in the areas that remain vital such as overnight tourism, cruise shipping, management of environmental resources, health services and cultural activities.<sup>31</sup>

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<sup>30</sup> See Bulmer-Thomas (2012b).

<sup>31</sup> These include music and film festivals, language schools and sports facilities.

## VII. INTEGRATION WITH CENTRAL AMERICA

Unlike the CSME or indeed CARICOM, Central America is a large region with nearly 50 million inhabitants. It includes relatively rich and poor countries with the former (Costa Rica and Panama) being furthest away from Belize and the latter (El Salvador, Guatemala, Honduras and Nicaragua) being closest. The countries are highly dependent on foreign trade, but rely more on goods than services for exports. Merchandise exports include manufactured goods as well as natural resource-intensive products. They are sold mainly to the US and EU, but intra-regional exports are more important than in CARICOM.

The launch of the Central American Common Market (CACM) took place in 1960 without Belize's participation. Following the withdrawal of Honduras in 1971, and in particular after the advent of the Latin American debt crisis in 1982, CACM appeared to have entered a terminal crisis. CARICOM, by contrast, was winning plaudits around the world at the same time for the success of its efforts to integrate its members. Few would have predicted in the early 1980s that some 30 years later it would be CARICOM which is in crisis and CACM that is winning praise from all over the world for its renewed dynamism. Yet that is the case and it shows how quickly success can turn to failure and failure to success.

The CACM was relaunched in 1990, this time with Honduras again as a member, and a new institution was added. This was SICA – Sistema de Integración Centroamericana – which included Panama as a full member, although Panama remained outside the Central American Common Market itself. Intraregional trade recovered rapidly in the following decade as non-tariff barriers were dismantled and infrastructure improved. Functional cooperation among SICA countries became much more significant, affecting areas such as the environment, health, education and training.

Meanwhile, Guatemala recognized the independence of Belize in 1992 and the bilateral relationship improved to the point where Belize was accepted as a full member of SICA in 2000. This gave Belize access to all the mechanisms, institutions and organizations designed to promote functional cooperation in Central America, but Belize was still outside CACM and tariffs were still applied to trade between Belize and all other SICA countries. This was a crucial

distinction since it meant that Belize was not eligible to join any FTA that Common Market members might sign with other countries or regions.

There have been many of these, including FTAs with Chile, Colombia, Mexico and Venezuela. However, by far the most important has been the 2004 FTA with the United States (CAFTA), which was expanded to include the Dominican Republic (CAFTA-DR). Panama, like Belize, was not eligible to join this new scheme. However, Panama is included in the 2012 Cooperation Agreement between Central America and the European Union, which means that Panama has become *de facto* a member of the Central American Common Market and will have to adjust its tariffs and trade policy accordingly.

Most of the SICA countries, full and associate members,<sup>32</sup> have therefore gone from strength to strength, widening and deepening regional integration at the same time. The one exception is Belize which, despite being a full member of SICA, does not participate in CAFTA-DR and cannot participate in the Cooperation Agreement with the European Union since it has signed the EPA. This does not mean that Belize cannot enjoy functional cooperation with Central America, but it does put Belize in a slightly awkward position.

Belize never wanted to join CAFTA-DR and therefore never applied.<sup>33</sup> Instead, it subsequently sought a Partial Scope Agreement (PSA) with Guatemala. This was signed in 2006 and went into force in 2010. At the same time, Belize started to export crude oil (in 2006) and this has gone to an oil refinery in Costa Rica. Thus, there have been two important changes in the trade relationship between Belize and Central America that need to be taken into account when analyzing the trade statistics.

What do these statistics show? As Figure 6 demonstrates, both recorded exports to and imports from CACM have been rising in the last decade – albeit from very low levels. Indeed, if we go back to 1995, Belizean exports to CACM were less than US\$1 million. Imports, however, have always been much bigger than exports and this remained the case even after Belize began to export crude oil to Costa Rica in 2006. For the decade as whole from 2005-11, the cumulative

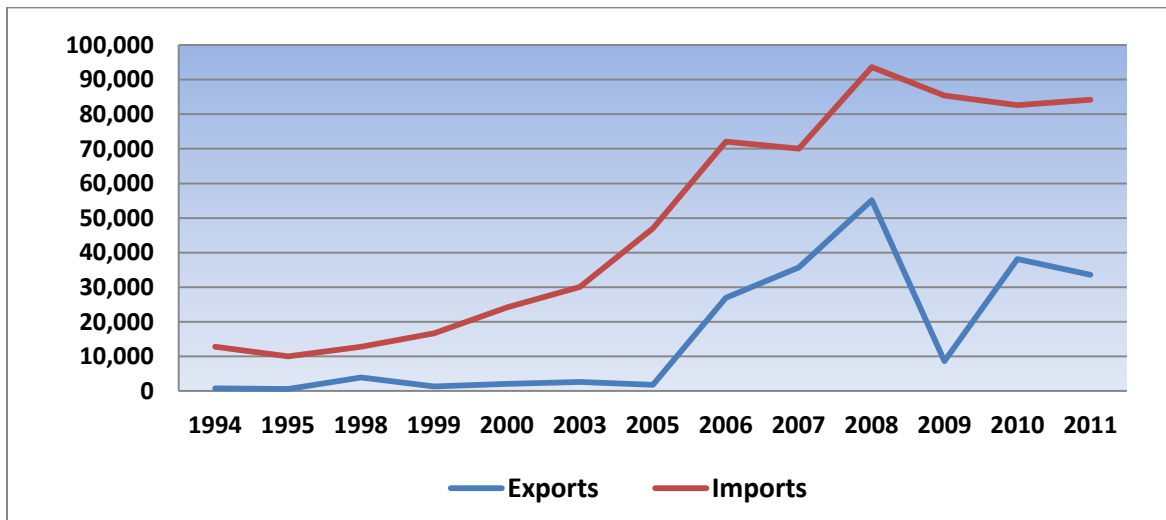
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<sup>32</sup> At present, the only Associate Member is the Dominican Republic.

<sup>33</sup> In theory, Belize could apply to join now. There is nothing in the Treaty of Chaguaramas that would prevent it from doing so and Central American states joined individually and not as CACM. However, CAFTA-DR requires commitments by member states in areas that go far beyond what Belize is currently able or willing to offer (e.g. telecommunications). Belizean membership of CAFTA-DR is therefore unrealistic in practice.

value of Belizean exports to CACM was US\$200 million compared with US\$535 million for imports.

**Figure 6. Belizean Trade with CACM (US\$000), 1994-2011**

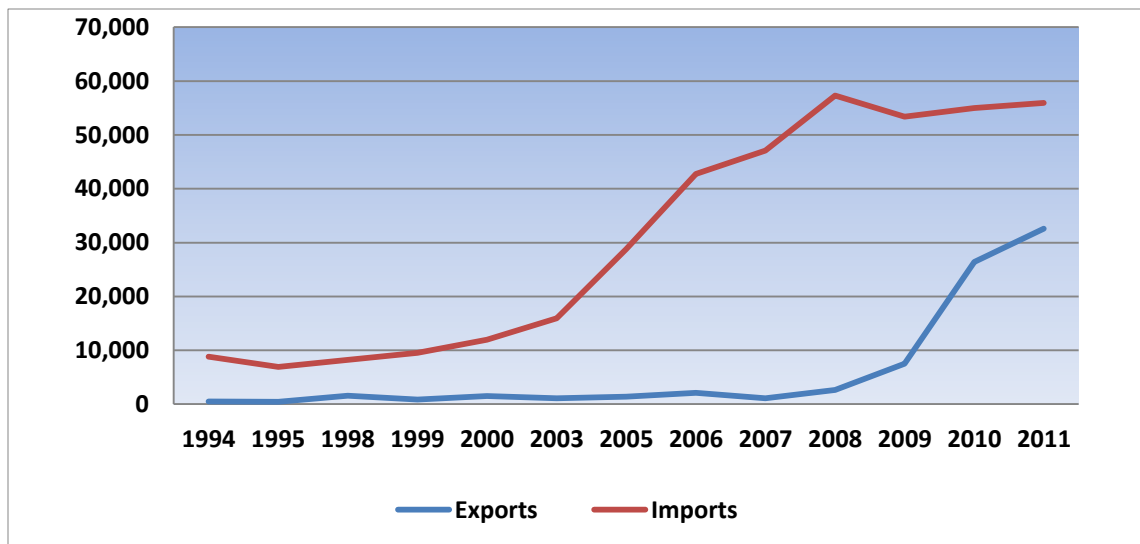


Source: IDB INtrade/DataINTAL

Before 2006 most of the exports went to Guatemala, while since then they have gone to Costa Rica as a result of crude oil shipments. However, most of the imports come from Guatemala. It is too soon to be sure about the impact of the PSA with Guatemala, since it was only implemented in 2010, but Guatemala always has a large trade surplus with Belize (see Figure 7). Taking the cumulative value of trade over the years 2005-11, Belizean exports to Guatemala were nearly US\$74 million while imports were US\$340 million.

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. Belizean imports from Guatemala may also suffer from some unrecorded entries, but the extent of contraband imports is probably smaller than in the case of Belizean exports. In any case, the product structure of Belizean imports from Guatemala (see Table 2) appears consistent with evidence from other sources and is dominated by intermediate inputs for agriculture. Since the farming population of Belize has increased in large part through immigration from Central America of families with knowledge of agriculture and product availability in Guatemala, this is plausible.

**Figure 7. Belizean Trade with Guatemala (US\$000), 1994-2011**



Source: IDB INtrade/DataINTAL

What is not so plausible is the structure of recorded Belizean exports to Guatemala. This suggests that exports over the last decade have been dominated by crude oil (nearly 60 per cent) and scrap metal. 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.

The Belizean and Guatemalan authorities are relatively relaxed about these unrecorded agricultural exports, as most of them would not have been subject to tariffs due to the PSA and they are not controversial in any way. There are other unrecorded exports, however, 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.

A long, and disputed, border makes it difficult to control the bilateral trade between Belize and Guatemala. In many cases, as illustrated by the agricultural exports, this may not

matter very much. However, it is to be hoped that the monitoring of the border is stepped up since otherwise it will be impossible to distinguish between the two types of unrecorded exports. And there may also be phyto-sanitary issues even where there are no tariffs (as in the case of cattle exports). There is therefore a strong case for increasing the number of official and monitored border crossings between Belize and Guatemala, especially at Jalacte in the south as well as Arenal and Bullitt Tree in the Cayo District.

**Table 2. Top Twenty Belizean Imports from Guatemala, 2002-2011**  
*Percentage of Total*

	<b>Name of Import</b>	<b>%</b>
1	[562] Fertilizers (other than those of group 272)	9.68
2	[676] Iron & steel bars, rods, angles, shapes & sections	7.54
3	[081] Feeding stuff for animals (no unmilled cereals)	7.31
4	[591] Insectides & similar products, for retail sale	6.85
5	[893] Articles, n.e.s., of plastics	6.44
6	[334] Petroleum oils or bituminous minerals > 70 % oil	4.58
7	[342] Liquefied propane and butane	3.58
8	[581] Tubes, pipes and hoses of plastics	3.3
9	[098] Edible products and preparations, n.e.s.	3.1
10	[344] Petroleum gases, other gaseous hydrocarbons, n.e.s.	2.47
11	[542] Medicaments (incl. veterinary medicaments)	2.11
12	[431] Animal or veg. oils & fats, processed, n.e.s.; mixt.	1.89
13	[091] Margarine and shortening	1.68
14	[782] Motor vehic. for transport of goods, special purpo.	1.64
15	[641] Paper and paperboard	1.52
16	[642] Paper & paperboard, cut to shape or size, articles	1.32
17	[554] Soaps, cleansing and polishing preparations	1.1
18	[665] Glassware	1.1
19	[278] Other crude minerals	1.09
20	[335] Residual petroleum products, n.e.s., related mater.	0.98

Source: UNCTAD database. Numbers in square brackets refer to SITC product groups.

Is there a case for extending the current PSA either through a FTA with Guatemala or through PSAs with other CACM members? The answer most likely is in the negative at this stage, although a PSA with El Salvador is being negotiated and one with Honduras is under

consideration. PSAs with other CACM members should not be a priority as non-oil bilateral trade is still miniscule. Furthermore, almost all non-oil trade with the rest of Central America would have to pass through Guatemala and this is an uncomfortable position for Belize to be in until a definitive agreement on the border is reached.<sup>34</sup> There is, however, scope for Belize to expand exports to Costa Rica under the CARICOM-Costa Rica FTA as mentioned above.

A FTA with Guatemala is also probably a step too far at this stage. The PSA with Guatemala has only just been implemented and more time is needed to see how it is working and how it might be more effectively monitored. Until the recorded trade flows demonstrate that Belizean exporters are able to respond to the incentives on offer under the PSA, it is difficult to argue that a FTA is required. Even if the unrecorded exports are significant, this is still anecdotal and should not be the basis for trade policy.

This does not mean that there cannot be further integration with Central America, especially Guatemala. There is scope for a significant increase in bilateral trade with Guatemala through the PSA if new border crossings are opened.<sup>35</sup> This will require investments in infrastructure – especially roads and bridges. Guatemala, like other exporters of commodities, has also benefited from the rise in commodity prices in the last decade and is now shipping outside the country a part of its production that was previously destined for the domestic market. This has created local shortages, which need to be filled. As an illustration of this, Belize will shortly start exporting shrimp to Guatemala for the first time.<sup>36</sup>

There is scope for increasing trade in services with Guatemala, and perhaps the other countries in Central America. New border crossings would make it easier for foreign tourists to include the neighbouring country in their itineraries. In time, more Guatemalans may be persuaded to visit Belize – a country most of them have yet to discover. And the export of medical services, which up to now has meant Belizeans going to Guatemala, could flow in reverse as the quality of Belize's doctors, clinics and hospitals improve.

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<sup>34</sup> Considering that the referendum to take the issue to the ICJ - originally scheduled for October 6 - will no longer take place, there is little chance of an early resolution of the problem.

<sup>35</sup> The National Export Strategy identified a number of possible products. See BELTRAIDE (2013).

<sup>36</sup> I discovered this during the interviews for preparing this Report.



There are also opportunities for increased functional cooperation through SICA. There are a large number of organizations in SICA to promote this – some more active than others. The website of SICA also lists the integration areas of interest to its members. Some of these are more important than others for Belize and some are not relevant. However, there is much more that Belize could do. And Belize is not yet making full use of the Banco Centroamericano de Integración Económica (BCIE), of which it is a member without as yet having to provide a quota.

SICA states have a lot of experience in the field of renewable energy, from which Belize could benefit, and Belizean higher education could profit from closer integration with parts of the higher education system in Central America. There are also numerous training programmes in SICA states, often with funding from outside, where Belizeans can learn about issues as diverse as forest management, environmental accounting and cruise shipping. Belize's potential agricultural surplus needs to be taken into account by SICA members when designing systems of nutritional and food security, bearing in mind that Belize is still GM-free. Integration of public health systems is also essential for states sharing land borders in view of the ease with which pathogens can migrate from one country to another.

Last, but not least, there is the issue of drug-trafficking and security. This scourge on the landscape affects not just Belize, but all the other SICA states. The drug gangs do not respect national frontiers and state security policies have to take this into account. There can be no meaningful progress in the war against the gangs and associated criminality without close cooperation among the security forces of SICA states. At a formal level, this is understood by everyone. However, much more can surely be done in terms of intelligence sharing

## VIII. INTEGRATION WITH MEXICO

Unlike integration with the Caribbean (through CARICOM and the CSME) and Central America (through SICA, the CARICOM-Costa Rica FTA and the PSA with Guatemala), there is no formal link with Mexico. And yet Mexico, the third region for Belize and one with which it shares a land and maritime border, is in many ways the most important of the three. Imports from Mexico are in most years bigger than those from the other two regions combined. And Mexico, with over 100 million inhabitants, has a much greater population than Central America and CARICOM combined and is set to become the world's seventh largest economy in the next few years. Last, but not least, imports from Mexico include electricity, a vital input for the Belizean economy and one that can safely be described as strategic.

Instead of formal integration mechanisms, Belize has the Corozal Free Zone (CFZ). This occupies the 'no-man's land' between the two countries just south of the Rio Hondo. Mexicans, and other non-Belizean nationalities, can enter it freely, but must pass Mexican customs on their return to Mexico. It sells a vast array of goods and services, including fuel, and provides employment to many Belizeans. Although sales of some of the merchandise, such as clothing and footwear, is very sensitive to Mexican trade policy, there is a sufficiently wide array of goods and services to ensure that the CFZ has much to offer the mainly Mexican clientele.

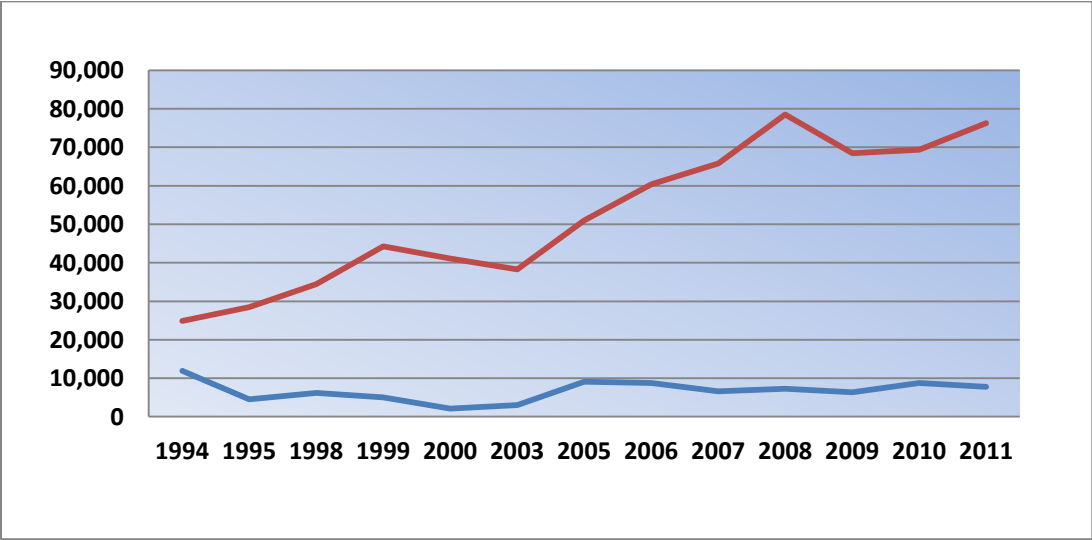
The CFZ is frowned upon by many foreign economists, who dismiss it as 'artificial' and capable of disappearing at the stroke of a pen since it depends entirely on fiscal concessions. However, it has been very successful and sales have grown rapidly. Furthermore, Belize does not enjoy the luxury of being able to reject all activities that depend on fiscal concessions. If it did, many export activities such as sugar and bananas would never have come into existence. The CFZ is in a long tradition of 'opportunistic' Belizean export activities that will not survive for ever, but which Belize should exploit for as long as possible.

Belize is committed under WTO rules to phase out export subsidies by 2015. Since the current fiscal arrangements for the CFZ almost certainly constitute an export subsidy, changes will have to be made. There are various options and these have been very clearly outlined

elsewhere.<sup>37</sup> Closing the CFZ, one of the options, is something that the Belizean government would be very reluctant to do and so it is more likely that an alternative option will be chosen. This might be a change permitting goods in the CFZ to enter the domestic economy without restrictions other than the application of import duties and taxes.<sup>38</sup>

Trade between Belize and Mexico has been growing, but it is extremely unbalanced (see Figure 8). While Belizean exports to Mexico over the period 2005-11 reached a cumulative value of US\$55 million, Belizean imports from Mexico over the same period were US\$470 million. Thus, Belizean exports have been worth only a little more than ten per cent of Belizean imports. There is, of course, no particular reason for bilateral trade to be balanced. And CFZ imports from Mexico are included in these figures, while CFZ exports to Mexico are not. However, this imbalance is so large that it suggests there is considerable potential for increasing Belizean exports.

**Figure 8. Belizean Trade with Mexico (US\$000), 1994-2011**



Source: IDB INtrade/DataINTAL

<sup>37</sup> See WTO (2010) and Fernández Monge (2013).

<sup>38</sup> Doing this for the single Free Zone in Belize is relatively straightforward. Doing it, however, for all the Export Processing Zones (EPZ) in the country might not be. Thus, it may be necessary to treat the CFZ differently from the numerous EPZs.

One possibility is that, as with Belizean exports to Guatemala, many Belizean exports to Mexico are unrecorded. That has been true of cattle shipments in the past, but does not appear to have happened more widely. Furthermore, the administrative procedures for legal exports of cattle from Belize to Mexico have now been settled so that (most?) cattle exports will presumably be recorded from now onwards.<sup>39</sup> And some Belizean imports from Mexico are also unrecorded, as the authorities do not adjust the figures for retail shopping in Chetumal by Belizeans.

Belizean imports from Mexico are dominated by electricity, which accounts for about one-quarter of all purchases (see Table 3). The remainder is spread across a wide variety of goods that are mainly manufactured or of agroindustrial origin. Belizean recorded exports, on the other hand, are highly concentrated and consist almost entirely of shrimp and other marine products. Furthermore, all the arrangements are handled by Mexicans with trucks entering Belize to collect the shrimp and handling customs issues on the return. Uniquely among Belizean exports of shrimp, these shipments to Mexico are made fresh rather than frozen so that time is of the essence.

There is clearly scope for a PSA with Mexico and this will soon be negotiated. This would seem to be the logical next step in Belizean trade policy, since a FTA is probably too ambitious at this stage. Belize is not ready for such a bold move and it would meet with widespread resistance from many producer groups. In any case, there is considerable fear in Belize over exporting to Mexico in view of the government's alleged propensity to impose non-tariff barriers at short notice or even ignore the laws that are in place. However, these fears – while not necessarily misplaced – make the argument for the PSA stronger rather than weaker, since Belize would then have recourse to a bilateral legal framework that could be used to settle disputes.

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<sup>39</sup> This has been due to sterling work by the Belize Agricultural Health Authority (BAHA).

**Table 3. Top Twenty Belizean Imports from Mexico, (2002-2011)**  
*Percentage of Total*

	<b>Name of Import</b>	<b>%</b>
1	[351] Electric current	24.4
2	[334] Petroleum oils or bituminous minerals > 70 % oil	6.3
3	[661] Lime, cement, fabrica. constr. mat. (excluding glass, clay)	5.3
4	[893] Articles, n.e.s., of plastics	4.5
5	[081] Feeding stuff for animals (no unmilled cereals)	4.1
6	[554] Soaps, cleansing and polishing preparations	3.6
7	[344] Petroleum gases, other gaseous hydrocarbons, n.e.s.	3.4
8	[674] Flat-rolled prod., iron, non-alloy steel, coated, clad	3
9	[676] Iron & steel bars, rods, angles, shapes & sections	2.9
10	[642] Paper & paperboard, cut to shape or size, articles	2.7
11	[342] Liquefied propane and butane	2.5
12	[022] Milk, cream and milk products (excluding butter, cheese)	1.9
13	[054] Vegetables	1.6
14	[048] Cereal preparations, flour of fruits or vegetables	1.5
15	[098] Edible products and preparations, n.e.s.	1.5
16	[071] Coffee and coffee substitutes	1.3
17	[112] Alcoholic beverages	1.2
18	[679] Tubes, pipes & hollow profiles, fittings, iron, steel	1.1
19	[662] Clay construction, refracto. construction materials	1.1
20	[641] Paper and paperboard	1.1

Source: UNCTAD database. Numbers in brackets refer to SITC product groups.

What should the PSA include? It should be more ambitious than the one with Guatemala. Belizean negotiators should be wary of lobbying efforts by Belizean companies to exclude Mexican products (e.g. beer) from the domestic market and instead focus their efforts on cast-iron guarantees of market access for Belizean exporters. This, after all, is a huge market even if it is in practice confined to the big cities of Quintana Roo (many 'small' cities in the state, such as Playa del Carmen, now have the same population as the whole of Belize). The PSA should also

include services since the scope for increasing exports of tourism and financial services to Mexico is considerable.

Above all, the PSA should promote inward investment from Mexico. The experience of Mexican investors in tourism, for example, is vast and many of them understand what Belize needs much more than investors from Europe or North America. Cancun is not the model that Belize needs as it is inconsistent with Belize's need to promote SMEs, but Tulum might well be. And Mexican investors have access to capital at rates of interest that Belizean capitalists can only dream about. Furthermore, Mexican investors are likely to have more success in attracting to Belize the Mexican tourists for whom Belize is waiting to be 'discovered'.

With or without a PSA, Belizean exports to Mexico should grow rapidly. Cattle exports have already been mentioned. However, the booming cities of Quintana Roo struggle to feed themselves from domestic produce and Belizean farmers are closer to, say, Chetumal than almost all Mexican farmers. This is a huge opportunity for Belizean exporters and it need not be confined to agricultural products. The population of Chetumal is now approaching 500,000 and average income is high.

It is also worth remembering, even more than happens in the case of Guatemala, that Mexico benefits from the rise in commodity prices in the US in the case of certain key agricultural products. As these products, e.g. maize, are shifted from the domestic to the US market, it creates regional shortages in Mexico that Belize may be able to exploit. Thus, the traditional idea that Belize could never compete with Mexico in basic grains or fruits and vegetables is no longer true. And the expansion of tourism in Quintana Roo has put pressure on farm land and water resources to the point where Belize may be the cheapest source for some foodstuffs.

An expansion of trade with Mexico will require further investments in infrastructure. An air link to Cancun opened in March, but this is confined to very small planes. Thanks to the generosity of the Mexican government, the second bridge across the Rio Hondo has already been built, but it is not yet operational as a result of a delay in completing the road on the Belizean side. When this is done, capacity for cross-border trade will expand considerably. If this is insufficient, there are many other points along the Rio Hondo where bridges could be built

linking the existing road networks on either side of the frontier. The administration of the trade flows could, of course, be simplified on both sides and this needs to happen urgently if both countries are to extract maximum benefits from a PSA.

The absence of a formal integration scheme for Belize and Mexico does not mean there has been no functional cooperation. On the contrary, since independence agreements have been reached between both governments on water resources, telecommunications, scientific and technical cooperation, social security, drug trafficking, the environment, air transportation, health, electricity and several other areas. Judged by the number of formal state-to-state agreements signed since 1981, functional cooperation is flourishing. And the agreements covering electricity are clearly vital for keeping the Belizean economy going.

Yet there is a strong sense in Belize, and perhaps in Mexico as well, that the potential is not yet being fully exploited. Furthermore, non-state actors do not participate as actively in the cooperation that takes place as perhaps they should. Although Tropic Air has (re)started regular flights between Belize City and Cancun, the only scheduled maritime link is the small daily boat from San Pedro to Chetumal. Both links are relatively expensive. Belizeans will continue to go to Mexico by bus or car, but the cost and inconvenience of air/maritime travel discourages Mexican visitors.

What is needed is a more comprehensive approach to functional cooperation rather than the *ad hoc* and sector-specific exchanges that currently take place. Mexico has no hidden agenda, wishes to be a good neighbour (as indeed it has been throughout Belize's independence period) and believes in cultural diplomacy backed up by financial and human resources. Yet the bilateral relationship with Belize will never be a major concern for Mexico.<sup>40</sup> Thus, it is up to Belize – government and NGOs – to prioritize those areas where it would like to see more intense cooperation and make the case to Mexico accordingly.

A good place to start is at the level of education. The secondary school funded by Mexico in the Corozal district has been a great success, but cooperation at the tertiary level is still modest. Mexico has some outstanding universities with strengths in those disciplines of great

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<sup>40</sup> Twenty years ago, the Mexican government **did** put a big effort into the bilateral relationship, but was disappointed by the rather tepid response it received from Belize.

interest to Belize. These include medicine and veterinary studies, archaeology, tourism, the management of environmental resources and many others. Mexican expertise can help Belize make the case for the value of its environment and in the process help to tackle the illegal plunder of the country's natural resources.

Above all, Belize needs to encourage more Mexicans to visit Belize and not just the CFZ. It should become a *chic* destination, one which Mexicans can boast about on their return. At a time, when Acapulco and other tourist centres in Mexico have become too dangerous for many families to visit, Belize should market itself as a safe, but adventurous, location for young people bored by Cancun and wanting something different to what the US provides.

This will require a big change in attitude in Belize, although not necessarily in large expenditure of financial resources. A simple example is the extent of rubbish at the side of the road as visitors enter Belize. From a relatively clean and welcoming environment on the Mexican side, the visitor is confronted with mile after mile of plastic cups, cartons and bags. And the northern towns of Belize, prosperous though they may be, are not welcoming to visitors and lack the basic amenities that visitors expect. If Belize wants Mexicans to return with praise for the country they have just visited, it will have to raise its game significantly.

## **IX. SUMMARY AND CONCLUSIONS**

Belize belongs to three regions – the Caribbean, Central America and Mexico – but is not currently fully integrated into any of them. At the same time, the prospects for expanding exports of goods and services to traditional markets in Europe and North America are challenging. Thus, Belize needs to diversify its foreign trade, especially its exports, and this suggests a re-evaluation of regional integration with the neighbours.

Of the three regions, Mexico holds out the best prospects. It is a vast market relative to the size of Belize - even if the effective market is limited to Quintana Roo. It is a 'good' neighbour with whom Belize has no outstanding bilateral issues. At the same time, there is no formal trade agreement between Belize and Mexico. A Partial Scope Agreement (PSA) is the logical place to start. This PSA should be more ambitious than the one with Guatemala,



including services and investment as well as goods. The Belize government should also be wary of special pleading by Belizean producers to exclude Mexican products in certain sectors.

Such an agreement will require an improvement in infrastructure. However, the existence of a second bridge over the Rio Hondo makes it relatively easy to do so and further border crossings can be constructed without much difficulty or cost. Other transport links (air and shipping) will also need to be enhanced in due course. And if trade links improve, especially Belizean exports to Mexico, it will provide a more solid basis for functional cooperation in many areas including education, health, sport, environmental management, national parks and tourism.

By contrast, the Central American region does not offer such attractive prospects. This is partly because a formal structure already exists through SICA, the CARICOM-Costa Rica FTA and the PSA with Guatemala. Belize, it is true, can enhance its functional cooperation with the region through SICA and should make more use of its membership of the BCIE. It should also examine in depth the prospects for expanding exports to Costa Rica under the CARICOM-Costa Rica FTA. And without doubt there are opportunities to expand exports to Guatemala under the PSA.

Yet the obstacles standing in the way of closer regional integration with Central America are considerable. Excluding crude oil exports, most trade with Central America goes by land and the absence of an agreed territorial and sea border with Guatemala makes it very difficult to improve infrastructure links. It also makes Belizeans very nervous about the presence of large numbers of illegal immigrants from Guatemala. And CAFTA is binding the countries of the region together to the exclusion to some extent of Belize despite Belize's membership of SICA.

If a resolution of the *diferendum* between Belize and Guatemala in the next few years looked likely, this might be enough to look beyond these obstacles. However, that now appears not to be the case. Under these circumstances, it is natural that Belize will want to approach regional integration with Central America cautiously. As this report has indicated, there are opportunities and steps that can be taken, but they are unlikely to be as rewarding as with Mexico.

The third region, the Caribbean, is very different to the other two. Belize already enjoys all the formal arrangements associated with regional integration through CARICOM and the

CSME. Thus, most of the opportunities available to Belize have already been exploited. Only a resolution of CARICOM's current impasse could make a big difference and – sadly – there is no immediate prospect of that. Belize should certainly use its best efforts to resolve the impasse, but its influence on the direction of travel for CARICOM is small.

Fortunately for Belize, its room for manoeuvre in the other two regions is not constrained by its membership of CARICOM. Thanks to its status as a LDC and Article 80(5) of the Revised Treaty of Chaguaramas, there is very little that Belize cannot do in relation to Mexico and Central America. If Belize were to lose its status as a LDC or if the FTA partners of CARICOM should demand reciprocity from the LDCs, Belize might have to reconsider its position. At present, however, it does not need to do so.

Meanwhile, there are areas in which Belize can explore closer integration with the Caribbean. Its status as a potential net food exporter is now widely recognized. Food importers, such as Trinidad & Tobago, are attractive markets. There is also scope for Belize to exploit its privileged position as a LDC in relation to the network of CARICOM FTAs. Not too much should be expected from this, however, as the infrastructure links between Belize and the Caribbean are poor and Belize cannot resolve the problems on its own.

Looking five to ten years ahead, there are some grounds for optimism therefore that Belize will have shifted its trade patterns, especially exports, towards its three neighbours. The biggest increase is likely to be with exports to Mexico, where an increase to at least five per cent of the total is surely within the bounds of possibility. There should also be an increase with Central America (excluding crude oil exports to Costa Rica). Increasing the share of exports going to the Caribbean is not impossible, but will be harder to achieve.

It is important, however, that this shift not be limited to goods since there are many opportunities in services as well. Again, Mexico holds out the best prospects – especially if a future PSA includes both services and investment in its provisions. And services, it should be remembered, offer the best prospects that SMEs will be involved in the export expansion since goods trade is likely to be dominated as before by large companies.

One service sector that is unlikely to benefit from regional integration is Information and Communications Technology (ICT). This sector in Belize is dominated by Belize Telemedia Ltd

(BTL), where the future remains clouded by outstanding legal disputes following nationalization. Until these disputes are finally resolved, it is unrealistic to expect BTL to engage in cross-border activities. The same may be true of electricity distribution following the nationalization of Belize Electricity Limited (BEL), although this does not affect imports of electricity from Mexico.

At various points in this Report, I have referred to the prospects for enhanced regional exports of foodstuffs. However, the reader should be aware of a recent study by the Economic Commission for Latin America and the Caribbean (ECLAC) on the impact of climate change on Belize's agricultural sector. This concluded that Belizean agriculture would be adversely affected by climate change and that: "For the sector as a whole, the results of the production functions show losses in production. According to the A2 climate scenario, by the year 2100 the accumulated losses in the sector will range near 77% of 2007 GDP. Furthermore, the test of the impact on some of the most important crops (maize, beans, sugar cane and oranges) shows significant decreases in yield: by the year 2100 these decreases will be between 6% and 20% of 2007 GDP."<sup>41</sup>

This, of course, is a very long-term effect and policy-makers may feel it can be ignored in the short- to medium-term. It would also be important to examine the assumptions of the ECLAC model in more detail. Nonetheless, the precautionary principle would suggest that Belize should be very careful about pinning all its hopes on becoming a net food exporter. The case for diversified exports should not just be about markets, but also products (including services).

As a final comment, one should note the impossibility of any expansion of regional integration if Belizean producers are not internationally competitive. In the course of the interviews for this Report, I was made aware of at least two cases of increased exports where the expansion was entirely due to initiatives by companies in the neighbouring countries. The Belizean producers did not have to do anything other than complete the orders. This demonstrates that if suppliers are competitive, purchasers will beat a path to their door regardless of what governments may do in terms of formal integration processes. This is not to belittle these state-led efforts, but to remind ourselves that a necessary condition for successful regional integration is a competitive productive system.

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<sup>41</sup> See ECLAC (2013), p.6.

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