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Integration and Trade in Belize

Mario Umaña

In collaboration with: Fabrizio
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Vasco.

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Abstract

This Technical Note provides an assessment of Belize's trade sector and offers some policy options. Major constraints are related to a limited export basket and concentrated destination markets, high tariff levels with high dispersion, conservative trade agenda, weak institutional capacity, trade facilitation problems, and sanitary and phytosanitary shortcomings. Moreover, the country needs to make changes to fiscal incentives related to trade performance before the deadline established by the WTO of December 2015. Policy options include: (i) efforts in trade liberalization, to include reduction of tariffs, reduction of trade licenses, and elimination of environmental tax and revenue replacement duties; (ii) measures to strengthen the institutional capacity (trade and agriculture); (iii) a menu of options for a new generation of incentives; (iv) nonfiscal measures to increase export performance, particularly in the services sector; and (v) options to enhance trade facilitation and reduce cost of trade in goods.

JEL Codes: F1, H2, H3

Keywords: Belize, trade policy

Table of Contents

Acronyms.....	3
1. Justification.....	4
2. Assessment.....	5
2.1. Mixed Performance of the External Sector.....	5
2.2. An Open but Protected Economy	12
2.3. Weak Institutional Capacity.....	20
2.4. Export Policy Based on Fiscal Incentives.....	22
2.5. Trade Facilitation Constraints.....	24
2.6. Challenges for the Agriculture Sector: The Sanitary and Phytosanitary Constraints.....	25
3. Policy Options.....	27
3.1. Trade Liberalization.....	27
3.2. Institutional Capacity	28
3.3. Export Subsidies	29
3.4. Export Performance and Investment Attraction	30
3.5. Reduce the Cost of Trade through Trade Facilitation Tools.....	30
4. Policy Recommendations.....	32
References.....	38

Acronyms

AEO	Authorized Economic Operator
ASYCUDA	Automated System for Customs Data
ASCM	WTO Agreement on Subsidies and Countervailing Measures
BAHA	Belize Agricultural Health Authority
BELTRAIDE	Belize Trade and Investment Development Service
BPO	Business process outsourcing
CARIBCAN	Canadian Programs for Commonwealth Caribbean Trade, Investment, and Industrial Cooperation
CARICOM	Caribbean Community and Common Market
CACM	Central American Common Market
CAFTA–DR	Central America Free Trade Agreement–Dominican Republic
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CET	Common External Tariff
CFZ	Commercial free zone
CSME	Caribbean Single Market and Economy
EPA-CARIFORUM	Economic Partnership Agreement between the European Union and CARIFORUM
EPZ	Export processing zones
EU	European Union
FDA	U.S. Food and Drug Administration
FTA	Free Trade Agreement
GDP	Gross domestic product
GST	General sales tax
HACCP	Hazard Analysis and Critical Control Point
ITO	Information technology outsourcing
KPO	Knowledge process outsourcing
LAC	Latin America and the Caribbean
MFN	Most favored nation
MTES	Medium-Term Development Strategy
OECD	Organization for Economic Co-operation and Development
PSA	Partial scope agreement
RRD	Revenue Replacement Duty
SPS	Sanitary and phytosanitary
SVEs	Small and vulnerable economies
VAT	Value added tax
WTO	World Trade Organization

1. Justification

Belize's past, present, and future are intrinsically tied to foreign trade. Its ability to integrate better with the regional market in particular, made up of Mexico, Central America, and the Caribbean Community and Common Market (CARICOM), and global markets in general (mainly the United States and the European Union) will determine its viability as a small state with the usual challenges: highly open economy vulnerable to external shocks, with a ratio of exports plus imports as a percentage of gross domestic product (GDP) of 130.7 percent in 2011, including goods and services (World Databank, 2011); small domestic market of just 339,000 inhabitants; limited public and private sector institutional capacity; relatively large weight of trade-related taxes; and exposure to natural disasters. Additionally, the country's export strategy is heavily dependent on fiscal support schemes that will have to be dismantled by December 31, 2015 (see Section 4).

Both recent technical literature (e.g., Taylor and Estevadeordal, 2013) and empirical evidence support the notion that expanded international trade and integration with the international economy is vital for economic growth and prosperity. Export growth is a necessary condition for sustained increases in GDP, foreign exchange earnings, and employment needed to reduce poverty and expand the middle class. Although exports of goods and services are already equivalent to two-thirds of Belize's GDP, export growth performance has been sluggish by regional standards. Exports are concentrated in few areas and destined to few markets (mainly the United States and the European Union) (see Figures 1, 2, and 3). At the same time, efforts toward a more connected and competitive economy should also include better market access conditions for imported goods and services that would improve competition and contestability in the national economy. Existing tariff and non-tariff barriers in Belize come hand in hand with a high risk for the creation of monopoly power and cartels (Rowland, Durante, and Martin, 2010). The use of foreign trade as a tool to increase the economy's productivity and competitiveness is a national strategy already contemplated within "Horizon 2030," Belize's long-term national development framework to "guide concerted action by all stakeholders involved in the development, implementation, and monitoring and evaluation of both long-term and intermediate sector programs and Government's long- and medium-term development strategies."¹ Moreover, the Medium-Term Development Strategy (MTES) 2010–13 includes enterprise development and

¹ For further information see <http://www.belize.gov.bz/index.php/horizon-2030>.

international trade capacity as priority areas.² Some positive developments are under way. For example, the government is currently strengthening the ability of the Belize Trade and Investment Development Service (BELTRAIDE), to attract foreign direct investment and promote exports, and also negotiating partial scope agreements with some neighbor countries.

This strategic alignment is a good first step. However, Belize's current trade policy favors only limited liberalization, which may be inconsistent with the overall goal of enhanced economic integration with its neighbors and major trading partners. An improved and modern trade policy framework and action plan is now required to make further progress on the country's strategic path. This is also necessary to overcome obstacles that are preventing Belize from obtaining greater benefits from foreign trade and enhanced economic integration as a source of economic growth, such as the cumbersome import licensing system, high tariffs, the concentration of exports in a few products and destiny markets, and the distorted incentive structure affecting trade in goods. Belize's enhanced connectivity to regional and global markets as a source of sustained economic growth faces important challenges, but also offers great opportunities.

2. Assessment

2.1. Mixed Performance of the External Sector

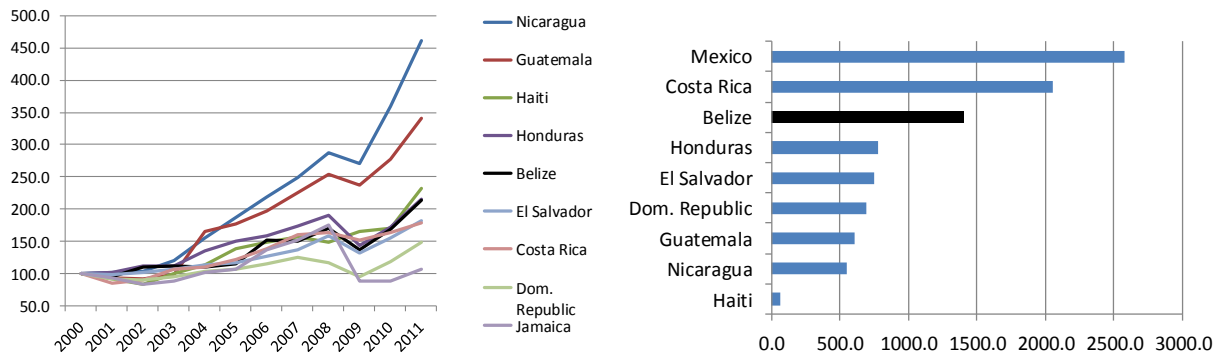
Belize's exports in goods have performed poorly compared to other countries in the Central American region. The lag was particularly apparent between 2000 and 2005—just before the beginning of petroleum exports in 2006 (Figure 1a)—a period characterized by higher growth rates in exports in neighboring countries.

² This covers measures to increase Belize's market access through better negotiating power and improvements in quality management and in the national quality certification capacity.

Figure 1. Exports of Goods

a. Evolution, 2000–11
(indexes, 1995=100)

b. Exports per Capita



Source: IDB/INT with data from the World Bank DataBank.

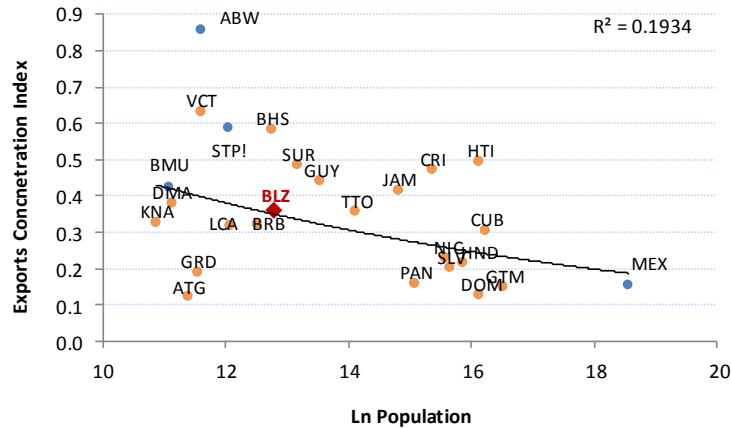
The value of Belize’s exports grew steadily from 2002 to 2008, dropped sharply in 2009, and then rose again in 2010 and 2011 (by 23.9 and 26.8 percent, respectively). These recent export levels exceeded the levels reached before the crisis.

Concentrated Export Basket

Exports have remained concentrated in a narrow range of products. A striking feature of Belizean merchandise exports is the small number of products that account for the bulk of sales. In addition, one “commodity” (i.e., tourism) dominates service exports (equivalent in value to merchandise exports), confirming that Belize has a highly concentrated export structure. This feature is illustrated in Figure 2, which compares Belize’s export concentration ratio with those of other countries in Central America and the Caribbean in 2011.³ This ratio, although typical for a country of its size, would decrease if Belize were able to significantly increase nontraditional exports. Although Belize is considered to have considerable potential in a range of products outside the “big three” of sugar, citrus, and bananas, to date it has not successfully expanded such exports, with the possible exceptions of papayas and marine products.

³ 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 2.

Figure 2. Export Concentration Index, 2011

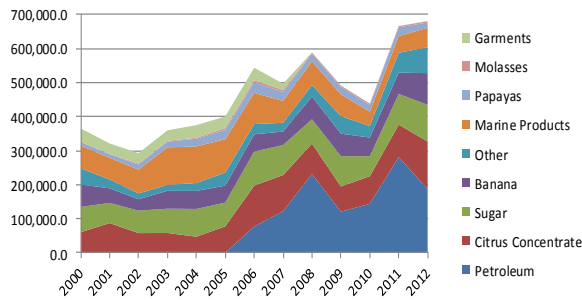


Source: UNCTAD database.

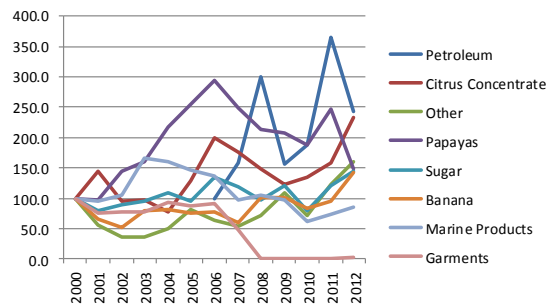
Based on data from the Central Bank of Belize (see <https://www.centralbank.org.bz/home>), with the demise of the clothing industry and the cessation of clothing exports, garments fell from a peak of 10.9 percent of total exports in 2000 to about 0.2 percent in 2012. Exports of frozen crustaceans also fell, from a peak of 30.6 percent of exports in 2003 to 8.4 percent in 2012 (Figure 3). Exports of agricultural goods increased considerably, from about US\$211 million in 2000 to US\$367 million in 2012. Increasing production of citrus fruits, papayas, and, to a lesser extent, bananas, drove this increase. Exports of sugar, which have varied from one year to the next, reached US\$108 million in 2012 but declined in relative importance as exports of other agricultural goods increased in the last decade. Practically all exports of citrus juice and papayas go to the United States, while exports of sugar and bananas go to the European Union. Exports of crude oil, which started in 2006, have increased rapidly, reaching US\$186 million in 2012. Crude oil is exported for refining to the United States and Costa Rica.

Figure 3. Total Goods Exports, by Sector

a. Total Goods Exports, 2000-2012
(Thousands of US\$)



b. Evolution of Exports, 2000-2012
(Indexes, 2000=100)



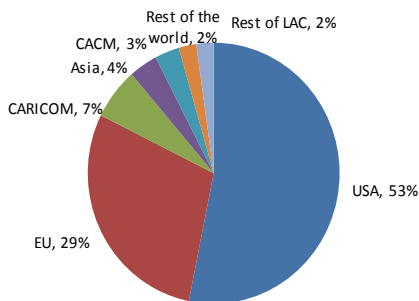
Source: Central Bank of Belize (<https://www.centralbank.org.bz/home>).

Concentrated Market Destinations

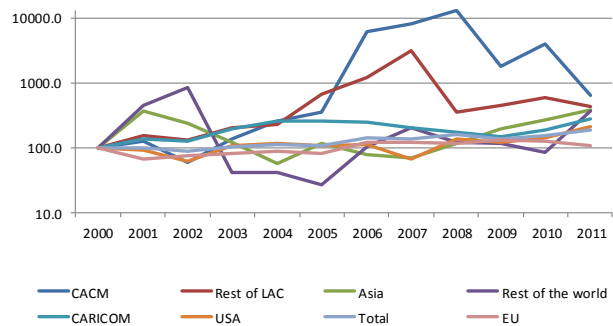
The main export markets are the United States (53 percent of total exports) and the European Union (29 percent) under preferential tariff arrangements (Figure 4a). While the share of total exports to the U.S. market has been increasing (from 26.8 percent in 2007 to 60.4 percent in 2011), the share to the EU market has been decreasing. In the case of Asia, the share has been rising consistently since 2007, while in the case of Central America it has been falling (after having peaked in 2008 at 18.4 percent, it fell to 0.8 percent in 2011). Strikingly, only a small proportion of Belize’s total exports go to its neighbors: CARICOM, Central America (excluding crude oil to Costa Rica), and Mexico.

Figure 4. Goods Exports by Destination

a. Distribution, 2009–2011
(percentage of total)



b. Evolution, 2000–2011
(indexes, 2000=100)

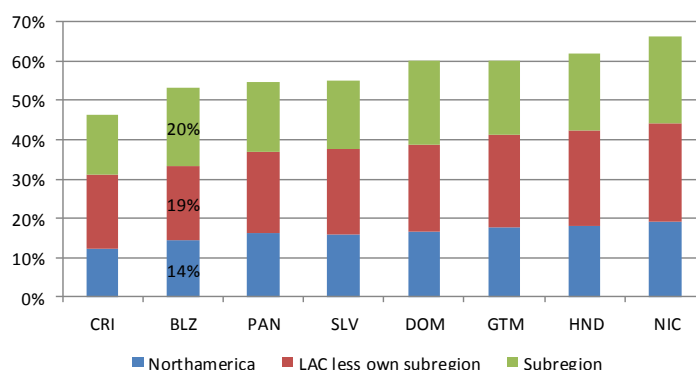


Source: IDB/INT with data from the United Nations Commodity Trade Statistics Database (UN-COMTRADE), 1996 revision of the Harmonized System (HS1996).

Rising Trend in Trade with Central America and Mexico

Opening new markets is a way of enhancing the diversification process, and in this sense, Central America and Mexico offer a non-negligible potential for integration and export growth. Figure 5 illustrates the estimated export potential of the Central American region and the Dominican Republic with respect to their own subregion, the rest of the Latin American and Caribbean (LAC) region, and North America (Canada, Mexico, and the United States). Belize is estimated to have reached less than 50 percent of its potential: that is, full trade integration (including reform of the policy and regulatory framework) and bridging the physical infrastructure gap with the United States may double the volume of Belize's exports. The estimated export potential is higher with Central America as well (20 percent).

Figure 5. Intraregional Export Potential in Central America and the Dominican Republic

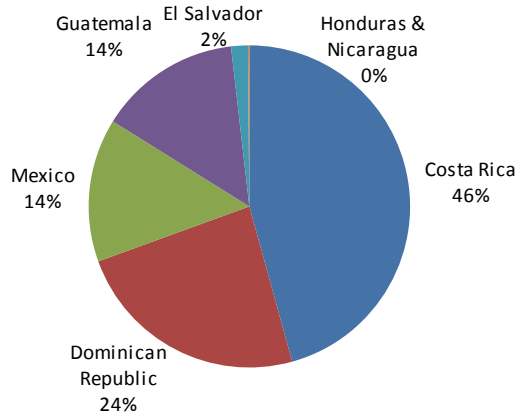


Source: IDB (2011).

Note: Unrealized share of potential exports within the Western Hemisphere under optimal scenario.

The majority of exports to the region comprising Central America, Mexico, and the Dominican Republic in 2011 were concentrated in Costa Rica (mainly crude oil) and the Dominican Republic (60 percent), while Guatemala and Mexico accounted for 14 percent each. The share of exports to El Salvador, Honduras, and Nicaragua was very low (see Figure 6).

Figure 6. Distribution of Exports to Central America, Mexico, and Dominican Republic, 2011

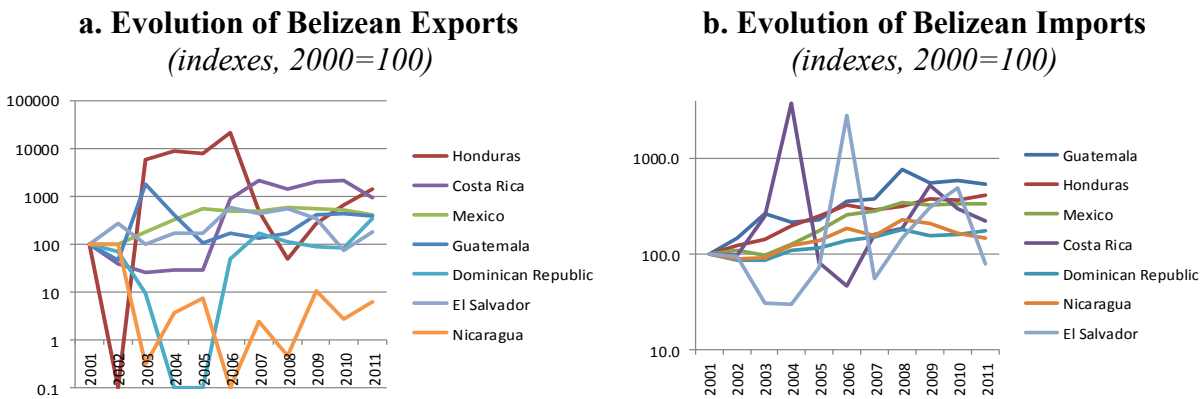


Source: IDB/INT with data from UN-COMTRADE, HS1996.

Note: Calculated using the “mirror method”; that is, exports from Belize are computed as the imports of Belizean products into each country.

The overall trend shows a significant growth in trade in the last decade, with the exception of the volume of exports to Nicaragua (see Figures 7a and 7b). Exports to Costa Rica grew from US\$2.1 million in 2001 to US\$19.8 million in 2011, and exports to the Dominican Republic rose from US\$3 million to US\$10.3 million in 2011. Exports to Mexico and Guatemala multiplied fourfold between 2001 and 2011. These two countries import the most from Belize: US\$76.2 million and US\$56 million, respectively, in 2011.

Figure 7. Trade with Central America, Mexico, and the Dominican Republic, 2001–11



Source: IDB/INT with data from UN-COMTRADE, HS1996.

Note: Calculated using the mirror method.

True Potential for Service Exports

The service sector is a key component of Belizean foreign trade. It represented 36.3 percent of total exports in 2011 and 23.8 percent of GDP (World Databank, 2011). Most of this (73.3 percent) is due to earnings from tourism. Apart from tourism and transport, an increasingly important category is other services, which represented 20.6 percent of total service exports in 2011 (Figure 8a). Within this category, financial and insurance services (US\$5.6 million) and communication, computer, and information services (US\$13.2 million) constitute especially dynamic segments. These types of services are those most related to the service offshoring industry, particularly with business process outsourcing (BPO) and information technologies outsourcing (ITO). According to BELTRAIDE, over the past six years, 13 call centers have been established in central Belize, creating more than 1,300 jobs.

The development of a market for the offshoring of global services in Belize is due primarily to its near-shore location to North America (the world's biggest client) as well as to South America, which gives the country a comparative advantage over most other LAC countries. Other strengths include the bilingual language skills of the labor force and lower labor costs. BELTRAIDE, with the technical support from Compete Caribbean⁴ and the Inter-American Development Bank (IDB), is conducting an assessment and designing a policy for the development of Belize's BPO potential.

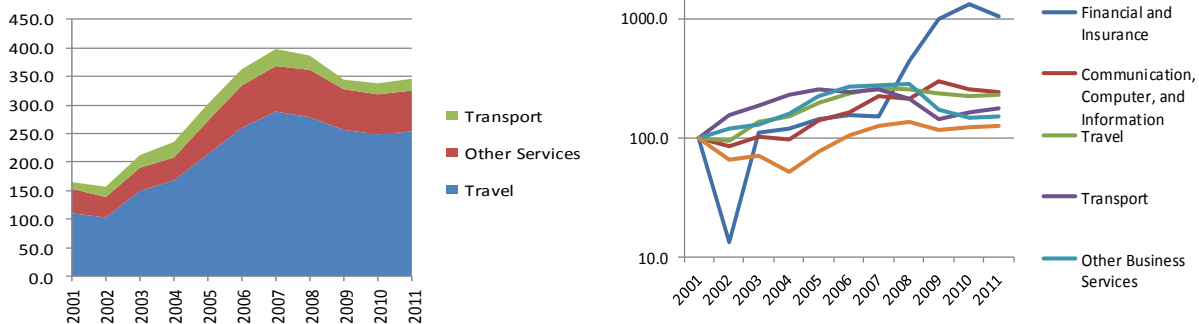
As the service sector becomes more competitive and globalized, organizations are looking to outsource their non-core functions to both reduce costs and to gain agility and efficiency, as well as access to newer talent and markets. Both ITO and BPO are important levers to achieve this objective. Global ITO-BPO expense was estimated to be US\$153 billion in 2011, out of which only 27 percent (US\$41 billion) was offshored. It is expected to grow at a 7 percent cumulative annual growth rate until the end of 2013, reaching a total opportunity of US\$52 billion (BELTRAIDE, 2013a).

⁴ Compete Caribbean is a private sector development program that provides technical assistance grants and investment funding to support productive development policies, business climate reforms, clustering initiatives, and small and medium-size enterprise development activities in the Caribbean region. For more information, see <http://www.competecaribbean.org/>.

Belize has the potential to expand its global service exports by enhancing its strengths and overcoming the challenges mentioned above. First, it has the opportunity to further step develop Voice BPO services and to start providing more sophisticated services, such as knowledge process outsourcing (KPO) services. Complementary to its focus on BPO Voice, and in light of new developments in the global outsourcing industry, Belize could diversify its exports and specialize in specific processes and in niche (or "vertical") markets, moving from low to high value-added, depending on customer needs. Verticals that could be of value to the country are related to banking and insurance, as well as healthcare and travel.

Figure 8. Service Exports

a. Evolution by Sector, 2000–2011 (millions of USD) **b. Other Services, Evolution by Subsector, 2001–11 (indexes, 2001=100)**

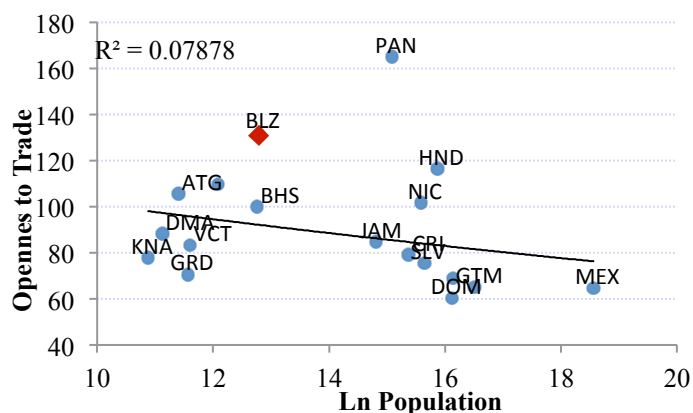


Source: IDB/INT with data from the IMF.

2.2. An Open but Protected Economy

Belize is highly dependent on international trade, and the performance of the country's economy remains vulnerable to extreme weather and terms of trade shocks. It is the most open economy in the Central American and the Caribbean region, as can be seen in Figure 9.

Figure 9. Country Openness⁵



Source: IDB/INT with data from the World Bank DataBank.

The openness of the economy is not a surprise, given the small size of the domestic market, but it should not be confused with liberal trade policies. Various sectors of the economy enjoy high levels of protection, particularly in food and manufactured goods, which remain excluded from substantial market competition. The current WTO-bound average tariff rate of Belize is higher than faster-growing small countries. According to the WTO statistics database (see <http://stat.wto.org/Home/WSDBHome.aspx?Language=>), Belize has bound 97.9 percent of its tariff lines: the entire agriculture tariff is bound, as is approximately 97.6 percent of the non-agriculture tariff. The average bound rate for all goods is 58 percent. The average bound rate is 101.1 percent for agricultural goods and 51.5 percent for non-agricultural goods. The unbound tariff lines concern mostly fish and fish products. Belize’s simple average most favored nation (MFN) tariff (excluding specific rates) was 11 percent in 2011. The average applied tariff for agriculture (WTO definition) is just over 20 percent, with tariffs ranging from 0 to 100 percent. For non-agricultural goods, the average is 9.6 percent, with tariffs ranging from 0 percent to 50 percent.⁶ According to the WTO Trade Policy Review of 2010 (see http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm), Belize’s tariff structure reflects CARICOM’s policy of according high tariff protection to agriculture and agro-processing products. Generally, unprocessed products have the highest tariffs, followed by fully processed products.

⁵ Measured as the sum of goods and service exports and imports as a percentage of GDP. Source: World Databank.

⁶ For more information about Belize’s tariff structure go to: <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=BZ>

Belize's tariff schedule is based on CARICOM's Common External Tariff (CET), applied by the countries participating in the CARICOM Single Market and Economy (CSME). The CET is composed of the following bands: 10 percent, 15 percent, 20 percent, 40 percent, and rates between 0 and 5 percent. In defining this structure, CARICOM sought to bring the CET into line with the rates applied by members of the Central American Common Market (CACM). However, tariff levels at the CACM are now lower. They are currently set at 0 percent, 5 percent, 10 percent, and 15 percent in accordance with the tariff policy.

There are major concerns regarding Belize's tariff structures. Potential efficiency losses can arise due to the dispersion of the tariff rate across product lines. As shown in Table 1, a significant percentage of agricultural imports takes place at 0 percent MFN applied duty (31.1 percent of all imports) or at the 15 percent to 25 percent MFN applied duty range (33.1 percent of all imports). This exemplifies the level of dispersion of agricultural tariff rates. The same occurs in non-agricultural products. The greater the differentials in tariff rates, especially within groups of like-products and thus substitutable products, the greater the chance that producer and consumer decisions would be distorted by the tariff structure. The implication is that very similar goods are taxed at significantly different rates, thereby increasing the complexity of the tariff structure and increasing the risk of misclassification and tax evasion (IDB, 2014).

Table 1: Structure of the Tariff Schedule

Belize												
Tariffs: Summary and duty ranges												
Summary		Total	Ag	Non-Ag	WTO member since					1995		
Simple average final bound		58.2	101.1	51.5	Binding coverage:					Total	97.9	
Simple average MFN applied		2011	11.0	20.4	9.6						Non-Ag	97.6
Trade weighted average		2010	15.5	25.9	13.2	Ag: tariff quotas (%)					0	
Imports in billions of USD		2010	0.5	0.1	0.5	Ag: Special safeguards (%)					0	
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	Non Ad Valorem (in percent)		
Agricultural products												
Final bound		0	0	0	0	0	0.7	84.5	14.7	0		
MFN applied		2011	11.6	36.4	1.5	4.0	13.7	29.7	0.9	2.2	3.6	
Imports		2010	31.1	10.5	0.4	7.3	33.1	3.8	2.5	11.3	12.5	
Non-agricultural products												
Final bound		0	0	0	0	0	90.7	6.7	0.2	0		
MFN applied		2011	3.8	66.9	3.5	3.8	17.8	3.3	0.5	0	0.5	
Imports		2010	6.2	31.0	6.9	21.1	21.7	12.7	0.5	0	20.7	

Source: WTO Secretariat statistics database, tariff profiles.

In addition to tariffs, environmental tax and a revenue replacement duty act as additional import duties. However, the separation of taxes on imports into three different categories adds to the administrative complexity, and the cascading nature of tax upon tax is perceived by the private sector as constituting a heavy tax burden. Finally, the country has a long list of products requiring non-automatic, burdensome, and costly import licenses.⁷

In sum, current trade policies provide substantial additional protection in excess of the CET. There is significant dispersion of tariffs, giving rise to different effective rates of protection for different activities. This dispersion likely affects the profitability of different sectors and the incentives to engage in them. It provides artificial protection for some uncompetitive sectors, while raising costs for competitive or potentially competitive sectors, creating an anti-export bias, and blocking the diversification into new activities. High trade barriers also create strong disincentives. Consumer ire with prices that are higher than the world market for food translates into general sales tax (GST) exemptions for food products (i.e., one distortion leads to another). Meanwhile, producers try to get around the high trade barriers by seeking duty exemptions through export processing zone (EPZ) and fiscal incentive programs. Exemptions for some create an uneven playing field and horizontal inequality—differential treatment across activities and even between different producers in the same activity. The significant dispersion of tariff rates, separate import duties, and exemptions for some producers create a complex system to administer.

The current trade policy before the WTO, shared with African, Caribbean, and Pacific states and small and vulnerable economies (SVEs), tends to maintain defensive stances regarding both non-agriculture and agriculture market access, and uses a target average reduction formula as opposed to the non-linear (Swiss) formula that would reduce the higher tariffs faster.⁸

The degree of trade liberalization in Belize, beyond its multilateral commitments and stances in current WTO negotiations, can be explained by the nature of the agreements it has signed. At the regional and bilateral level, Belize participates in various arrangements, from

⁷ The government has made a reduction of the list by half in 2013 (from 126) with 22 product categories.

⁸ The target average reduction formula, which is not applied on a line-by-line basis, will be applied by the SVEs. This formula consists of a commitment to reduce the existing average of all bound tariffs, or the tariff average in a given sector, to a new average level. What matters in this approach is the level of the new average itself and not necessarily the reductions involved to get there. The non-linear (Swiss) formula normally refers to mathematical constructions that seek to reduce the "high" duties by a bigger percentage than the "low" duties. This is a very attractive feature when tackling high tariffs, tariff peaks, and escalation. This formula would also make many developing countries squeeze water out of their WTO tariff obligations by bringing bound rates closer to applied rates and, in some cases, will also lower applied rates (Idem).

customs unions, to free trade and partial scope agreements (PSAs), to unilateral concessions. Almost in every case, the policy favors the same conservative and defensive approach described before for the WTO.

CARICOM

Belize has been a member of CARICOM since its establishment by the Treaty of Chaguaramas in May of 1974. Under CARICOM, there are three main categories of countries: most developed countries, less-developed countries, and disadvantaged countries. Belize is treated as both a less-developed country and a disadvantaged country, which entitles it to protect vulnerable domestic industries and to receive technical assistance to address development needs.

In 1989, the CARICOM member states agreed to advance beyond the common market toward a more comprehensive economic strategy. On January 1, 2006 the treaty was revised to incorporate the CARICOM CSME, which allows for free movement of CARICOM goods, services, people, and capital throughout the Caribbean Community.

Notwithstanding Belize's membership in the CSME, its value of trade with CARICOM remains very low, which is likely due to the distance and similarity of product basket. The broad scope for tariff suspensions and reductions and national derogations from the common tariff might also have an impact, although most members, including Belize, have adopted the CET. The originally agreed timeframe was 2006 to 2015 with two subphases: the single market (2006 to 2009) and the single economy (2010 to 2015). According to Belize's Ministry of Trade, this deadline will most likely be extended, partly because there is political resistance in the region arising out of differences in national circumstances and interests.

CARICOM has trade agreements with Colombia (signed July 1994), Venezuela (signed October 1992), the Dominican Republic (signed August 1998), and Costa Rica (signed March 2004), and a trade and economic cooperation agreement with Cuba (December 2000). Given the limitations of the member states due to their small sizes, CARICOM has sought various concessions from those agreements, such as longer implementation periods, exclusion of sensitive products from liberalization commitments, and asymmetrical tariff reduction commitments compared to larger, more developed trading partners. As a less developed country, Belize is not required to provide preferential treatment to goods imported from these countries. Currently, CARICOM is also involved in trade negotiations with Canada.

Partial Scope Agreements

In June 2006, Belize and Guatemala signed a PSA, which was entered into force in early 2010. This was the first bilateral trade agreement negotiated by Belize and an important step forward in the formalization of trade relations with Guatemala. Under the agreement, each party grants preferential access to a limited range of products from the other. The margin of preference is between 50 and 100 percent, and is implemented either immediately or in equal annual installments over three or five years. For exports from Belize to Guatemala, the agreement covers 72 tariff lines at the HS 8-digit level, all of which were entitled to enter free of duty from the start of implementation. However, two products (yellow maize and black beans) were subject to tariff quotas. For exports from Guatemala to Belize, the agreement covers 79 tariff lines at the HS 8-digit level, of which 16 have a preferential margin of 50 percent and 14 have an implementation period of three or five years. To date, the administrative arrangements are still to be completed to allow for full implementation of the agreement.⁹

Belize has a negative trade balance with Guatemala, although it is reported that a fair amount of illicit trading is taking place, particularly in maize and cattle. Transporting goods to Guatemala City is challenging because the appropriate arrangements to regulate trade are not in place, such as infrastructure and proper border crossing facilities. Consequently, trade has largely been illegal, and no official trade expansion is documented. Under the rules of the agreement, Belize is able to apply other duties and charges, which it applies to all MFN imports due to its tariff revenue dependency. The Belize National Export Strategy has specified that the full implementation of this agreement is very important. The agreement calls for not only the granting of preferential market access within its limited list of tariffs, but also the elimination of non-tariff barriers to trade and the establishment of clear regulations on technical sanitary and phytosanitary (SPS) measures.

The Ministry of Trade has listed a range of products being imported into Guatemala by other countries, which Belizean exporters can supply on a competitive basis. The Belize Business Bureau has identified a list of products as having export potential (including mango, melon, watermelon, pitahaya, spinach, broccoli, asparagus, cohune, macadamia, cashew, ginger,

⁹ See the Belize National Export Strategy, prepared by BELTRAIDE with the support of the International Trade Centre (2006).

all spice, cacao, pepper, and ornamental plants), which is an important sign that it would be beneficial for the country to move to a deeper integration agreement. The agreement includes the possibility of modifying or expanding the list of goods and their tariff preference margins. Following its experience with Guatemala, Belize has initiated negotiations to enter into a PSA with El Salvador, and is considering one for Honduras and Mexico for later in 2013.¹⁰

Economic Partnership Agreement (EPA–CARIFORUM)

In October 2008, Belize signed the EPA–CARIFORUM (Caribbean Forum) agreement. Under the EPA, the CARIFORUM countries must remove tariffs on up to 87 percent imports from the European Union (EU). For some products, the implementation period can be up to 25 years. As a less-developed country, Belize is entitled to modify tariffs for an indefinite period¹¹, subject to approval by the Joint Trade and Development Committee.¹² Like other CARIFORUM members and the EU, Belize may apply safeguards in the event that imports cause or threaten to cause serious injury to the domestic industry, disturbances in a sector of the economy, or disturbances in an agriculture market. CARIFORUM countries may also take safeguard action in the event that compliance with the EPA leads to problems with the availability of, or access to, foodstuffs. Under the EPA–CARIFORUM, the EU now provides duty- and quota-free access for all products with a transitional safeguard clause for sugar until 2015. The quotas for rice were removed by the end 2009 and for sugar on September 30, 2009. The EPA–CARIFORUM should be used as a model for effective policy formulation in other markets in Belize.

Unilateral Trade Preferences

Belize benefits from a number of unilateral trade preferences granted under the Caribbean Basin Initiative (CBI) and the Canadian Programs for Commonwealth Caribbean Trade, Investment, and Industrial Cooperation (CARIBCAN). The United States is Belize’s largest trading partner

¹⁰ Belize has not signed a PSA with Costa Rica. CARICOM and Costa Rica have a full FTA, which Belize ratified in 2011. However, because Belize is less-developed country, the FTA works as a unilateral preferential agreement where concessions are only given by Costa Rica. Negotiations with El Salvador were launched in March 2013, and preliminary negotiations with Mexico were started a few years ago; however, Belize has yet to produce their initial request of tariff coverage (list of products).

¹¹ Article 16.6 of the agreement allows the possibility to maintain tariffs, but Article 17, a special provision for less-developed countries allows for the modification of tariff commitments, including the possibility to raise them.

¹² Article 17 establishes that the level of modifications has to be compatible with the “substantially all trade” requirement of Article XXIV of the GATT. Therefore, this requirement limits the modifications and ensures that the agreement for Belize remains reciprocal.

for both imports and exports and, like most CARICOM partners, Belize maintains a historical merchandise trade deficit with the United States.

The Caribbean Basin Economic Recovery Act (CBERA) and the Caribbean Basin Trade Partnership Act (CBTPA), collectively known as the CBI, are the trade instruments that govern trade and economic cooperation between CARICOM countries and the United States. The CBI provides unilateral duty-free market access into the United States for nearly all goods from the beneficiary countries. Trade under this initiative now accounts for more than 70 percent of Belize's total exports to the United States, reflecting the current importance of the CBI to Belize.

The key U.S. policy issue in its trade relations with CARICOM is deciding whether to continue with unilateral trade preferences or begin negotiations with CARICOM for a reciprocal bilateral agreement. However, the United States has been less than enthusiastic. According to the rules of the WTO, the CBI is considered discriminatory because it goes against the MFN principle. The United States has been requesting waivers in order to be able to extend the benefits under this program. The current waiver expires on December 31, 2014. The elimination of the CBI initiative without a proper replacement with a Free Trade Agreement (FTA) would affect the competitiveness of the Belizean economy, given the importance of the U.S. market.

Canada's CARIBCAN program, created in 1986, extends duty-free treatment to nearly all qualifying imports from Caribbean Commonwealth countries., the program covers products other than textiles, clothing, footwear, luggage and handbags, leather, oils, lubricating oils, and methanol. CARICOM is engaged in the regional process of negotiating a Trade and Development Agreement with Canada. As in the case of the CBI, Canada has requested waivers for CARIBCAN at the WTO. The present extension expires December 31, 2013. Both Canada and CARICOM have pledged to conclude the negotiations before the deadline.

2.3. Weak Institutional Capacity

Belize faces constraints regarding the capacity of the government and its agencies to establish and manage trade policy strategy, the negotiation of trade agreements, and the implementation of commitments. These constraints, mostly in human resources and funding, limit substantially the ability of the public sector to adequately define and implement a national trade policy. The private sector has been providing the government with most of the trade data that it uses to determine trade policies and negotiate agreements. By addressing these constraints, the

government will be in a better position to balance the different interests of civil society and not only those of a specific sector of the economy.

The Ministry of Trade, Investment Promotion, Private Sector Development, and Consumer Protection¹³ (Ministry of Trade) is responsible for trade matters, including policy and negotiations. There is no clear institutional and legal framework that sets forth a process to establish trade policy and enable the participation of the private sector and civil society. In this respect, Belize has been relying on a number of official papers, such as the Medium-Term Development Strategy (2010–13),¹⁴ Horizon 2030, and the draft National Export Strategy (BELTRAIDE, 2103) to develop its trade policy. Those papers were the result of consultative processes with civil society, particularly the business community.

These strategies, however, have not been implemented. Coordination to share information with the private sector could be improved. Moreover, there is insufficient capacity to direct and manage trade policy and to take full advantage of access to foreign markets. According to the Ministry of Trade, there are important constraints in the formulation of trade policy, including lack of human resources, lack of technical capacity, and budgetary limitations.¹⁵ The Directorate of Foreign Trade, within the Ministry of Foreign Affairs, was dismantled in 2012. A new Foreign Trade Division at the Ministry of Trade is currently being structured. According to the WTO Trade Policy Review of 2010 (see http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm), Belize's major challenge is the capacity constraint to comply with WTO notification requirements; align national laws, rules, and regulations with WTO requirements and enforce laws and regulations, such as export subsidies, agriculture notification commitments, state trading enterprises, import licensing transparency commitments, the SPS Agreement, Agreements on Trade Remedies, and the Agreement on Technical Barriers to Trade; and to comply with the Agreement on Customs Valuation.

In past negotiations with Europe, Belize was highly dependent on CARICOM's Office of Trade Negotiations, as well as on the research and trade data generated from other institutions, specifically from the private sector. Therefore, one of the priorities of the Ministry of Trade with

¹³ Previously known as the Ministry of Economic Development, Commerce and Industry, and Consumer Protection.

¹⁴ Developed by the Ministry of Economic Development, Commerce and Industry and Consumer Protection.

¹⁵ Horizon 2030 indicates that the institutional capacity for engaging in trade negotiations is weak, and trade agreements, once concluded, are slow to be implemented because of lack of capacity in key related areas, such as regulation of export promotion, sanitary and phytosanitary standards, customs procedures, and shipping. The institutional weaknesses reflect human resource gaps and undeveloped institutional/regulatory structures.

respect to the development of trade policy is to build a trade intelligence unit and furnish it with the proper equipment and skilled economists to conduct the sectoral assessments and trade research needed to engage in trade negotiations and assess the implications of trade commitments. There is also a need to develop expertise in other areas, such as SPS issues, standards, market access, competition, intellectual property, and others.

2.4 Export Policy Based on Fiscal Incentives¹⁶

Belize maintains three programs involving tax concessions for exports: the Fiscal Incentives Act, the Export Processing Zone Act, and the Commercial Free Zone Act.¹⁷ A description of these programs and the type of incentives granted is provided in Box 1.

Box 1: Duty and Tax Concessions under Incentive Programs

<p>Fiscal Incentives Program</p> <ul style="list-style-type: none"> • Objective of program: encourage economic development through investments in the production of goods and services, especially nontraditional crops and value-added products both for domestic consumption and export. • Objective of subsidy: attract foreign investment, mobilize domestic investment, and generate foreign exchange earnings and employment creation. • Application of program to exports: tax exemptions for companies engaged in agriculture, agro-industry, food processing, aquaculture or manufacturing, and highly labor-intensive operations, for which production is strictly for export (incentives under this program are not all export-related). • Tax benefits: exemptions from import duties and the Revenue Replacement Duty (RRD) (the legislation also makes reference to tax holidays, but there has been a moratorium on these since 1999). • Applications for incentives made to the Minister of Trade, and duration of incentives is determined on case-by-case negotiations with firms (the Cabinet makes a decision based on a recommendation from BELTRAIDE). Generally, tax benefits are currently offered for two to five years, with the possibility of renewal in some cases. There are lower application fees for Belizean companies investing less than BZ\$250,000. • There are two programs under the Fiscal Incentives Act: a regular program and a program for small and medium-sized enterprises. <p>Export Processing Zone Program</p> <ul style="list-style-type: none"> • Objective of subsidy: attract new investment in the productive sectors of the economy, especially manufacturing, in order to increase exports and overall export supply capabilities, create employment, and foster the transfer of skills. • Application of program to exports: business must produce goods or services solely for export. Waivers may be granted when there is a shortage in the domestic market. In practice, sales to the local market are allowed after payment of all relevant taxes. • Tax benefits: 20 years (with possibility for extension). Exemption from business tax (and any future corporate taxes); withholding tax; capital gains tax; customs duties, and other taxes on imports necessary for the production and operation of the business, with specific criteria for fuel and vehicles (fuel must be for energy generation purposes, and imports of service and utility vehicles only benefit from tax exemptions (i.e., forklift and platform trucks); foreign exchange taxes; property, land, and transfer tax; and export taxes. Exemptions in perpetuity: any dividends paid by EPZ businesses. • An application to develop an EPZ or establish a business within it must be made to the EPZ Committee, comprising representatives from government ministries and private-sector stakeholders. According to the authorities, the exemptions are provided as indicated in the Act and its regulations; they are not negotiated.
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¹⁶ This section does not aim to providing an economic analysis of the incentives; rather, it lays out the WTO implications of the regime. Yet, the orthodox economic literature documents extensively the problems and distortions that export subsidies generate in international trade and global welfare, prompting the WTO to institute an aggressive prohibition.

¹⁷ The only legislative changes have been the enactment of the Export Processing Zone (Amendment) Act, No. 2 of 2004, which, *inter alia*, clarifies provisions relating to treatment of EPZ imports, and introduces a 2 percent business tax on EPZ businesses. In addition, the Free Zones Act (2005) replaced Commercial Free Zone Act.

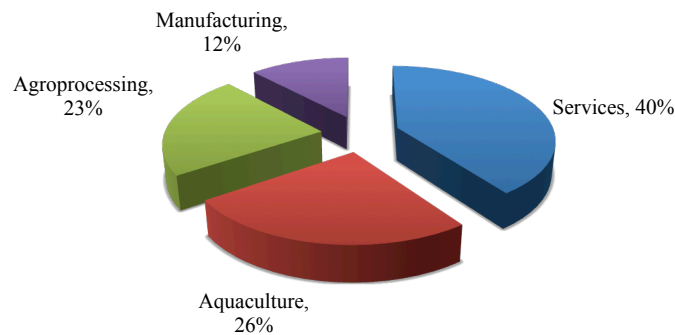
Commercial Free Zone Program

- **Objective of subsidy:** increase manufacturing and processing activities to generate new products for export markets, and therefore create employment in the border regions of Belize.
- **Tax benefits:** exemption from business tax, capital gains tax and any other new corporate tax for first ten years of operation. Thereafter business tax is applied at between 2 percent and 8 percent and may be reduced by up to 2 percentage points depending on the number of local workers employed. Exemption from customs duties and other taxes (import and export) and foreign exchange taxes. According to the authorities, tax benefits are not discretionary and are applied as set out in law.

Source: WTO documents: WT/TPR/S/238/Rev.1, 23 November 2010; G/SCM/N/211/BLZ, 2 September 2010; WTO document G/SCM/N/146/BLZ, 3 October 2006; Export Processing Zone Act No. 2 of 2004; and information provided by the authorities.

Currently, there are 56 companies registered and operating as EPZs and 300 are registered in the commercial free zone (CFZ) but only 197 companies are in operation. The companies that operate in the EPZ are prominently service-related and very few are manufacturing related. (Figure 10).

Figure 10: Percentage of EPZs by Sector



Source: BELTRAIDE (2013b).

The CFZ operates as a transit point for trade in goods, and the companies operating within the CFZ are mainly merchandise retail and wholesale operations.¹⁸ EPZs mainly comprise services, agriculture, agro-processing fisheries, and aquaculture companies.¹⁹ Most EPZs in Belize operate as a single factory, geographically independent, where there is not the usual tight Customs control.

¹⁸ The Commercial Free Zone Program has two types of designation: CFZ developers and CFZ businesses. There are six designated CFZs (two in Belize City (airport and port); two in Benque, one in Corozal, and one in Punta Gorda). The only CFZ currently in operation is in Corozal, located on the border with Mexico.

¹⁹ According to the Export Processing Zone Act, there are three types of EPZ designations: EPZ developers, which are businesses authorized to develop EPZs; EPZ businesses, which are companies authorized to operate within the EPZs; and, special EPZs, which are single-factory operations located anywhere within the country (but not within a developer EPZ).

Under WTO rules, Belize has the obligation to eliminate fiscal incentives that are contingent upon export performance. The three programs described above have been identified as providing export subsidies and have been notified to the WTO. Indeed, in July 2007, the WTO General Council approved an extension of these types of incentive programs through December 31, 2013, with the two-year phase-out period ending no later than December 31, 2015. Under the July 2007 decision, the Members receiving the extensions agreed not to seek any further extensions past the end of 2015 and to eliminate their export subsidies no later than that date. In other words, it was agreed that this was the last extension granted. Therefore, Belize will have to amend the programs notified to the WTO to make them compatible with the rules of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) before the end of 2015.

2.5 Trade Facilitation Constraints

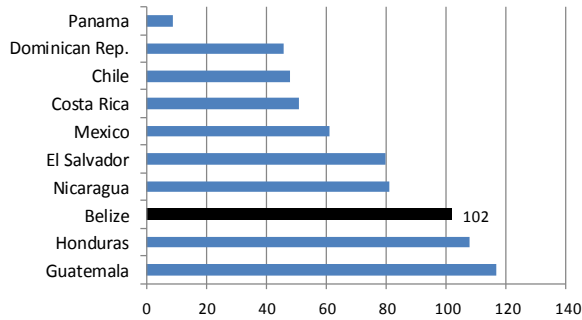
Despite the privatization of major ports and airport in the early 2000s, and some modernization efforts in handling customs data with the introduction of the Automated System for Customs Data (ASYCUDA), trade facilitation continues to be adversely affected by the poor quality of port and road infrastructure and poor logistics management, among other things. Belize is ranked a very low 102th internationally when it comes to cross-border trading (World Bank, 2013), with the average cost of exporting a container much higher than in Latin America and its neighboring countries (see Figure 11).

The cost of exporting in Belize, per container, is above the average for the Central American countries, with a value of US\$1,355 compared to US\$1,160. The cost of ports and terminal handling is well above what the exporters in Panama, the Dominican Republic, Central America, and Mexico pay, and higher than the costs of customs clearance and technical control and document preparation.

Figure 11. Competitiveness in the Export Process

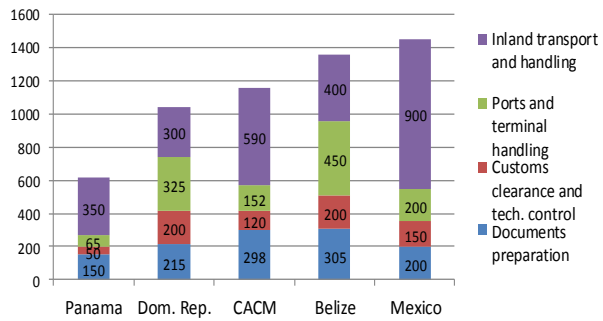
a. Trading Across Borders Index

(Ranking out of 185 economies)



b. Export Cost

(In US\$ per container)



Source: IDB/INT with data from the World Bank DataBank.

Notwithstanding the efforts that have been made in order to modernize the customs systems, there is still an important institutional and performance gap with the reference countries both in the region and worldwide. Several trade facilitation tools could be implemented to reduce the cost and enhance the competitiveness of trade transactions.

Last but not least, the problems associated with the lack of commercial security are particularly acute in border crossings. There is a limited ability to exercise systematic and effective cross-border trade flows due to inadequate border infrastructure and lack of technical means and coordinated border control processes to support and facilitate the work of customs officials and other border agencies.

2.6 Challenges for the Agriculture Sector: The Sanitary and Phytosanitary Constraints

Overall, the picture of agricultural exports is characterized by a high degree of concentration in five groups of products (citrus products, bananas, sugar, marine products, and papayas) and low dynamism in these products, with the exception of papaya and possibly the new types of farmed fish and cattle products. Belize has an important comparative advantage to export tropical fruits, such as pitahaya and guava. However, to gain market access, the country needs to improve sanitary control and monitoring systems. In the case of pitahaya, the fly that attacks it is different than the medfly, which is being controlled for the papaya subsector.²⁰ Therefore, new sanitary measures are required.

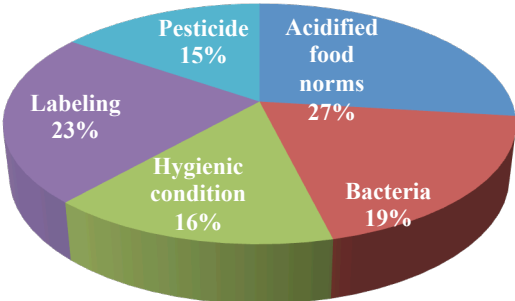
Considering the sanitary situation of the country, the Belize Agricultural Health Authority (BAHA) needs to carry out active surveillance to certify the pest- and disease-free

²⁰ After a strong campaign within the papaya sector, the country is currently free of the medfly.

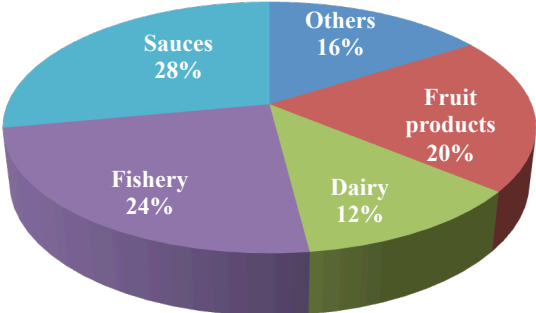
status, which would be necessary to expand its exports. Additionally, food safety measures are increasing demand since, emerging problems in this area can cause severe food-borne disease outbreaks in the population and among the tourists. As can be seen in Figure 12, lack of compliance with the U.S. Food and Drug Administration (FDA) food safety regulations on acidified products, as well as the detection of salmonella, have been some of the main reasons that certain food products have been refused at the U.S. border. The capacity to address this challenge adequately requires a better food safety control and monitoring system, mainly taking into account the increased stringency of FDA regulations with the recent publication of the Food Safety Modernization Act.²¹

Figure 12. Agricultural Exports from Belize Refused by the United States, 2002–12

a. By SPS Problem



b. By Product



Source: IDB/INT.

This situation makes it necessary to consolidate integrated food safety services to protect consumers and tourists, and to guarantee Belize’s ability to sell to foreign markets. However, difficulties in obtaining long-term investments and limitations in institutional capacity to support BAHA and BELTRAIDE activities have imposed challenges on the agriculture sector, mainly with regard to retaining programs for pest disease and food safety controls and surveillance.²²

Although the laboratory capacity of BAHA in plant health, animal health, and food safety has increased, and the quarantine facilities at cross-border points have improved, here is still a lack basic infrastructure and human capacity. Larger investments are needed to both meet

²¹ More information on the FDA Food Safety Modernization Act is available at <http://www.fda.gov/Food/GuidanceRegulation/FSMA/default.htm>

²² BAHA relies disproportionately on user-fees for its budget (around 60 percent), making its services too expensive for many users and undermining their future financial sustainability.

biosafety and quality assurance standards and—to increase efficiency and safety in quarantine services.

3. Policy Options

This section sets forth some proposals for Belize to overcome constraints to trade and export competitiveness. Based on the assessment described herein, the government has several options, which are outlined below.

3.1 Trade Liberalization

- a. Create a more transparent and level playing field in trade. Given that Belize has substantial trade protection above the CARICOM CET, it has substantial scope to unilaterally reduce or eliminate such protection even within existing trade arrangements. Such liberalization would entail the (i) sharp reduction in the application of tariffs in excess of 20 percent and consequently the dispersion of tariffs; (ii) elimination of trade licenses for economic reasons (i.e., maintaining licenses for health, safety, and environmental reasons where appropriate); (iii) elimination of the environmental tax; and (iv) elimination of revenue replacement duties.

The reduction of fiscal revenues from trade taxes would have to be compensated by increased revenues from other sources, particularly the general sales tax. The advantages of this option are that it would (i) be unilateral and completely under Belize's control; (ii) substantially reduce dispersion in effective rates of protections and distortions in economic decision-making; (iii) improve horizontal equity among producers; (iv) be the best way to address the obstacle judged to be most important by the private sector (high taxes), as although the overall tax burden would remain unchanged, the reduction in the number of import duties would reduce the perception of tax cascading; (v) greatly reduce pressures for side-stepping high trade protection, such as through the EPZ and Fiscal Incentives programs; (vi) simplify and facilitate the work of customs; and (vii) improve the profitability and growth prospects of products in which Belize has a comparative advantage and is competitive.

Some producers currently benefiting from high tariffs would need to close and others would become more efficient to survive. This could give rise to transitional

costs, although in the long run the closure of uncompetitive lines of production would benefit the country's overall economic welfare.

- b. At the multilateral level, continue to follow the SVE countries' strategy of slow liberalization and conservative/defensive stances in the WTO, and at the regional/bilateral level, continue the strategy of negotiating PSAs, including with El Salvador, Honduras, and Mexico. This option maintains the status quo by maintaining current levels of protection of certain sectors.
- c. Accelerate the pace of liberalization and economic integration, including adopting the Swiss formula for WTO bound tariff reduction and negotiating full FTAs at the regional level, in particular with Central American countries and Mexico. This option should include negotiations of different market-access baskets, with gradual liberalization, based on the asymmetries of the parties. Moreover, given the institutional constraints to handle multiple negotiations, it would be worth exploring possibilities of accession to current agreements, such as the Central America Free Trade Agreement–Dominican Republic (CAFTA–DR), to consolidate market access with the United States.

3.2 Institutional Capacity

- a. Maintain the current pace of institutional strengthening, with gradual capacity building programs. This option may not be compatible with the policy recommendations on trade liberalization or with the commitments to implement current agreements.
- b. Develop an enhanced institutional structure that supports the stronger role of trade in the economy. This option calls for a review of the current institutional set-up to determine the priority strategic areas for aggressive institutional strengthening, in terms of capacity to both negotiate and implement trade agreements. The analysis should include Belize's new Foreign Trade Division at the Ministry of Trade, the administration of SPS measures (stronger coordination between BELTRAIDE and BAHA), intellectual property, standards, competition policy, and customs. This option allows more time to determine priorities and lock in the necessary funding.

3.3 Export Subsidies

Belize will have to amend the programs notified to the WTO to make them compatible with the rules of the ASCM before the end of 2015. It has several options from which to choose in modifying the incentive regimes.

- a. Simple elimination of the export contingency element, so that the companies inside the regimes can sell their products in the domestic market. This option would not affect the incentives given to companies producing goods and services, although the incentives granted to companies producing or manufacturing goods could still be challenged (e.g., the Dominican Republic).
- b. Modify the programs so as to eliminate all de jure and de facto export subsidies. This option would directly affect the incentives and the way they are given for both goods and service sectors alike (e.g., Costa Rica)
- c. Modify the incentives to be generally applicable. According to the rules of the ASCM, a subsidy needs to meet two criteria: be a government financial contribution and be specific to an industry or sector. Therefore, if an incentive were applied horizontally, not specifically to an industry, it would not be a subsidy and would fall consequently outside the ASCM. Under this option, the government could continue giving indirect taxes and import duty exemptions. Those types of incentives are not prohibited by the ASCM, provided that certain conditions are met (e.g., countries of the Organization of Eastern Caribbean States).
- d. Elimination of the EPZ programs and maintenance of the Fiscal Incentive Program. This program would have to be adjusted to eliminate all export subsidy requirements de jure and de facto in order to comply with WTO rules. However, this adjustment would be simpler, given that the companies operating in the EPZs and the CFZ are mostly service related and the rules of the ASCM are not applicable in principle.
- e. Elimination of the programs. This is economically optimal option and would go furthest in reducing distortions in economic decision making. It would also be the simplest option for customs and other public officials to administer, and eliminate tax expenditures on these programs, further broadening the tax base and strengthening the fiscal position. It would go beyond ensuring compliance with the WTO and, instead, be oriented at a more

ambitious reform program to enhance economic and administrative efficiency (e.g., Chile).

3.4 Export Performance and Investment Attraction

- a. Maintain a focus on export goods with an enhanced role for BELTRAIDE as an export promotion agency. Investing in export promotion is key for Belize to project a positive country image and to help Belizean exporters create more business contacts, analyze markets, and identify niches in the global markets. It is all the more important in light of the efforts by several other LAC countries to transform their export promotion agencies. A general demand-driven approach may be useful here, to avoid preselecting larger sectors (picking winners under traditional industrial policy) that are already established.
- b. Development of the country's service offshoring sector, through the establishment of a promotion strategy based on the identification of priority sectors, strengthening the institutional architecture responsible for implementation of the strategy, initiatives for the development of the talent pool, and marketing promotion activities and programs.
- c. Improve agricultural exports. Belize has not effectively exploited the advantages that trade agreements provide to agricultural exports due to slow border crossing for agricultural goods and noncompliance with SPS requirements imposed by intra- and extra-regional trading partners. The main policy options for increasing exports of agricultural products include (i) improving efficiency in border crossings through the implementation of standardized procedures, implementing risk management, and strengthening quarantine services; (ii) issuing SPS certificates for exports and imports online; (iii) improving laboratory capacity to meet international standards and practices, thereby expanding the achievement of certification in accordance with ISO standards, Hazard Analysis and Critical Control Points (HACCP) certification, microbiological standards, and others; and (iv) improving risk assessment of pests and diseases for export products.

3.5 Reduce the Cost of Trade through Trade Facilitation Tools

In recent years, Belize has made progress in the area of trade facilitation. However, challenges remain, specifically in the areas of lowering trade costs and improving competitiveness. There

are several policy options to confront these challenges and, in turn, deepen trade facilitation measures and safety.

- a. Improve security and border control for trade flows. To do this, Belize could: (i) adopt the concept of coordinated border management, which would promote a comprehensive vision of border control, including fiscal and para-fiscal issues, such as illicit trade and contraband, but also public safety, SPS measures, and immigration controls, among others; (ii) integrate and balance the needs of public and private stakeholders with interests at the border, including local authorities, the private sector, and the population living nearby; and (iii) strengthen cooperation with institutions in neighboring countries to develop a model that promotes border coordination.
- b. Speed up the transit of goods through the International Merchandise Transit system, an electronic system for managing and controlling the movement of goods in transit that harmonizes previously cumbersome procedures and consolidates information and certifications from various authorities, including migration, customs, and health/agriculture. The project is based on three main pillars: (i) process reengineering, combining multiple paper-based declarations into a unique and comprehensive electronic document that gathers all data needed by customs, migration, and phytosanitary agencies; (ii) information technology, connecting the intranet systems of all agencies participating in the project and including state-of-the-art risk analysis and cargo control systems; and (iii) cooperation among countries.
- c. Facilitate and ensure the clearance process for exports. Strengthening cooperation between customs and the private sector is paramount for fast, secure trade. One of the mechanisms for implementing this collaboration is the creation of the Authorized Economic Operator (AEO),²³ which aims to facilitate the flow of the

²³ The AEO certificate is a trusted certificate provided to traders who meet certain requirements that demonstrate reliability regarding custom procedures, solvency, and security. It is granted to the operators involved in the international trade chain (individuals or corporations), provided that the professional activity of these operators is subject to customs regulations. This is the case for importers, exporters, manufacturers, holders, carriers, terminal operators, shippers, and others.

logistics chain with operators that offer security guarantees and customs and tax compliance.

- d. Simplify and automate foreign trade formalities. Following guidelines for compliance with international standards and good practices, it is important to accelerate the implementation of a single-window environment to facilitate interaction with the private sector and promote interoperability among government agencies involved in export and import controls and formalities. Single-window environments have a positive impact on competitiveness by reducing costs associated with the time spent processing trade-related operations.

4. Policy Recommendations

Belize's trade policy should pursue greater economic integration to overcome the constraints typical of a market of this size. The following objectives should be framed around the four pillars of the Aid-for-Trade Strategy: (i) infrastructure and trade facilitation, (ii) implementation of trade agreements and regional integration, (iii) SPS measures, standards and technical regulations, and (iv) private sector competitiveness.

1. Create a more transparent, unified, and level playing field for trade, with fewer distortions and exemptions.

The most urgent and important policy priority is to create a more unified and simpler trade policy with fewer distortions and barriers to trade. This would include: (i) eliminating trade licenses for economic reasons (i.e., maintaining licenses for health, safety, and environmental reasons where appropriate); (ii) eliminating the environmental tax; (iii) eliminating revenue replacement duties; and (iv) sharply reducing the application of tariffs in excess of 20 percent. As a result of the reform, trade protection for any given product would be in the form of a single import tariff and the dispersion of tariffs, and effective rates of protection would be substantially decreased.

2. Adopt faster trade liberalization through full FTAs and moving away from SVE policies.

Belize's trade is mostly covered by unilateral preferences (i.e., with the United States), but it is changing (EPA-CARIFORUM and CARIBCAN). With the integration process in CARICOM at a standstill and a very low level of trade with CARICOM, the time may have come to start

looking for new partners in the region. Belize's relative isolation from Central America and Mexico points to the need to improve those ties. Although Belize has taken some preliminary steps in this direction (with the PSA signed with Guatemala and plans for other PSAs with Mexico and El Salvador in 2013), a broader integration strategy is needed.

Partial scope agreements will likely maintain significant levels of protection for the Belizean private sector, which in the medium to long term can have a negative effect on the competitiveness of Belizean companies. There are several means by which Belize can improve its integration with Central America and Mexico:

- a. Negotiate an FTA with Mexico. Mexico is a source of demand for Belizean products with a high potential for further development. Access to this market could mean tapping into the large market of Quintana Roo in the short term, and the enhancement of global value chains in the longer term, in what can be considered to be the door to the United States. An alternative to this could be to join the Mexico-Central America FTA.
- b. Negotiate accession to CAFTA-DR. The incorporation of Belize into this regional agreement could not only grant free access to the U.S. market, but also to Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. This is a way of sparing Belize the cost and effort of negotiating agreements bilaterally. Accession to these agreements represents a major challenge, and it does not depend exclusively on the will of Belize. Yet, the country's geographical and cultural ties with Central America and Mexico can be a strong factor in making the case for the negotiations, and Belize is certainly no stranger to these neighboring countries (as it is already a member of SICA). Because accession to FTAs does not equate to automatic liberalization in all sectors, Belize could negotiate asymmetric benefits, identifying sensitive sectors for slower/gradual liberalization market access sectors. There may even be some sectors that would be excluded from the negotiations, but the scope and depth of the agreements would be far greater than doing PSAs.

3. Phase out fiscal incentive programs.

Since EPZs are tools to offset an anti-export bias in a distorted economy, they are a second-best policy measure (Madani, 1998). The first-best policy is to have a liberal, low-protection economy, as do Organization for Economic Co-operation and Development (OECD) members,

including Chile. A reduction in trade taxes would reduce the need and demand for exemptions and fiscal incentives. As suggested by Jenkins and Kuo (2006), it is possible to offset the reduction in fiscal revenues by increasing revenues from other indirect taxes, notably the GST and excise taxes. Import tariffs are not optimal instruments to raise revenue, and a combination of domestic taxes levied equally on domestic and imported products along with revenue neutrality with respect to tariffs will cause a lower efficiency loss (IMF, 1995). Jenkins and Kuo (2006) recommend that as a first step, companies registered as EPZ and CFZ should be subject to the business tax and other direct taxes. Under this scenario, EPZ could continue to be exempted from indirect taxes using duty drawback systems, among others.

There are some examples where countries have eliminated the incentives, particularly those related to direct taxes, while continuing to apply indirect tax incentives, such as import duties and other border taxes, duty drawbacks, and others. Chile, for instance, modified its fiscal incentive regimes through Law No. 19.589 of November 14, 1998, bringing them in line with Chile's WTO commitments. The incentives of the new regime have the following characteristics:

- a. A general scheme for the reimbursement of customs duties (Law No. 18.708, published on May 13, 1988)
- b. A system of temporary admission for inward processing (consisting of a special form of warehousing that allows companies producing goods for export to enter raw materials, semi-processed products, and parts and components from abroad without paying the import duties and other levies or value added tax [VAT]) (Decree No. 473 of August 28, 2003)
- c. A recovery of VAT (exporters of products and services may recover the VAT paid on the purchase of goods, inputs or services required for their exports) (Decree Law No. 825 of December 31, 1974).

This option would not only comply completely with the ASCM, but it would also increase economic efficiency. In addition, it would be by far the easiest option to administer, which could ultimately prove to be a crucial consideration for Belize. Nevertheless, the programs would have to be phased out over time, and firms that had already been awarded incentives would have to be grandfathered. Given macroeconomic imperatives and legitimate concerns about maintaining an

adequate level of revenues, increases in GST and excise tax revenues would have to be phased in to balance the reduction in import duties.

4. Enhance non-fiscal export promotion and tools to attract investments in the offshoring services industry.

- a. Develop a strategy to promote global service exports and identify the most appropriate segments of specialization in the industry, and elaborate an action plan.
- b. Assign responsibility for its implementation to a specialized leading organization and undertake capacity building initiatives.
- c. Conduct talent development initiatives tailored to the needs of the global services industry and implement innovative training programs in the global services industry.
- d. Implement innovative promotional initiatives to establish a national brand based on specialized global services.

5. Strengthen strategic institutions.

Belize requires improved public-sector institutional capacity to manage the increasingly complex intra-regional and global trade agendas and to facilitate trade. The need for strengthened analytical capacity is particularly crucial in the areas of design and implementation of trade agreements. Given the complexities of trade implementation and the efforts required on the part of the government, the recommended action is to conduct a thorough review of institutional arrangements with a view toward gradually developing a strategic plan with short- and medium-term actions.

Although the United States imports the majority of Belize's agricultural products, there are opportunities for substantial increases in exports to the Caribbean islands, Guatemala, and Mexico, provided that Belize improves its sanitary system by enhancing the institutional and technical capacity of its SPS authority and fostering better coordination between BAHA and BELTRAIDE. These institutions should work closely with specific agricultural value chains to help producers to comply with SPS standards and gain market access. Better coordination among these key institutions has increased efficiency, as can be seen in the successful case of papaya exports. This could be replicated with citrus, guava, and pitahaya.

Taking into account the financial investment constraints in BAHA and BELTRAIDE, the government should review national budgetary priorities with an eye to increasing fiscal support for the sector on a continuing basis, both to be able to fund SPS and trade priority programs and to provide recurrent account support for vital activities.

6. Improve agricultural exports by strengthening SPS capabilities.

It is important that BAHA maintain and expand pest control and surveillance programs as well as food safety related programs (HACCP, good manufacturing practices, and programs to control microbiological contamination). It should invest in the expansion of the HACCP certification and monitoring program, which was instrumental in facilitating fish product exports to the EU and the United States. BAHA could implement an HACCP certification system for processed fruit and vegetable and related products, taking into account the new FDA requirements.²⁴

More investment in trade-related infrastructure is essential to improve agricultural exports, specifically, laboratory facilities and quarantine stations at cross-border points to safely accelerate the clearance of agricultural products, as well as port facilities to inspect and store agricultural products. Both should be adequately equipped with trained staff and modern equipment. BELTRAIDE should provide better support to production and processing technologies to add value to the food products exported. Interventions should focus on products with greater comparative advantage and whose export success does not depend on preferential trade agreements.

7. Enhance border control and trade facilitation efforts.

Given the institutional capacity constraints, it is recommended that the implementation of the following three specific trade facilitation tools be prioritized.

- e. Improve border control and enhance security. Expansion of trade with Central America and Mexico may be limited unless illegal trade is reduced. This requires investments for improved processes, infrastructure, and equipment at border crossings.
- f. Implementation of the AEO. The most tangible benefits for certified AEO operators are decreased import and export processing times, reduced levels of inspection, and a certification provided by customs administrations and universally recognized for secure traders. The concept originated in the SAFE Framework of Standards of the

²⁴ More information on the FDA Food Safety Modernization Act is available at <http://www.fda.gov/Food/GuidanceRegulation/FSMA/default.htm>

World Customs Organization (WCO). The first programs were developed in the early 2000s, with the launching of the PIP programs in Canada and the C-TPAT program in the United States, followed by adoption of the AEO program in the EU and in several countries in Asia and the Pacific region (Japan, Korea, Singapore, and New Zealand). In the LAC region, there are seven operational programs (Argentina, Colombia, Costa Rica, the Dominican Republic, Guatemala, Mexico, and Peru).

- g. Further implementation of the single-window environment and International Transit System of Goods. This will have a positive impact on optimizing and automating foreign trade transactions, thereby enhancing the traceability of trade operations and goods, and help achieve interoperability with other country and regional platforms.

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