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POSSIBILITIES OF ECONOMIC COOPERATION BETWEEN BRITISH HONDURAS  
(BELIZE) AND CENTRAL AMERICA

(Preliminary version)



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EXPLANATORY NOTES

Symbols used

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

References to "tons" indicate metric tons, and to "dollars" United States dollars (conversions were made at a rate of exchange of \$1 B.H. = \$0.70 U.S.)

### Introduction

The question of economic cooperation between British Honduras and Central America can be considered in terms of two important economic problems that are facing this country. One of them is to find ways of achieving a more diversified economic structure. The very small size of the population (112 000) rules out any significant widening of productive activities solely on the basis of domestic demand. Hence, economic progress will have to continue to rely heavily, as in the past, on a high degree of specialisation in the export of primary products to metropolitan markets.

On the whole, this form of specialisation has served the country well. Although forest products, the historic staple of the economy, have entered a declining phase, two other commodities - sugar and citrus - have emerged as major exports. By 1964, these three commodities contributed jointly over one-third of the Gross Domestic Product. According to recent estimates the economy grew at an average rate of over 9 per cent per annum (in current prices) during the decade 1955-1964, with per capita product reaching a level of 334 US dollars in 1964.

Despite the rapid expansion of export agriculture in recent years, British Honduras has so far utilised less than 5 per cent of the total land area that is considered suitable for agricultural use. Accordingly, plans are already in train to expand the output of sugar and citrus, and to introduce the development of beef and banana production for export.

These plans for expanding the export sector confront the second major difficulty that may face the economy in the near future: namely, the weakening of international commodity markets, and the uncertainties attending existing commercial ties. In regard to the former, beef is the only commodity for which prospective world market conditions can be described as favorable. In the case of sugar, citrus, and bananas, most reports point to an actual or potential situation of excess supply.

The uncertain nature of current commercial ties relates particularly to the sheltered arrangements under which British Honduras markets her

primary exports, bearing in mind the interest of the United Kingdom in joining the European Economic Community. The entry of the United Kingdom into the EEC would at best expose British Honduras to competition from other overseas associated states of the Community. At worst, it might leave the country to face open competition in international markets, with the overseas associated states being given a competitive advantage in the British market itself.

Even if continued specialisation on primary exports can secure the desired growth in output, it is not known whether it can serve the needs for employment to the same extent. At the time of the 1960 census, unemployment was calculated at about 9 per cent of the labour force. Over 70 per cent of the unemployed lived in the urban areas, mainly in Belize City. This concentration can be related to the forces of urban drift, which have contributed to pushing the population of the capital city up to 36 per cent of the total population. Experience in other countries records a lack of success in securing a reverse flow of the urban unemployed back to the rural areas. For this reason alone, development policy must pay attention to the expansion of urban activities, especially manufacturing.

The prospects for expanding the manufacturing sector in British Honduras are severely inhibited by the small size of the domestic market. The local market cannot even accommodate plants of an economic size that are typical of the early stages of industrial development, such as textiles, footwear, cement, and food processing; far less industries producing intermediate and capital goods. Access to external markets will therefore be a decisive factor in the extension of the manufacturing sector. Under appropriate circumstances, it may well be that such markets can more profitably be sought initially in other developing countries, rather than in the more advanced ones.

There is the further consideration that a modern industrial sector demands an efficient infrastructure, including facilities for vocational and technical education, as well developed system of transport and communications and supplies of power at competitive prices. Here again, however, economies of scale intrude upon the feasibility of developing such facilities solely on the basis of domestic demand. But it may be

/possible

possible to secure some of these economies by the cooperative development of infrastructure with neighbouring countries.

The foregoing suggests that external economic policy will be confronted with the complex task of harmonising the more immediate needs of the primary-producing sectors with the longer-term requirements of the manufacturing and service sectors. This report attempts a preliminary analysis of some of the policy possibilities, with particular reference to the scope for closer economic ties with Central America. It has been prepared in compliance with Resolution 195 (IX), of the Economic Commission for Latin America. Recalling that British Honduras or Belize had been admitted as an associate member of the Commission, and taking into account the country's geographical situation and economic activity, Resolution 195 (IX) recommended:

"1. That the secretariat should take the foregoing reasons into consideration in order to relate the economic studies of British Honduras or Belize to the Central American economies;

"2. That the secretariat, with the consent of the Governments concerned, consider the possible repercussions of closer co-operation among them with a view to British Honduras' or Belize's joining, if and when opportune, the Central American Economic Co-operation Committee."<sup>1/</sup>

The present report also incorporates the findings of earlier studies carried out by the secretariat on specific sectors of the economy.<sup>2/</sup>

It consists of six sections. Section I reviews recent patterns of growth in the economy and describes some of the main prospects for development. Section II contains a brief survey of the existing trading and

<sup>1/</sup>Economic Commission for Latin America, Annual Report (30 March, 1960-15 May, 1961), (E/3486, E/CN.12/573/Rev. I), page 42.

<sup>2/</sup>ECLA, Electric Power in British Honduras, (CEPAL/MEX/1, TAO/LAT/Pend), April, 1965. "Transport of British Honduras and co-operation with Central America" (typescript, 4 September, 1964).

monetary arrangements of the country. Section III analyses the economic evolution and the institutional structure of the Central American Common Market. Section IV explores the possibilities of closer economic ties between British Honduras and Central America, with particular reference to trade and industrial development. Section V analyses the possible repercussions that the accession of British Honduras to the Common Market might have on her economy, and more specifically on the internal price and cost structure and the country's external ties. Section VI summarizes the main findings of the report.



## I. RECENT GROWTH AND DEVELOPMENT PROSPECTS IN BRITISH HONDURAS

1. Since the middle of the 1950's the economy of British Honduras has experienced a rapid rate of growth, primarily as a result of the expansion of its agricultural exports. Available data show that the gross domestic product (measured in current prices) rose from 15.8 million dollars in 1955 to 34.8 million in 1964; that is, at a cumulative annual rate of 9 per cent. (Table 1.) This has permitted a marked increase in per capita income, despite the high rate of population growth (3 per cent per annum). There are no estimates of G.D.P. at constant prices, but the partial data available indicate that the rise in the internal price level since 1955 has been relatively moderate. It can be said, therefore, that the annual growth of real income per capita over the 1955-1964 decade was probably not less than 4 per cent, even if allowance is made for the fact that the latest estimate of G.D.P. (at current prices) may be subject to some downward revision.<sup>1/</sup>

2. Projections of the gross domestic product beyond 1964, indicate expected increases to 37 million dollar in 1965, and 41 million in 1966. While sufficient information is not yet available to corroborate these forecasts, preliminary data on the production of export crops suggest that they might well have been realized.

3. As already noted, the main thrust for this expansion came from export agriculture, principally from sugar and citrus. The output on sugar increased more than twelve-fold between 1955 and 1965, from some 3 000 tons in the former year to 36 000 tons in the latter. (Table 2.) The big jump came in 1961 when output shot upwards to over 28 000 tons, compared with an average annual production of some 14 000 tons over the preceding three-year period. On the side of demand, this dramatic increase in production was facilitated by the receipt of a guaranteed price quota from the United Kingdom of 25 400 tons under the Commonwealth Sugar Agreement, and the similar grant

<sup>1/</sup> In particular, the procedures used for estimating the G.D.P. in 1964 may have yielded somewhat inflated estimates of value added in the service sectors. But it has not been possible to determine the extent of the error, if any, because the definitions of the service sectors for 1964 are not comparable with those utilized in the earlier estimates of G.D.P. for 1955-1959.

Table 1

BRITISH HONDURAS: GROSS DOMESTIC PRODUCT, TOTAL POPULATION  
AND PER CAPITA PRODUCT, 1955-1959, 1964-1966

Year	Gross domestic product (Millions of U.S. dollars)	Population (Thousands)	Gross domestic product per capita <sup>a/</sup> (U.S. dollars)
1955	15.8	78.3	202
1956	17.8	80.7	221
1957	16.6	83.2	200
1958	20.9	85.8	244
1959	21.4	88.4	242
1964 <sup>b/</sup>	34.8	102.9	338
1965 <sup>c/</sup>	37.0	106.0	349
1966 <sup>c/</sup>	41.0	109.0	376

Sources: Gross domestic product: British Honduras, Development Plan 1964-1970, page 5; Report of the Tripartite Economic Survey of British Honduras, May 1966, page 95; Population: Ministry of Finance and Economic Development, Annual Abstract of Statistics, August 1965, page 13; 1965-1966; United Nations, Monthly Statistical Bulletin.

<sup>a/</sup> Measured in current prices and converted at the rate of \$1 B.H.= \$0.70 U.S.

<sup>b/</sup> Preliminary estimates.

<sup>c/</sup> Projections.

Table 2

BRITISH HONDURAS; PRODUCTION OF SELECTED AGRICULTURAL  
PRODUCTS, 1955-65

(Thousands of tons)

Year	Sugar	Oranges	Grapefruit	Corn	Rice
1955	3	6	11	4	1
1956	3	4	5	5	1
1957	8	8	7	5	1
1958	12	11	8	5	1
1959	16	17	10	5	1
1960	14	29	9	3	1
1961	28	42	4	...	1
1962	26	24	8	...	1
1963	28	35	11	...	1
1964	34	30	9	...	2
1965	36	...	...	...	2

Source: FAO, World Crop Statistics: Area, Production and Yield, 1948-64, Rome, 1966; International Sugar Council, The World Sugar Economy, Structure and Policies, Vol. I, and Sugar Yearbook 1966

a/ Figures rounded to the nearest thousand.

of a quota by the United States, under its 1962 legislation, which is currently of the order of 10 160 tons.

4. From the standpoint of supply, the entry of Tate and Tyle Ltd., into local production in 1963, gave a considerable impetus to actual and potential output. The Company purchased the only sugar factory in the country, and expanded its capacity from 30 480 tons to 45 720 tons. It acquired also over 20 000 hectares of land, and began construction of a second mill, which went into operation in 1967. The new factory has an initial capacity of 30 480 tons; but the plant is so organized as to allow an expansion of some 71 120 tons, which gives the country a potential productive capacity of nearly 152 400 tons.

5. In the case of citrus, the output of oranges rose from 6 000 tons in 1955 to 30 000 in 1964, with the big spurt in production coming after 1959. However, the production of grapefruit showed a slight downward trend; and 1963 was the only year after 1955 when output reached the level of 11 000 tons which was attained in that latter year. In any event, after 1955, incentives to increase the production of citrus came from the establishment of orderly marketing arrangements in the United Kingdom, and the installation of another processing plant in 1963.

6. The growth of sugar and citrus production fortunately occurred at a time when forest products, the traditional export of the country, had entered a declining phase. Figures on production are not available; but the trade statistics show the value of exports of forest products as falling from 2.6 million dollars in 1950 to 2.1 million in 1960; 1.3 million in 1964, and some 1 million in 1965. The sharp fall in output and exports was occasioned by depletion in the stock of standing timber, and the damage done by Hurricane Hattie in 1961. Efforts to rebuild the stock have been constrained by the long gestation period of investment in forests, which for some species extends up to 80 years.

7. Although the expansion of exports undoubtedly generated growth in other sectors, it appears that no improvement was realized in the balance between commodity production for export, and for the domestic market. Comparative data for 1955 and 1964 show the percentage contribution of the

export-oriented sectors (sugar, citrus and forestry) to the G.D.P. as rising from 20 to 35 per cent; while that of the domestic-oriented sectors (the agriculture, livestock and fisheries, manufacturing and construction) fell from 35 to 21 per cent. (Appendix Table I.) In particular, the figures suggest that there was an absolute decline in the real output of food for the domestic market. Estimates of value added (in current prices) by "Other Crops" were 1.7 million dollars in 1959, and some 1.1 million in 1964. There seems also to have been a fall in the output of livestock and fisheries between 1959 and 1964, with the value added being 2.1 million in the former years and 1.2 million in the latter. Preliminary information in respect of the years since 1964 indicate some recovery in the output of local foodstuffs, though not in the total production of meat.

8. The mayor staples in local consumption are corn, rice, and beans. It is reported that up to 1959, there was self-sufficiency in corn, and small surpluses were exported.<sup>2/</sup> This position was apparently retrieved in 1965,<sup>3/</sup> but in the intervening years output fell because of drought, the use of land which had not lain fallow for long enough, and the switch by farmers in the Corozal District from corn to cane production. In the case of rice, output stagnated around 1 000 tons between 1955 and 1963, but reached over 2 000 tons in 1964, with further increases in 1965 and 1966.<sup>4/</sup> In the case of beans, output is highly volatile; with, it is said, one good crop in every four years.

9. Partial data on meat production, suggest that there was some increase in the output of beef, though not of pork. The output of mutton - of relatively minor importance - showed a slight but variable increase. Statistics on the number of animals slaughtered indicate a rise in the figures for beef from 3 554 animals in 1960 to 4 195 in 1964, and 4 241 in 1965. On the other hand, the number of pigs slaughtered fell from

<sup>2/</sup> British Honduras, Development Plan 1964-1970, page 48.

<sup>3/</sup> Report of the Tripartite Economic Survey of British Honduras, page 29.

<sup>4/</sup> Actual production figures for the crop years 1963/64, 1964/65, and 1965/66 were 1 225, 2 041 and 2 359 tons. Budget Speeches by the Premier and Minister of Finance 1966 and 1967.

5 939 in 1960 to 3 315 in 1964, and 3 131 in 1965. As far as fisheries are concerned, the total catch increased slightly, though fitfully, up to 1960.<sup>5/</sup> Beyond that there seems to have been some growth in the catch of lobsters, judging from the export figures. The value of exports of lobsters increased from just over 80 000 dollars in 1960 to nearly 320 000 in 1965.<sup>6/</sup>

10. The performance of manufacturing was more favourable than that of domestic foodstuffs. Value added rose from 0.6 million dollars in 1955 to 0.8 million in 1959, and to just under 1 million in 1964. The sector, however is relatively not very significant and accounts for little more than 3 per cent of the G.D.P. Apart from a plant producing clothing for export to the United States, most of the other industries in the country operate on a small scale or handicraft basis, and are confined to a narrow range of products - principally cigarettes, aerated beverages, ice, bakery products, some items of clothing and footwear, and furniture. Otherwise, a plant to extract resin from pine stumps, which began operation in 1962, closed down in 1965, because resources were depleted in a much shorter time than had been anticipated.

11. The construction sector registered the fastest rate of growth among the domestic-oriented sectors. Value added in that sector moved from 1.7 million dollars in 1955 to 2.7 million in 1959, and 4.3 million in 1964. Little information is available on the disposition of this sector. However, it is known that the expansion in the processing of sugar cane and citrus, the rehabilitation work arising from Hurricane Hattie, and increases in residential construction, were major contributors to the sector's growth.

12. There is a similar lack of information about services. Among the major components of this sector are Commerce & Distribution, Transport,

<sup>5/</sup> F.A.O. Yearbook of Fishery Statistics, 1964.

<sup>6/</sup> The available figures for output are 176 tons in 1963/64; 227 in 1964/65 and 225 in 1965/66. See Budget Speeches, op. cit.

Rent of Dwellings, Tourism, and Finance. Between 1955 and 1959 the composite growth of this sector was roughly equivalent to that of the entire economy; but its relative rate of advance tended to slow down thereafter, Transport was the only activity that the statistics show as keeping in step with the economy as a whole. A rough indication of activity in transport can be gleaned from information on the inward and outward movement of persons, the number of aircraft arrivals and departures, and the number of registered commercial vehicles and ships. (Appendix Table II.) This data reveal that gross arrivals and departures of persons both increased from just over 20 000 persons in 1955 to nearly 58 000 persons in 1965. The figures record also a jump in aircraft arrivals between 1961 and 1962, the precise figures showing a rise from 1 927 arrivals to 2 126. This latter level was more or less sustained in subsequent years.

13. It is also possible to draw inferences about the expansion of tourism from the crude data on transport. Most reports confirm that the growth in arrivals and departures of persons and aircraft, was partly due to an increase in visitors to the country. Although it is not possible to document this increase, it is believed that since the 1960's, the country has been accomodating some 2 000 to 3 000 visitors per year, with a current hotel capacity of about 177 beds.<sup>7/</sup> This low level of traffic indicates that the tourist industry is still virtually undeveloped, when compared with the islands of the Commonwealth Caribbean.

14. The government sector was among the more bouyant sectors, as its contribution to the G.D.P. increased from 14 per cent in 1955 to 16 in 1959; with that latter share being maintained in 1964. The growth in activity in this sector reflected principally the rising trend of current expenditure. Outlays on current items expanded from 3.5 millions of B.H. dollars in 1955, to an average level of 7.5 million in 1959/61, 8.9 million in 1962/64 and an estimated 10.2 million in 1965/66. On the other hand, capital expenditure, except for an extraordinary appropriation of 7.9 million in 1963 - reflecting peak expenditure on hurricane rehabilitation, has ranged generally around 3.0 million per annum. (Table 3.)

7/ Report of the Tripartite Economic Survey, op. cit. page 59.

Table 3

BRITISH HONDURAS: EXPENDITURE OF CENTRAL GOVERNMENT, 1955, 1959, 1960-66<sup>a/</sup>

(Thousands of B. H. dollars)

	1955	1959	1960	1961	1962	1963	1964	1965	1966 <sup>b/</sup>
<b>A. Recurrent expenditures</b>									
<b>Total</b>	<b>3 532</b>	<b>7 013</b>	<b>7 467</b>	<b>8 098</b>	<b>8 427</b>	<b>9 288</b>	<b>8 933</b>	<b>9 430</b>	<b>11 003</b>
1. General services	802	1 753	2 019	2 108	2 292	2 358	2 208	2 253	2 476
2. Economic services	1 716	2 181	2 093	2 109	2 507	2 950	2 588	2 656	3 249
3. Social services	703	1 655	1 877	2 301	3 250	2 555	2 731	2 878	3 486
4. Other	311	1 424	1 478	1 580	1 378	1 425	1 406	1 643	1 792
<b>B. Capital expenditures</b>									
<b>Total</b>	<b>3 386</b>	<b>3 388</b>	<b>2 329</b>	<b>1 317</b>	<b>3 531</b>	<b>7 931</b>	<b>3 744</b>	<b>4 078</b>	<b>3 790</b>
1. General services <sup>b/</sup>	...	260	225	156	83	148	200	174	211
2. Economic services	...	2 138	1 217	856	1 315	1 461	951	1 821	1 986
3. Social services	...	535	610	280	195	343	1 315	289	495
4. Other	...	455	277	25	1 938	5 979	2 278	1 794	1 098

Source: The Ministry of Finance and Development, Annual Abstract of Statistics.

a/ General services include administration and law and order; economic services, agriculture, forestry, lands, transport and communications, roads, etc.; social services, health, education, housing, social welfare; other, public debt, public buildings, pensions, grants to local authorities.

b/ Estimates.



15. The major items of growth in current expenditure were Administration and Social Services. Outlays on Administration rose from 1.7 million of B.H. dollars in 1959 to 2.4 million in 1966, and were estimated to reach over 2.5 million in 1967. Administration has consistently accounted for over 20 per cent of total current expenditure, reflecting the high cost of administrative overheads, the implications of constitutional advance, and the upward revision of wages and salaries. In respect of social services, expenditure more than doubled between 1959 and 1966 - moving from 1.7 million of B.H. dollars in the former year to over 3.4 million in the latter. These increases were concentrated mainly on education and health. Appropriations for education climbed from just under 0.9 million in 1959 to nearly 1.7 million in 1966, while those for health grew from some 0.7 million of B.H. dollars to 1.1 million. On the other hand, current appropriations for economic services (agriculture and the infrastructure) increased slowly, and tended to settle at an annual level of some 2.6 million. Economic services tended, however, to dominate the regular appropriations in the capital budget; but the growth recorded in these outlays after 1961 resulted almost wholly from expenditure on hurricane rehabilitation. Basically, the budgetary situation has been one of rising current expenditure, without parallel growth in the regular capital budget.

16. Up to 1963, and with the exception of 1962, British Honduras was in general unable to finance current expenditure out of current revenue. Nevertheless the deficit was sharply reduced in 1963 and surpluses began appearing from the following year, to the extent that the country was freed from Treasury control by the United Kingdom in 1967. Since 1932, the United Kingdom had been giving regular annual grants to meet the gap between current expenditure and revenue. Capital outlays are still being wholly financed from abroad, mainly on the basis of grants from the United Kingdom. (Appendix Table III.)

17. The lack of a greater degree of fiscal viability can be partly attributed to the narrow base of the tax system itself a reflection of the undiversified structure of the economy. Import duties are the predominant source of revenue, contributing consistently over 40 per cent of total receipts. The regular contribution of income taxes has somewhat improved, but is still less than 15 per cent of the total. (Appendix Table IV.) Otherwise, increased contributions to revenue came from miscellaneous taxes, such as oil mining and property licenses; and from non-tax items like fines and fees, and the repayment of loans. On the whole, tax receipts have tended to be somewhat erratic, obeying more the unsteadier trend of imports, as opposed to that of income. Their growth tended also to lag behind the rate of expansion of total output.

18. Despite the rapid increase in national income, the economy has enjoyed a considerable degree of wage and price stability. This may be attributed in part to the fact that the country is highly dependent on imports of consumer goods - particularly wage-goods - whose prices have been relatively stable over the past decade. Data on retail prices show that from June 1958 to June 1965, the composite index moved up by less than three percentage points. (Appendix Table V.) Of particular interest is the behaviour of food prices, which rose only in 1965, and then by some two percentage points. The stability of prices contributed no doubt to the virtual constancy of money wage rates. Except for some rates in sugar and citrus, mainly at the field level, minimum rates of pay in the principal sectors of the economy were much the same in 1965 as they were in 1960. Some gains were also registered in employment, although it is difficult to determine their precise magnitude, because of the lack of comparability in the statistical series. The general picture seems to have been one of persistent unemployment in the urban areas, while employment availabilities were rising in the rural sectors, at times requiring imports of labour from neighbouring countries.

19. The leading role played by external trade in the growth of the economy has already been discussed. The statistics show that the value of domestic exports more than doubled between 1955 and 1963, with some levelling-off in subsequent years. The precise figures were 4.9 million dollars in 1955, 10.8 million in 1963, 12 million in 1964, and 10.7 million in 1965. Re-exports showed also an upward trend between 1955 and 1962, increasing from 0.8 million dollars to 2.9 million. However, beyond the latter year they tended to revert to a lower level, being 2.2 million dollars in 1963, 1.4 million in 1964, and 1.6 million in 1965. Imports tended to grow even faster than exports, expanding from 9.2 million dollars in 1955, to nearly 19 million in 1962, 17.1 million in 1963, 20.5 million in 1964, and 22.9 million in 1965. (Table 4.)

20. The upsurge in the values of foreign trade was associated with changes in the commodity composition of both exports and imports. In the case of exports, the switch from timber to sugar and citrus was previously described. This is reflected in the growth in the contribution of exports of food to total values, from 22.5 per cent in 1955 to well over 60 per cent in the years 1961-65. On the other hand, the share of crude materials fell from 76.5 per cent in 1955 to some 30 per cent in 1961-65. (Appendix Table VI.) The major categories of imports consist of food, manufactured goods and machinery and transport equipment. Together they have accounted consistently for 80 per cent of total imports. The shares of food and manufactured goods showed little annual variation, the former being around 25 per cent of total imports, and the latter some 30 per cent. On the other hand, the percentage contribution of machinery and transport equipment expanded, especially after 1961, to reach about one-quarter of total imports, as opposed to 19 per cent in 1955. (Appendix Table VII.)

21. Changes in the composition of exports brought also some shifts in their geographical distribution. Historically, the United States was the major export market for the country's forest products. But the emergence of sugar and citrus as the major staples, changed the direction of exports

Table 4

## BRITISH HONDURAS: FOREIGN TRADE, 1955, 1959, 1960-65

(Thousands of U.S. dollars)

Year	Total exports	Domestic exports	Re-exports	Imports
1955	5 731	4 910	821	9 217
1959	6 694	6 198	496	13 196
1960	7 872	7 116	756	12 393
1961	8 681	7 831	851	15 044
1962	8 667	5 776	2 890	18 952
1963	13 000	10 801	2 199	17 089
1964	13 434	11 994	1 441	20 462
1965	12 225	10 652	1 573	22 919

Source: The Ministry of Finance and Economic Development, Annual Abstract of Statistics.

in favour of the United Kingdom because of the special marketing arrangements that were available there. Between 1959 and 1961, the share of exports going to the United Kingdom was well over 50 per cent, with the United States taking not more than 15 per cent. However, the United States' share tended to recover after 1961, reflecting the grant of a sugar quota by the Government of that country. The preferential arrangements with Canada for exports of sugar and citrus, was responsible also for Canada becoming the third most important market for the country's produce. As regards other markets, Mexico became the third largest market for total exports, with a share of some 8 per cent in 1965 - but this was due essentially to the growth of re-exports to that country. On the other hand, there was an absolute decline in the total value of exports to the Commonwealth Caribbean, with the proportions going to those markets falling from some 14 per cent in 1959 to 5 per cent in 1965. Little change took place in the export trade with Central America, as in most years sales to those countries accounted for no more than 1 per cent of total exports. (Appendix Table VIII.)

22. There were no noticeable changes in the geographical distribution of imports. The United States continued as the principal source of imports, with a share in total values that approximated to 40 per cent; and the United Kingdom occupied second place, with a share of some 30 per cent. The Commonwealth Caribbean ranked as the third largest source of imports, their proportionate share settling between 6 and 7 per cent. Mexico and Central America each maintained a share of roughly 1 per cent. (Appendix Table IX.)

23. The external payments position of the country has been characterized by a persisting deficit in the balance of merchandise trade. In most years the gap between imports and exports, was almost equivalent to the value of total exports itself. The trade deficit was financed mainly by official grants, and by direct investment from overseas. On average, grants alone financed nearly one-third of the deficit. Indeed, between 1959 and 1965, official transfers and inflows of private capital exceeded the deficits on current account; thus the currency authority and the commercial banks were able to build up their balances abroad.

(Appendix Table X.)

24. In summary, the performance of the economy since the middle of the 1950's has been encouraging. Notwithstanding the setback occasioned by Hurricane Hattie in 1961, the country has made important advances in the diversification of commodity exports. The expansion in production and exports of sugar and citrus represent significant steps towards harnessing the agricultural potential of the country. But the record of food production for domestic use indicates at least one direction in which further progress can be made. In general, achievements in the domestic-oriented sectors point to the magnitude of the task confronting economic policy, if a more balanced structure of production is to be attained in the future. Among other things, progress with diversification could widen the revenue base of the public sector. Despite recent improvement, the fiscal system is still unable to make more than a token contribution to the financing of capital expenditure. It should be possible also to reduce eventually the trade deficit, and consequently diminish the reliance on non-commercial inflows of funds balancing the country's external payments.

25. The potentials for future growth in the economy were subject to extensive examination by a United Nations Mission that visited the country in 1963.<sup>8/</sup> The report of the Mission was used as the basis for preparing the official Development Plan for the period 1964-70. More recently, a tripartite mission organized by the Government of the United Kingdom, the United States, and Canada, re-assessed the prospects for growth up to 1970 within the broad strategy outlined in the mission's report, and in the Development Plan. What follows is mainly a summary of the analysis and recommendations in the Tripartite Report. This report considered that a target rate of growth of 9 per cent per annum was feasible for the period up to 1970; principally on the basis of expanding exports of sugar, citrus, bananas, and meat, and of increasing the output of food for domestic consumption.

<sup>8/</sup> United Nations, A Development Plan for British Honduras,  
(TAO/BRHO/1 and Add. 2, 3 and 4), June 17, 1963.

26. Sugar production is expected to grow from 35 850 tons in 1965 to some 86 360 tons in 1970, or by an average annual rate of some 11 per cent. The basis for this projection is that cane already in the ground should yield an output of about 71 120 tons in 1967, with increases of 5 080 tons per annum up to 1970. It is hoped that the increased output will be accommodated by an enlargement of the United States Sugar Quota, and/or by competitive selling at world market prices - these prices being expected to improve over the next two or three years.

27. Similarly, the targets for citrus were set on the basis of existing acreages. It is anticipated that with young trees in the ground coming into full yield, the production of oranges will rise from 856 000 boxes to 1.28 million boxes; while that of grapefruit will increase from 243 000 to 570 000. Altogether, the expected expansion in production of fresh fruit and processed products, is calculated to yield an average annual rate of growth for the industry as a whole of 22.5 per cent. It is assumed that larger outlets will be found in the United Kingdom for fresh fruit and juices, and in both the United Kingdom and Canada for frozen concentrates. As far as bananas are concerned, the area under this crop is projected to expand from just over 600 hectares in 1966 to about 1 800 hectares in 1970. It is foreseen that the increased output could be marketed in the United States without difficulty.

28. Livestock is regarded as one of the most important possibilities for the future. It is estimated that there are more than 600 000 hectares of land that are well suited to cattle rearing; and it is considered feasible to increase the stock of cattle by 1970 to 75 000 head from the current level of 33 500 head. A recently constructed abattoir with a slaughtering capacity of 100 animals daily, was scheduled to commence operations in 1967. This is expected to permit the initial slaughtering of some 7 800 head per annum - 3 000 of which will be exported in frozen form, mainly to the United States. The scope for expansion beyond 1970 can be judged from the fact that projected increase in the stock of cattle up to that year, will utilize less than 5 per cent of the land resources that are suitable for cattle rearing. In addition, it is expected that pork production and slaughter will rise to a level of some 7 000 hogs per annum, in order to satisfy the estimated growth in the local demand for pork.

/29. In regard

29. In regard to the production of food crops for domestic use, it is anticipated that the country can achieve self-sufficiency in corn, beans and rice by 1970; and in the case of corn and rice, produce small surpluses for export. These targets are predicated on expected increases in yields by small farmers, and on the entry of large growers into production. For example, it is estimated that by 1970 the average yield of corn from small farms will rise to 20 per cent. And it is also expected that over 800 hectares will be planted by large growers, with an average yield of 3.1 tons per acre.

30. As in all projections of this kind, it is not difficult to raise certain questions with regard to the assumptions underlying the expected production and export targets. In the case of sugar, for example, world market prices in the near future may not be as favourable as foreseen in the report, and it may be difficult for British Honduras to place a substantial part of its production in non-sheltered markets. Similar difficulties might be encountered in finding external outlets for corn and rice, assuming that production of these foodgrains can be increased substantially in the next four years, so as to meet internal demand and provide appreciable surpluses for export. On the other hand, the external markets for beef are likely to be much more favourable, although the short-run production targets foreseen for British Honduras may have to be somewhat ambitious. On the basis of recent experience, however, it is reasonable to expect that sufficient foreign capital and management resources can be attracted to the industry so as to expand beef production rapidly during the 1970's.

31. The preceding considerations concerning world market prospects for sugar, foodgrains and possibly also bananas, however, are not of sufficient weight as to detract from the essential soundness of present development policy. Given the country's resource endowment and the constraints imposed by the smallness of the internal market, there seems to be no doubt that its future economic growth will have to rely heavily on the expansion of agricultural exports, and that intensive efforts should be made to reduce its dependence upon food imports. As will be seen in chapter IV, this conclusion is not affected by the possibilities of establishing closer economic links with the countries of Central America.



## II. THE EXTERNAL TRADING AND MONETARY ARRANGEMENTS OF BRITISH HONDURAS

32. It was observed earlier that the foreign trade of British Honduras is highly concentrated on two market areas --the British Commonwealth and the United States-- which account together for over 80 per cent of the country's exports and imports. This concentration has been influenced by a complex of special trading arrangements, notably those with the countries of the Commonwealth. The basic instruments governing trade relations between British Honduras and other Commonwealth countries are the Canada-West Indies Agreement, 1925, and the Ottawa Agreements 1932, which established a system of reciprocal tariff preferences between Commonwealth countries.

33. With certain exceptions, imports from the Commonwealth into British Honduras enter at rates of duty which are about one-half of those that are levied on competing goods from the rest of the world. In return, most of the exports of British Honduras are granted tariff preferences in major Commonwealth markets. The scope and importance of these tariff arrangements are illustrated by recent calculations of the exchange of preferential benefits between British Honduras and the United Kingdom. These figures show that some 99 per cent of the exports of British Honduras to the United Kingdom qualified for preference, and that the average margin of preference extended by Britain was some 15 per cent. On the other hand, between 87 and 97 per cent of British exports to British Honduras received preference, with an average margin ranging between 9 and 11 per cent.<sup>1/</sup> These preferential margins have been used to prepare rough estimates of the net gain or loss that accrues to each trading partner. The results show that the United Kingdom extends a notional subsidy to the exports of British Honduras of some 412 000 dollars per annum, while British Honduras gives in return an implicit subsidy to British exports of the order of 235 000 to 305 000 dollars. In other words, the net annual gain to

<sup>1/</sup> The margin of preference on any commodity is the difference between the Preferential and General (or Full) rates of duty, specific duties being converted to their ad valorem equivalents. The average margin of preference is the weighted average of the margins on individual items.

British Honduras from preferential tariff arrangements with the United Kingdom is estimated to be between 107 000 and 157 000 dollars.<sup>2/</sup>

34. Apart from tariff preferences, the United Kingdom extends other forms of differential treatment to some of the exports of British Honduras; and more recently the United States has begun to do the same in respect of sugar. A full appreciation of all of these arrangements requires an analysis on a commodity-by-commodity basis. In the case of sugar, the exports of British Honduras are regulated by the Commonwealth Sugar Agreement, which limits her total exports of sugar to Commonwealth markets, i.e. Britain and Canada, to 37 000 long tons per annum. Of this, the United Kingdom undertakes to purchase 20 500 long tons at periodically negotiated prices. For the period 1966-68, the basic price has been fixed at 121.80 dollars (43.10.0 pounds per long ton). There is also a special fixed payment to developing countries of 4.20 dollars (1.10.0 pounds per long ton), plus a variable payment that moves from 7 dollars (2.10.0 pounds per long ton) when the world market price is less than 86.80 dollars (31.0.0 pounds) to zero when the world market price is 109.20 dollars (39.0.0 pounds) and above. Thus, in 1966 British Honduras received a price of 143 dollars per long ton for her negotiated price of sugar.

35. The remaining 16 500 long tons can be sold in either Britain or Canada at world market prices plus preference. The tariff preference in Britain on sugar of 96° polarisation is some 10.50 dollars per long ton, while the Canadian preference is about 22.40 Canadian dollars. In addition, British Honduras has received since 1963 a quota from the United States, which is currently said to be equivalent to 10 000 long tons. United States quota prices are somewhat higher than the Commonwealth negotiated price. The overall result of these arrangements is that in some recent years, British Honduras received an average price for her total exports of sugar that was nearly twice the "world price" (Appendix table XI).

<sup>2/</sup> H. J. Johnson, "Commonwealth Preferences: A System in Need of Analysis", Lectures delivered at Duke University, N. C. 1964.

36. Exports of citrus fruit benefit from both tariff and quota arrangements. The margin of preference given to fresh grapefruit in the United Kingdom is 7 per cent; but canned grapefruit, and orange and grapefruit juices get no tariff protection. In addition, the United Kingdom maintains quantitative restrictions against competing supplies from the United States and other "dollar" countries. The current limits on import from dollar sources are 1.3 million dollars for canned grapefruit, and 0.8 million dollars for juices. The United Kingdom gives no tariff or quota protection to frozen orange concentrate, but Canada extends a 7 per cent margin of preference in that commodity. Little advantage is being taken of the Canadian preference, since the major portion of the country's production is re-processed in Florida, which makes it subject for the 7 per cent rate of duty.

37. The other major export, forest products, is eligible for small preferences in the United Kingdom, which range from 0.5 to 10 per cent. However, it is also relevant to consider the treatment extended by Britain to Commonwealth imports of bananas and meat, since these two commodities are of potential importance. In the case of bananas, exports from the Commonwealth are eligible for a preference of 21 dollars per long ton, which is equivalent to a margin of 13 per cent at current prices; moreover the United Kingdom maintains quantitative restrictions against "dollar" supplies. The preference on beef is relatively unimportant, and amounts hardly to as much as 5 per cent. In addition, in May 1963, the United Kingdom introduced measures for controlling imports of meat, so that home production would have a "proper share" in the future growth of demand.<sup>3/</sup> These measures will limit the extent to which British Honduras can take advantage of the British market for beef.

38. The future of all of these arrangements is uncertain because of the United Kingdom's decision to re-apply for membership in the European Economic Community. Among other things, the United Kingdom's admittance into the Community would very likely be conditioned upon conceding its

3/ FAO, Trade in Agricultural Commodities in the United Nations Development Decade, pp. 11/18, ccp 64/6 (1-11).

existing trading arrangements for meat, as well as semi-tropical and tropical products, with the possible exception of sugar. In this event, the conditions of entry of the products of British Honduras into the United Kingdom market would be the same as those of the European Community. In the case of citrus fruit, the Community's common external tariff has been fixed at 15 to 20 per cent for fresh oranges, 12 per cent for fresh grapefruit, and 21 per cent for orange and grapefruit juices. In addition, citrus fruit comes under the Community's common agricultural policy, involving support prices and variable import levies.<sup>4/</sup> It can be anticipated therefore that third countries such as British Honduras would be placed at considerable disadvantage in the British market against production from countries such as Italy and Greece. Moreover, British Honduras would be called upon to market her citrus on the same basis as countries such as the United States, which is said to be a lower-cost supplier, especially of processed products.

39. Much of a similar situation would apply in the case of bananas. The Community has fixed the common external tariff at 20 per cent, in order to accommodate the interests of the overseas associated states in Africa and the Caribbean. Moreover, British Honduras would also confront open competition from established suppliers like Ecuador and Central America. Market prospects are even less promising for beef, which is also subject to a system of support prices and variable import levies; and for which the self-sufficiency ratio (i.e. the ratio of domestic production to consumption) is not expected to fall below 92 per cent. Finally, British Honduras would find it difficult to compete with third country suppliers, such as Denmark, that are more favourably placed geographically. Indeed, Denmark has also applied for membership in the Community, thus making more problematic the position of other third country suppliers of meat.

40. One way of avoiding these possible consequences would be for British Honduras to seek membership in the European Economic Community as an

<sup>4/</sup> For details of the support policy for oranges cf, Bulletin of the European Economic Community, No. 1, 1967, p. 45, No. 3, 1967, p.40.

overseas associated state. The way to such entry, however, is not clear of certain obstacles that may be difficult to overcome, particularly if other Commonwealth Caribbean territories, with similar interests at stake were also to seek membership in the community. One of these may be the so-called "double membership" problem in regard to sugar. Assuming that the United Kingdom retains the Commonwealth Sugar Agreement, it will have to be decided whether British Honduras - and other Commonwealth Caribbean countries - will be allowed to take advantage of that Agreement, as well as the marketing arrangements that already exist within the Community. Furthermore, since all of the country's actual and potential exports will be competitive with production within the Community and/or its overseas associated states, it will have to be determined whether special safeguards are needed to avert "damage" to the level and growth of supplies from current Community sources. There may also be a "third country" problem. The grant of associate status to British Honduras may be interpreted as an increase in the incidence of discrimination against third country suppliers of citrus, bananas, and meat. In the case of citrus for example, this will involve such countries as Spain, Algeria, Morocco, and Israel; while bananas will be of concern to all of the producing countries in Latin America.

41. Even if the United Kingdom does not eventually join the European Economic Community, it cannot be assumed that existing preferential arrangements will necessarily remain intact. In recent years there has been some evidence that the United Kingdom is becoming disposed towards more multilateral policies in regard to the procurement of primary products. At the first United Nations Conference on Trade and Development, the United Kingdom expressed willingness, in principle, to extend preferences to all developing countries on a non-discriminatory basis. Since then some steps have been taken to liberalize imports of citrus fruit. Altogether, the uncertainties that attend the future directions of British commercial policies, point to the advantages that would be gained if British Honduras could achieve higher levels of efficiency and diversification in the export sector, as well as access to markets other than the traditional metropolitan centre.

42. As a result of its participation in the system of Commonwealth preferences, British Honduras enjoys already preferential arrangements with some non-metropolitan markets, notably in the Commonwealth Caribbean. It was observed earlier that up to 1960, the Commonwealth Caribbean constituted the third largest market for the country's exports; and has consistently been its third largest source of imports. In practice, the bulk of this trade takes place with Jamaica, which in 1965 absorbed some 98 per cent of the country's exports to the Commonwealth Caribbean, and supplied some 82 per cent of imports from that region. Exports to Jamaica consist almost wholly of lumber, while the main items of imports are petroleum products, manufactured goods (chiefly tin cans and cement) and chemicals mainly paints, cosmetics, and dentifrices (Appendix tables XII and XIII.)

43. The market of the Commonwealth Caribbean as a whole may however have greater potential interest for British Honduras, principally as an outlet for meat, and possibly also for paper. For example, the import demand in that region for fresh beef and veal was nearly 6 000 tons, in 1963, and is expected to reach 9 500 tons by 1969. Comparable figures for smoked and pickled beef are 2 500 and 3 700 tons. Altogether, the total demand for fresh and processed meat is estimated to reach some 29 500 tons by 1969. In addition, a substantial expansion is anticipated for dairy products. The demand for butter is projected to increase from 5 760 tons in 1963 to 7 600 in 1969, while that for cheese and curd is forecasted to grow from 3 900 to 5 200 tons. As far as paper is concerned, it is expected that the regional demand will grow from 61 200 tons in 1963 to 125 600 by 1975.<sup>5/</sup>

44. Existing tariffs on fresh beef in the region are generally low, and Commonwealth preferential rates range from zero in Antigua to 15 per cent in Jamaica. However, in recent years quantitative restrictions have been introduced in some territories in order to protect local production. On the whole, import licenses are granted liberally, except in Guyana, where

<sup>5/</sup> H. Brewster and C.Y. Thomas "The Dynamics of West Indian Economic Integration", Studies in Economic Integration, Vol. 1, Institute of Social and Economic Research, University of the West Indies (Kingston, 1967).

there is a complete prohibition of imports. A somewhat similar situation exists with respect to paper. The tariff treatment of newsprint extends from free entry in Trinidad and Tobago and Barbados to 15 per cent in Jamaica. In the case of other papers, preferential tariffs centre around 15 to 20 per cent.

45. Future levels of trade restrictions may be influenced by the progress that is made with the economic integration of the area. Decisive steps in this direction were taken by the Fourth Conference of Heads of Government of Commonwealth Caribbean countries held in Barbados in October 1967. Among other things, it was decided to enlarge the scope of the Free Trade Area Agreement that had been negotiated earlier between Antigua, Guyana and Barbados, so as to include all Commonwealth Caribbean states and territories willing to join. Accordingly, a revised draft Agreement establishing the Caribbean Free Trade Association (CARIFTA) has been preferred and is expected to be signed by the majority of the governments concerned in May 1968, with the exception of the Bahamas and British Honduras, who reserved their position on this point at the afore mentioned Conference. The entry into effect of the CARIFTA Agreement may be followed by increased trade restrictions vis-à-vis third countries, in order to take advantage of possibilities for regional import substitution. Meat seems to be an obvious possibility, bearing in mind the scope for increasing production in countries such as Guyana, Jamaica, and Trinidad and Tobago. Thus, future access to Caribbean markets may depend upon the terms which British Honduras can negotiate with that region.

46. As part of her commercial ties with the Commonwealth Caribbean, British Honduras has participated in joint negotiations of external marketing arrangements for her commodity exports. This has involved the periodic negotiation of sugar quotas and prices; the levels of protection afforded to West Indian citrus in the British market; and the revision of the Canada-West Indies Trade Agreement of 1925. The re-negotiation of the Canada-West Indies Agreement included also joint arrangements for the receipt of aid and technical assistance from Canada. It is believed that these joint efforts augmented the external bargaining power of the countries concerned.

47. The commercial ties between British Honduras and the Commonwealth are reflected also in the monetary and banking arrangements of the country. As a dependant territory of the United Kingdom, British Honduras operates a Currency Board system within the framework of the Sterling Area. The basic features of this system have been that local issues of currency are fully backed by holdings of sterling; a fixed parity is maintained between the local currency and the British pound; there is free movement of funds between the local economy and other parts of the Commonwealth; and there is broad adherence to a common policy of exchange restrictions vis-à-vis Non-Sterling Area countries.

48. These arrangements have been supplemented by other operating procedures, both within the private and public sector, that depend on London as the ultimate source and repository of liquidity. The commercial banks are branches of international concerns, with their main operating headquarters in London. The banks do not need to maintain stable reserve ratios, since they can borrow from their head offices if there is a sustained call on their reserve position. Alternatively, they can find a ready outlet for surplus liquidity in the London market, which is what has occurred in recent years. Similarly, it has already been observed that the insurance companies hold most of their assets in the form of overseas securities; and that public sector institutions like the Government Savings Bank tend also to do the same.

49. In recent years, some changes have taken place in these arrangements. Provision now exists for a fiduciary issue of up to 25 per cent of the total stock of currency. The Government Savings Bank has also been empowered to invest up to 30 per cent of its total deposits in the securities of the local government. Apparently no advantage has so far been taken of these changes. As far as the Sterling Area arrangements themselves are concerned, there has been virtually full convertibility of sterling on current account since 1959. But residual restrictions still exist on items such as travel outside of the Sterling Area, and on the repatriation of profits and capital by Non-Sterling Area residents.



50. The main advantage that can be said to accrue from participation in the Sterling Area, is that it gives British Honduras preferred access to financial markets in London. However, this facility is subject to the control exercised by the Government of the United Kingdom over overseas borrowing in the London market. Here again, it is not certain whether this arrangement would continue if Great Britain were to join the European Economic Community. As in the case of preferential trade arrangements the United Kingdom's external financial ties may have to be re-adjusted within the framework of the Community's policies in regard to capital flows and other external transactions with third countries.

51. Just as in the case of preferential tariffs, monetary ties between British Honduras and the Commonwealth Caribbean derive from their common participation in the Sterling Area, and from their connections with metropolitan commercial banks and insurance companies. These ties are wholly of an informal nature, and no quantitative evidence is available as to their importance. But it is conceivable that from time to time surplus liquidity held by commercial banks in British Honduras is utilized by branches in "deficit" areas in other parts of the Commonwealth Caribbean, and vice versa.<sup>6/</sup> Similar movements of funds may also take place between insurance companies. There is also mutual freedom of restrictions on intra-regional travel expenditure, direct investment and the repatriation of profits and dividends. Here again, the future of these ties may depend upon the progress that is made with economic integration in the Commonwealth Caribbean; and upon whether joint monetary arrangements will eventually part of such a scheme.

52. This very brief survey indicates that British Honduras participates in a network of external trading and monetary arrangements which may undergo transition in the near future. To the extent that this takes place, the country will have to weigh fully all of the alternatives that are open to it. Thus the uncertainties surrounding external economic ties, and the basic need for diversification, both influence consideration of the scope for economic cooperation with neighbouring countries, such as those of Central America.

6/ For a discussion of this possibility cf., A. Bloomfield "Central Banking Arrangements for the West Indies Federation: Issues and Policies", Studies in Federal Economies, No. 2, University of the West Indies, 1962.

### III. THE ECONOMIC EVOLUTION AND THE INSTITUTIONAL STRUCTURE OF THE CENTRAL AMERICAN COMMON MARKET

53. During the 1950's significant steps were taken to foster closer economic cooperation among the countries of Central America, and to intensify intra-regional trade. These developments were facilitated by the establishment in 1951 of the Central American Economic Cooperation Committee, which was set up as a subsidiary organ of the United Nations Economic Commission for Latin America. The Committee is composed of the Ministers of Economy of the various countries. Its main functions are to advise the member governments on joint measures designed to "develop agricultural and industrial production and the transport system in the respective countries, so as to promote the integration of their economies and the expansion of markets by the exchange of their products, to coordinate their development programmes and to establish enterprises in which all or some of these countries have an interest."<sup>1/</sup> In carrying out these functions the Committee has been assisted, at the technical level, by specialized subcommittees dealing with Trade, Agriculture, Electrical Energy, Transport, Housing and Statistical Coordination.

54. The Committee has undertaken a wide range of investigations into the economic problems and prospects of the area, and was responsible for negotiating the treaties establishing the Central American Common Market. These are the Multilateral Treaty on Free Trade and Central American Economic Integration (1958), and the Central American Agreement on the Equalization of Import Duties and Charges (1959). The main provisions of these two agreements were later consolidated and extended in the General Treaty of Central American Economic Integration (1960).

55. Since the signing of the General Treaty, the process of freeing intra-regional trade, and of establishing a common tariff, has been virtually completed through the adoption of six protocols.<sup>2/</sup> At the end

<sup>1/</sup> ECLA, Resolution 9 (IV), (E/CN.12/275), June 16, 1951.

<sup>2/</sup> Managua, December 1960; San José, July 1962; San Salvador, January 1963; Guatemala, August 1964; San Salvador, November 1965; Managua, November 1967.

of 1967, there remained pending only 29 tariff sub-items, mainly: wheat and wheat flour; crude oil and oil products; radio and television sets, passenger cars, and refrigerators, and accessories and parts thereof. The value of total imports of these non-liberalized items represented in 1966 some 15 per cent of the region's total imports.

56. The adoption of the free trade regime and the common tariff have given rise to a remarkable growth in the volume of intra-regional trade. Between 1961 and 1966, this trade increased from 37 to 176 million dollars, with the share of intra-regional imports in total imports rising from 7.4 to 18.8 per cent.<sup>3/</sup> All of the participating countries benefitted from this expansion in trade. In proportionate terms, the greatest increase was registered by Costa Rica, whose exports to the area rose from 2 million dollars in 1961 to 26 million in 1966. At the other end of the scale was Honduras, where exports expanded from 6.4 to some 22 million dollars (Table 5). At the same time, there was a marked increase in the dispersion of intra-regional trade between the five countries. This is reflected in a decline in the concentration of intra-regional trade between Guatemala, El Salvador and Honduras, which had a longer history of commercial ties between themselves. The share of trade between these three countries in total intra-regional trade fell from 75 per cent in 1961 to 54 per cent in 1966.

57. Data on the composition of intra-regional trade show that manufactures (SITC Sections 3 to 8) are now tending to dominate the commodity flows between the five countries. In 1966 they accounted for 72 per cent of total intra-regional imports as opposed to 52 per cent in 1961. At the same time, the share of food (Section 0) dropped from some 40 per cent in 1961 to 23 per cent in 1966. (Appendix table XIV.) Less than one-half of the increase in intra-regional trade in manufactures occurred among traditional items like processed foods, textiles, shoes, clothing, and furniture. The greater portion of the increase was concentrated on non-traditional items such as petroleum products, fertilizers, pharmaceuticals, cosmetics, and metal products.

<sup>3/</sup> On the basis of partial data available it is estimated that intrazonal trade rose to nearly 220 million dollars in 1967.

Table 5

## NETWORK OF INTRA-CENTRAL AMERICAN TRADE, 1961 AND 1966

(Thousands of U.S. dollars)

Importer	Exporter					
	Total	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
<u>1961</u>						
<u>Total</u>	<u>36 806</u>	<u>10 315</u>	<u>14 448</u>	<u>8 294</u>	<u>1 771</u>	<u>1 978</u>
Guatemala	8 867	-	6 789	1 224	45	809
El Salvador	14 663	6 786	-	6 577	712	588
Honduras	6 353	1 554	4 644	-	31	124
Nicaragua	3 877	922	1 406	92	-	457
Costa Rica	4 046	1 053	1 609	401	983	-
<u>1966</u>						
<u>Total</u>	<u>176 250</u>	<u>34 237</u>	<u>51 963</u>	<u>35 163</u>	<u>31 695</u>	<u>23 192</u>
Guatemala	55 885	-	27 192	10 614	8 936	9 143
El Salvador	57 528	23 910	-	15 971	9 996	7 651
Honduras	21 490	3 951	13 344	-	2 165	2 030
Nicaragua	15 288	2 120	5 542	3 258	-	4 368
Costa Rica	26 059	4 257	5 885	5 319	10 598	-

Source: SIECA: Anuario Estadístico Centroamericano de Comercio Exterior de 1965 and Cartas Informativas.

58. Closer study of the commodity structure of this trade reveals that there is a marked tendency for exchanges to take place in the same categories of goods. Nonetheless, it is possible to detect from the trade figures for 1965, certain patterns of specialization among the individual countries. As a broad generalization, Guatemala tended to specialize in items like processed foods, manufactures of rubber and paper, paints, and electrical appliances; El Salvador in cotton fabrics, textile yarn and thread, travel goods, oils and fats; Honduras in unprocessed food and crude materials; Nicaragua in footwear, metals and their manufactures; Costa Rica in chemicals, machinery, musical instruments, furniture, and clothing. These patterns of specialization will undoubtedly change as the structures of production and demand themselves undergo transition. But it is evident that the process of integration has already begun to permit each country to find lines of specialization within the context of a competitive market.

59. The instruments for increasing intra-regional trade are only one element, albeit a pivotal one, in the programme of integration. Other components of the programme include measures designed to promote the regulation of trade in basic grains; to harmonize patterns of industrial development; to construct a regional network of transport and communications, as well as integrate other types of infrastructure; to finance jointly development projects with a regional impact; to facilitate the settlement of intra-regional transactions through clearing arrangements; to work towards closer coordination of monetary policies and to develop common trade policies vis-à-vis the rest of the world. A full appreciation of the scope of the Integration Programme requires an analysis of the General Treaty, and of the special instruments that deal with some of the matters mentioned above.

60. The General Treaty committed the member countries to the establishment of a complete free trade zone (Article I), and the addition of a common external tariff within five years (Article II); this period having expired on June 4, 1966. In economic terms, the provisions of the General Treaty<sup>4/</sup>

<sup>4/</sup> An unofficial English translation of the text of the General Treaty is contained in the Report of the Central American Economic Cooperation Committee, 3 September 1959 to 13 December 1960, pp. 12/47, E/CN.12/552; E/CN.12/CCE/224.

do not amount to a full common market, since they do not include obligations with regard to the unrestricted movement of capital and persons. They approximate more closely to the arrangements for a customs union. A uniform customs code and a set of customs regulations have been adopted, but a unified customs administration is not yet in existence. Article I of the General Treaty provides for a full customs union; but the form, method, and date of establishment, are not specified.

61. The Treaty lays down rules with regard to the levying of internal taxes and charges on the production and distribution of goods. These ensure that such taxes are not discriminatory and do not otherwise violate the free trade regime (Article VI). Similar provision is made for the non-discriminatory application of regulations in respect of the distribution or retailing of goods (Article VII). In addition, the Treaty prohibits the grant by signatory states of direct or indirect export subsidies to goods destined for the intra-regional market. It disallows also other unfair trade practices and specifies a procedure for the adjudication of complaints. In particular, dumping is expressly prohibited, and criteria are laid down for assessing cases as they arise (Articles IX to XIV).

62. Other articles of the General Treaty provide for freedom of transit, and for the grant of national treatment to construction firms that are engaged in work that furthers the development of the regional infrastructure (Articles XV and XVI). Formal endorsement is given to the Agreement on the Regime for Central American Integration Industries; to the establishment of the Central American Bank for Economic Integration; and to the introduction of uniform tax incentives for industrial development - matters which will be considered more fully below.

63. In regard to external commercial relations, the General Treaty specifies that signatory states should not enter unilaterally into any new treaties with non-Central American countries that may affect the principles of the integration programme. It is further provided that the "Central American exception clause" should be maintained in any trading agreements that might be concluded with non-signatory states on the basis of most-favoured-nation treatment (Article XXV). While these provisions

/seem to

seem to refer only to new treaties, it would appear that Article XXIV of the Multilateral Treaty on Free Trade and Central American Economic Integration extends these obligations to existing treaties as well. Thus, in that Article, the contracting parties agreed that:

"... if any of the trade agreements they may conclude with other countries or their participation in other international arrangements should constitute an obstacle to this Treaty, particularly as a result of the provisions embodied in the other treaties permitting other countries to claim no less favourable treatment, they shall renegotiate or, as the case may be, denounce them at the earliest opportunity, with a view to avoiding the difficulties or prejudice which might ensue for the contracting states as a result of claims of that nature."<sup>5/</sup>

64. It should be noted that provisions of the Multilateral Treaty remain valid unless they are inconsistent with those of the General Treaty. Thus, it would appear that full participation in the integration programme requires the renunciation of any preferential trading arrangements that a member state might have with a non-member country.

65. There are no specifications in the General Treaty regarding forms and procedures for gaining membership. In particular, no provisions exist for associate membership. However, in a recent decision of the Economic Council the contracting parties have indicated their willingness to work out a special arrangement with Panama, whereby this country's full participation in the Central American Common Market would be achieved "through a gradual and progressive process which, with the necessary flexibility, would lead to the integration of their respective economies..."<sup>6/</sup> This would imply some form of limited or associate membership for Panama in the initial stages.

<sup>5/</sup> Consult unofficial translation of the text of the Multilateral Treaty in Report of the Central American Economic Cooperation Committee, 25 February 1957 to 10 June 1958, (E/CN.12/492; E/CN.12/GCE/151), p. 35.

<sup>6/</sup> Resolution No. 45 (CEC), Acta número veintiuno, Consejo Económico Centroamericano, August 1967.

66. The General Treaty established three administrative organs of the integration programme. The Central American Economic Council, consisting of the Ministers of Economy of the countries, was set up as the superior body for directing the integration programme, and for coordinating the economic policies of the member states. Below the Economic Council is an Executive Council, comprised of one official representative from each country, which is charged with the adoption of measures for implementing the Treaty and for resolving problems arising under its provisions. A Permanent Secretariat (SIECA) constitutes the third organ, and is designed to serve as a technical body to the Economic Council and the Executive Council. SIECA is located in Guatemala City, and has responsibility for the studies and preparatory work that are needed for negotiations connected with the integration programme. The Secretariat's responsibilities have recently been widened to include assistance to member states in the preparation of national development plans, and to help coordinate them within the regional framework.

67. As mentioned earlier, the General Treaty is supplemented by special protocols and agreements that deal with the coordination of policy in specific sectors and activities. One such instrument is the Special Protocol on Grains, which was signed in October 1965 and has been notified by all member countries. The central provision of the Protocol is that each national grain board must give priority, in meeting shortfalls in supply, to imports from other member countries. Extra-regional imports are only permitted after consultation with the other member states and will be subject to duties equivalent to the difference between import prices and internal support prices. Provision is made for a commission which will enforce the Protocol, and coordinate the pricing policies of the national grain boards. The ultimate purpose of the Protocol is to further the region's self-sufficiency in basic grains, thus promoting the more rapid development of domestic agriculture.



68. The instruments that have been devised for promoting industrial development on a regional basis are the Agreement on the Regime for Central American Integration Industries (1958), the San Salvador Protocol to that Agreement (1963), and the Central American Agreement on Fiscal Incentives for Industrial Development (1962).<sup>7/</sup> The first of these Agreements was designed to facilitate the establishment of the so-called "integration industries", namely, those which "require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity" (Article II). The products of plants so designated are granted free trade treatment by member states. In contrast, the same products made by plants not so designated, are granted successive annual reductions of 10 per cent in the applicable uniform Central American tariff, beginning with the entry into operation of the first plant enjoying the benefits of the agreement.<sup>8/</sup> The signatory states agreed also to grant "ample fiscal incentives" (Article VI) to these industries, by extending to them the benefits and exceptions prescribed by national legislation. It was further agreed that imports of similar products from non-member countries would not be given customs exemptions or reductions lower than the common external tariff.

69. The actual designation is to be made by special protocols for each industry in which the contracting parties would stipulate: a) the country or countries in which the plants will be located; the minimum capacity of the plants; and the conditions under which additional plants in the same industry might be designated; b) quality standards for the products, and any other requirements deemed necessary for the protection of consumers; c) regulations regarding participation of Central American capital; d) the common external tariff to be applied by all of the countries on imports of similar products into the area; and e) any other provisions which would foster attainment of the Agreement's objectives.

<sup>7/</sup> For unofficial English translations of the texts of these Agreements cf. Report of the Central American Economic Cooperation Committee 25 February 1957 to 10 June 1958 op. cit., and 13 December 1960 to 29 January 1963, pp. 22/27 and 55/62, E/CN.12/672, E/CN.12/CCE/303/Rev.1.

<sup>8/</sup> Thus, for example, the products of a second plant that is not eligible under the systems and is established in the third year that the "integration" plant is in operation would enjoy an immediate customs-duty reduction of 30 per cent, and would obtain total free-trade status within seven years.

70. Because it was foreseen that integration industries could make a significant impact on the development of the national economies concerned, steps were taken to ensure that they would be distributed between the five countries on an equitable basis. Thus, a Transitional Article was inserted to the effect that a contracting state would not be awarded a second plant until all of the five countries had each been assigned one. Thus far integration industry status has been granted to a tire factory in Guatemala, and to a caustic soda complex together with an insecticide plant, that are being constructed in Nicaragua. A protocol extending this status to a sheet glass factory in Honduras has been negotiated, and one is being prepared in respect of a second tire factory in Costa Rica.

71. The coming into effect of the General Treaty of 1960 modified somewhat the circumstances under which integration industry status could be awarded. For one thing, the progressive freeing of trade narrowed the range of products that could qualify for such treatment. Moreover, the contracting parties agreed in the San Salvador Protocol of 1963, that the granting of integration industry status would not limit or restrict trade taking place under the General Treaty. However, that Protocol set up a special system for the promotion of "new industries having particular significance for the economic development of the region" (Article 28). It provided for the granting of increases in the common external tariff for the products of these industries, on the condition that in every case the installed capacity of the industry concerned is equivalent to at least 50 per cent of regional demand.<sup>9/</sup> Under this arrangement, tariff increases have so far been granted in respect of electric light bulbs, glass bottles and agricultural hand tools.

72. It would appear, therefore, that with the exception of certain basic industries, regional industrial policy will rely in the future more on revisions of the common external tariff, than on the granting of differential free trade treatment within the area. In addition, the San Salvador Protocol amended the original provisions regarding the grant

<sup>9/</sup> Apart from this, applications can be made for tariff adjustments under the provisions of the Central American Agreement on the Equalization of Import Duties and Charges.

of fiscal incentives to these industries. Instead of receiving the benefits prescribed by national legislation, integration industries were now made eligible for a ten-year exemption on import duties and charges and/or internal taxes on raw materials and intermediate products used by them. They could also be granted further tax benefits under the provisions of the Central American Agreement on Fiscal Incentives to Industrial Development.

73. Under the Agreement on Fiscal Incentives, three main types of concessions are provided. These take the form of exemptions, for stipulated time periods, from the payment of: a) customs duties on imports of machinery and equipment, raw materials, semi-processed products, containers and fuel for industry (excluding petrol); b) income and profit taxes; and c) taxes on assets and property. Industries eligible for these concessions<sup>10/</sup> are placed into three categories - A, B and C. The benefits extended within each category depend upon whether the industry is new or already established, the former type being eligible for a higher level of concessions.

74. Maximum benefits are provided to Category A industries, which refer to those industries that produce industrial raw materials or capital goods, or produce consumer goods, containers or semi-manufactures with at least 50 per cent of materials of Central American origin. New industries in this category are eligible for duty-free entry of machinery and equipment for 10 years; 100 per cent duty exemption on imports of raw materials, semi-finished goods and containers for the first five years, 60 per cent exemption for the next three years, and 40 per cent for the next two years; total exemption from customs duties and charges on imports of fuel (except petrol) for exclusive use in the industrial process, for 5 years; tax holidays on income and profits for 8 years, and on assets and net work for 10 years.

75. Category B industries consist of those producing consumer goods, containers, or semi-manufactures, which make a significant net contribution to the balance of payments, have a high value added, and use raw materials, containers and semi-finished goods which in terms of value, are wholly

<sup>10/</sup> It should be noted that the Agreement covers only manufacturing industries. No attempt has been made thus far to unify national laws for the promotion of agriculture, forestry, mining and other activities.

or mainly of non-Central American origin. In the case of industries in this group, the duty exemption on imports of machinery and equipment extends for only 8 years. The duty concession on imports of raw materials lasts for 5 years - a 100 per cent exemption for the first three years, and a 50 per cent exemption for the next two years. The duty concession on fuel lasts also for 5 years, and is scaled down on the same basis as those for raw materials. The tax holiday period in respect of income, profits, assets and net worth is fixed at 6 years.

76. Category C enterprises comprise industries other than those in the two previous groups; those which solely assemble, wrap, cut or dissolve products; or those that are specifically identified in an annex to the Agreement (non-alcoholic drinks, wines, manufactured tobacco and toiletries). Industries in this group are only eligible for a duty-free concession on imports of machinery and equipment for a period of five years. In addition, industries in all of the three categories are entitled to an investment allowance in perpetuity: in that they can deduct from their taxable income and profits in any year, expenditure on machinery and/or equipment in that year which "serves to increase the productivity or productive capacity of the enterprise" (Article 9).

77. The Agreement will be administered on a national basis for the first seven years, and thereafter on a Central American basis. It has been notified by all member governments and was expected to go into effect in the course of 1968 together with an additional protocol, signed in September 1966, which provides greater benefits for Honduras.<sup>11/</sup>

78. It was recognized from the start that the establishment of a regional network of transport and communications was essential to the full merging of national markets. Thus, Article XIV of the Multilateral Treaty on Free Trade and Central American Economic Integration contained a pledge by the contracting parties to "endeavour to construct and maintain lines of

<sup>11/</sup> The text of the protocol can be found in Secretaría Permanente del Tratado General de Integración Económica Centroamericana, Acta Número Diecisiete Consejo Económico Centroamericano, Anexo No. 3

communication to facilitate and increase traffic between their countries" and to "endeavour to standarize the transport rates between their territories as well as the relevant laws and regulations". So far, the most progress has been made with road transport. An initial impetus had been given by the project for the Interamerican Highway, on which construction began before the Second World War and which is now virtually completed. The Highway extends for some 2 000 kilometers from the Guatemala-Mexico border in the north to the Costa Rica-Panama border in the south. The United States Bureau of Public Roads covers two-thirds of the construction costs with grants, and the countries pay the remaining one-third of the section in their territories.

79. Further steps to develop a regional road network were taken in 1963, when the five countries drew up a list of 13 roads, which were designated as "integration roads" - marked by the symbol "C.A.". It was proposed that the respective governments would carry out the necessary studies and construction in accordance with a specified schedule. The C.A. integration roads have a combined length of 5 258 kilometers. The construction of some 3 040 kilometers has already been completed; about 1 500 kilometers are under construction, and around 750 kilometers are still to be constructed. A major portion of the financing for this programme is coming from the Integration Fund of the Central American Bank for Economic Integration. This Fund was initially established at 42 million dollars, of which 35 million was provided through a USAID loan, and the remaining 7 million by the five national governments. It was agreed that in the first stages, the Fund should be used to finance the improvements or construction of roads within the regional network. Accordingly, by the latter part of 1966, the Central American Bank for Economic Integration had already committed 30 million dollars for the road programme.

80. The development of the road network has been complemented by a series of agreements designed to standarize procedures and regulations with respect to road traffic. Among these are the Central American Agreement on Road Traffic (1958), the Central American Agreement on Road Signs and Signals (1958) and the Regional Agreement on the Temporary

Importation of Road Vehicles (1956). The five countries have also adopted uniform construction specifications and design standards for roads and bridges, consisting of a Manual for Roads and Bridges construction and Design Norms for Bridges.

81. Considerable advance has also been made in the field of maritime transport, although no formal agreements have been signed. The member countries have now under consideration drafts of a Uniform Maritime Code (TAO/LAT/27) and of Ports Code (TAO/LAT/28), which have been prepared with the assistance of experts provided by the United Nations Development Programme (UNDP). In addition, work was initiated at a recent meeting of the national institutions concerned, towards the creation of an Association of Central American Port Authorities and a Central American Shippers' Council.<sup>12/</sup> As far as air services are concerned, one significant development has been the establishment of the "Corporación Centroamericana de Servicios de Navegación Aérea" (COCESNA). This organization was set up by a treaty signed in 1964, and is charged with the operation of all air communications and air navigation facilities. The services of COCESNA are available to all users of air space on a non-discriminatory basis at standard user fees. COCESNA not only operates the facilities within the common market region, but also supplies voice and teletype connections with Panama and Miami. Beyond this, plans are well advanced for establishing a regional network of telecommunications, that would cater to intra-regional traffic from Panama through Mexico, and integrate intra-regional traffic as well. The plans for this regional system include the harmonization of rates, the standardization of equipment, and the joint procurement of equipment through common bids. In April 1966 a treaty on telecommunications was negotiated between the countries of Nicaragua, El Salvador, Guatemala and Honduras. The treaty provided for the establishment of a Regional Technical Commission on Telecommunications (COMTELCA), which will be

<sup>12/</sup> Cf., Comité de Cooperación Económica del Istmo Centroamericano, Informe de la primera reunión del grupo de trabajo sobre transporte marítimo y desarrollo portuario (E/CN.12/CCE/SC.3/22).

responsible for administering the regional aspects of the programme. COMTELCA has prepared a regional plan for the period 1970-1980, which is not under active consideration.

82. Work towards the joint development of infrastructure, extends to electricity. The preparatory work in respect of electricity is being undertaken by the Electrification and Water Resources Subcommittee of the Central American Economic Cooperation Committee, with technical studies and advice being provided by the Central American Electrification and Water Resources Mission of UNDP.

83. The work programme of this subcommittee includes the provision of technical assistance to the respective countries in the preparation of their national electrification programmes, and in the evaluation of their water resources. Studies are also done of the feasibility of regional electrical interconnections, and of the combined development of national resources for the production of energy. Other spheres of the subcommittee's activities are the preparation of standards for design, construction, and operation of electrical systems; and the improvement of the technical and administrative efficiency of the public electrical enterprises in the region.

84. In the field of education, efforts are being made at varying levels and by different agencies, to evolve an integrated educational system for the region as a whole. At the primary and secondary levels, a basic framework for harmonization of the national systems was laid out in the Central American Agreement on the Basic Unification of Education of June 1962. The Agreement went into force in October 1963, when it was ratified by three countries; and final ratification by all signatories was accomplished in September 1966. The Agreement sets out broad guidelines for educational policy. It provides for the basic unification of systems, plans and study programmes, and contains commitments in terms of educational goals to be achieved. Among these are the obligation to establish facilities for six years of schooling in both urban and rural areas, with a minimum of 200 days of classes based on prescribed curricula and syllabi.

85. The Agreement deals also with desired reforms and cooperation in school administration, teacher training, and vocational and technical education. In addition, it provides for regional recognition and acceptance of certificates issued by the primary, secondary, and teacher training institutions of any one of the signatory countries. These efforts at harmonization are being supported by the work of the Regional Textbook Development Center, which operates under the aegis of ODECA. The Center develops and makes available for national distribution, textbooks and teaching guides which correlate with the curriculum of the countries in the region. Most of the Center's work has so far been concentrated on the primary level; but it is expected that it will expand to include secondary and vocational education as well.

86. At the University level, integration is being fostered both among the public and the private universities. The former established the Confederation of Central American Universities (CSUCA) in 1948. CSUCA is designed to strengthen and improve higher education in the region, principally through complementary development of teaching and research programmes, and joint rationalization of degree courses and structures. Similar objectives governed the formation in 1966 of the Federation of Private Universities of Central America (FUPAC). Complementing these developments is the Central American Agreement on the Practice of University Professions and Acceptance of University Studies (1962). This Agreement establishes the freedom of practice of these professions throughout the region, by providing for recognition and acceptance in all signatory states of degrees and certificates issued by Universities throughout the region. It establishes also the right to practice these professions in any of the countries, under the same conditions that apply to that country's nationals. All of these arrangements will lead to greater mobility of students and graduates within the region.



87. It was recognized from the outset, that the process of integrating the trade, the productive sectors, and the infrastructure of the five economies concerned, needed some agency which could provide medium and long-term finance for regional development. Accordingly, the Central American Bank for Economic Integration (CABEI) was set up by Treaty in 1960. CABEI began operations in 1961 with headquarters in Tegucigalpa, Honduras. Its main objective is to promote the economic integration of the region, and the balanced growth of the member countries. Thus, its principal sectors of activity are defined as infrastructure, industry and agriculture. In these, its participation must be directed to projects of a regional character or contributing to regional commerce; it cannot finance schemes of essentially local or national interest.

88. The total authorized capital of CABEI is 40 million dollars, to be subscribed in equal amounts by the five governments. Total subscribed capital is 24 million dollars, of which 20 million has been paid up. The bank is authorized to lend at long and medium term, borrow, act as intermediary, give or obtain guarantees, and provide technical and administrative assistance to applicants for loans. The superior authority of the Bank is vested in a Board of Governors, consisting of two Governors from each country. Management is carried out by a Board of Directors, with one Director for each country, a President and an Executive Vicepresident.

89. The lending resources of the Bank have been bolstered by loans from the Inter-American Development Bank, USAID, Mexico, Spain and private banks in the United States. As at the end of 1966, the total resources of the Bank were 124.7 million dollars,<sup>13/</sup> made up of 20 million in paid up capital, 101.7 million in loans, and 3 million in grants. Total approved loans at that date were nearly 88 million dollars, but actual disbursements amounted to some 36 million. Of the total of approved loans, 42 million dollars was directed to industry, 3.2 million to services, 33 million to

<sup>13/</sup> During 1967 the Bank began negotiations for lines of credit from Canada, Japan and Western European countries for an estimated total of some 150 million dollars.

infrastructure, and 10 million to housing. The distribution of approved loans by country were 14 million dollars to Guatemala, 17 million to El Salvador, 21 million to Honduras, 23 million to Nicaragua, and 13 million to Costa Rica,<sup>14/</sup>

90. The terms of the Bank's lending tend to vary with the type of project. Loans for road construction from the Integration Fund (paragraph 79) cover 100 per cent of the project costs, and bear currently a rate of interest of 3 1/2 per cent, with 25 years for repayment, and a grace period of seven years. On industrial loans, which may cover up to 60 per cent of project costs, interest rates for investment in fixed assets are now 7 per cent on the foreign exchange costs, and 8 per cent on national currency costs. In addition, the Bank charges a once-and-for-all commission for processing and supervising industrial loans.

91. The financing of intra-regional trade itself is facilitated by the Central American Clearing House, which was established in 1961. The Clearing House provides a mechanism for the settlement of inter-country balances arising from intra-regional trade and transactions. Under this arrangement, the Central Bank of each country is obliged to grant up to 500 000 dollars in regular credits to the other four taken together. These regular credits are settled in cash (i.e., convertible currency) every six months. Once the limit of the regular credit is reached, any excess is subject to weekly settlements in cash; although the creditor country is free to decide whether it wishes to enforce this obligation. Credits earn interest at 3 1/2 per cent. Transactions are denominated in a unit of account called the "Central American peso", which is equivalent to the US dollar.

92. These clearing arrangements have already begun to have a marked impact on the financing of trade. Values compensated through clearing, expressed as a proportion of the value of intra-regional trade, showed a rise from 49 per cent in 1962 to 80 per cent in 1966. The operations

<sup>14/</sup> Banco Centroamericano de Integración Económica, Departamento de Operaciones, Informe Mensual, diciembre de 1967.

of the Clearing House have led to economies in the use of foreign exchange reserves for the financing of trade between the five countries, and have provided opportunities for consultation between the national central banks on problems of mutual interest.

93. The establishment of the Clearing House has been followed by formal steps towards the setting up of a Monetary Union. The need for monetary cooperation was recognized in the General Treaty which directs "The Central Banks of the Member States to cooperate in avoiding currency speculation that may affect the exchange rates and in maintaining the convertibility of the several currencies on a basis which guarantees, within a normal system, freedom, uniformity and stability of the currencies" (Article X). Subsequently, the Economic Council requested the Central Banks of the region to study the means and machinery for fulfilling these objectives. These deliberations resulted in the Agreement of the Central Banks for the Establishment of a Monetary Union (1964). This Agreement incorporates the objectives as laid out in the General Treaty, and adds those of providing financial assistance for meeting temporary disequilibria in the balances of payments, and of securing uniformity in the monetary and credit legislation of the region. It makes provision for the establishment of a Central American Monetary Council, consisting of the Presidents of the Central Banks, so as to permit closer and continuous consultation between the Central Banks of the region.

94. Mention must also be made of two other institutions that form part of the integration programme. These are the Central American Research Institute for Industry (ICAITI), and the Central American Institute of Public Administration (ICAP). ICAITI was set up for the purpose of carrying out investigations into the use of local raw materials for industrial purposes, the feasibility of setting up new industries, and possibilities for improving the efficiency of existing industries. Over the past ten years, it has done useful work in regard to the industrial utilization of agricultural surpluses - particularly in the fields of canning and preserving tropical fruits, developing new sources of vegetable oils, and distilling essential oils. It has recently extended its

/activities

activities to include work on the utilization of surpluses of coffee and sugar cane, the better use of forest resources, and industrial possibilities based on the geological and mineral resources of the region. ICAITI also acts as a technical adviser to the Economic Council in the evaluation of industrial projects of regional interest, and is responsible, among other things, for the unification and improvement of industrial norms in the region.

95. ICAP has been actively engaged in both training and research. It has held courses on various aspects of administration, including development administration, customs administration, budgetary management, statistical administration, and organization and methods. Basic studies have been carried out of the systems of public administration in the various countries, for the purpose of identifying the modifications that are necessary to satisfy the needs of planning and economic integration. ICAP serves the additional purpose of providing a meeting-ground for public officers throughout the region, thus enlarging the opportunities for consultation, and for the development of better understanding between them.

96. The foregoing review has dealt mainly with the economic institutions of the Central American Common Market. Reference has been made to the activities in the educational field carried out under the aegis of the Organization of Central American States (ODECA), which has been concerned with other social aspects of the integration programme. Among these, attention must be drawn to the important work being carried out, through the Central American Council of Ministers of Labour and Social Welfare, designed to harmonize and improve the labour and social security laws of the member countries.

#### IV. THE SCOPE FOR BRITISH HONDURAS WITHIN THE CENTRAL AMERICAN COMMON MARKET

97. In considering the scope for closer economic cooperation between British Honduras and Central America, it is useful to examine first the current level and composition of trade between them, and to look into the possibilities of increasing such trade in the near future. As observed earlier, trade between the two parties has so far been rather minimal. Exports to, and imports from Central America account for no more than one per cent of the total exports and imports of British Honduras. In absolute terms however, the country's total exports to Central America nearly doubled between 1960 and 1965, rising from 102 000 to 200 000 dollars. During the same period, imports from the same source expanded more than six-fold, climbing from some 59 000 to 382 000 dollars.

98. An examination of the country's trade with the individual Central American countries shows Guatemala as being the most important individual market in that region. Exports to Guatemala accounted in 1965 for nearly 57 per cent of the country's total exports to Central America. Nonetheless, the increase in exports that took place between 1960 and 1965 was principally concentrated in Honduras, and to a lesser extent in Nicaragua and Costa Rica. Imports from Central America have also tended to originate from Guatemala, although Honduras is becoming an almost equally important source. The figures show imports from Guatemala as rising from 37 000 dollars in 1960 to 199 000 in 1965; those from Honduras rose from 7 000 to 165 000 dollars. Imports from the remaining three countries have been of little or no significance (table 6 ).

99. Further analysis of the origin of the country's exports to Central America indicate that they consist mainly of re-exports. In 1965 domestic exports constituted less than 14 per cent of total exports. They consist of relatively small quantities of fresh and salted fish, lobsters and other seafood shipped almost entirely to Guatemala and Honduras. (Appendix table XV .) Re-exports were rather less concentrated, with the main categories being beverages and tobacco, petroleum products and manufactured goods (gas cylinders, motor vehicles and cinematographic films).

Table 6

BRITISH HONDURAS: TRADE WITH CENTRAL AMERICA, 1960-65

(Thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965
<b>Total imports</b>	<u>59</u>	<u>54</u>	<u>183</u>	<u>176</u>	<u>197</u>	<u>381</u>
Guatemala	37	31	56	61	91	199
El Salvador	11	8	8	14	11	14
Honduras	8	14	116	100	93	165
Nicaragua	3	-	3	-	-	-
Costa Rica	-	-	-	1	2	3
<b>Total exports</b>	<u>102</u>	<u>74</u>	<u>608</u>	<u>985</u>	<u>177</u>	<u>200</u>
Guatemala	93	66	64	110	125	114
El Salvador	1	1	17	12	8	3
Honduras	8	6	24	760	31	54
Nicaragua	-	1	3	1	1	18
Costa Rica	-	1	500	1	11	11

Source: British Honduras, Annual Trade Reports.

In the case of imports, manufactured goods represent the most important category, followed by mineral fuels and food. Here again, there are only a few significant items - cement from Honduras, petroleum products and vegetables from Guatemala (Appendix table XVI).

100. The low level and narrow structure of trade can be partly associated with the fact that historical patterns of development in both British Honduras and Central America gave emphasis to trade with metropolitan centres, as opposed to exchanges with neighbouring countries. Indeed, barely a decade ago, the trading links between the Central American countries themselves were almost as minimal as those that exist between British Honduras and Central America today.<sup>1/</sup> It is not surprising therefore to find that, in the absence of special measures to promote stronger economic ties, British Honduras is virtually isolated from the rest of her neighbours.

101. There are, however, geographical factors which account for this isolation and which will make the process of linking British Honduras with her Central American neighbours more difficult and less rapid than the economic integration of these countries. In this connection, it is to be noted that by the middle of the 1950's adequate road transport links had already been established between the capital cities and other important populations centers of Central America, which are heavily concentrated on or at short distances off the Pacific seaboard. British Honduras, on the other hand, is situated on the northeast corner of the region, along the Atlantic seaboard and at long distances from the main population centers of Central America. She shares common boundaries with Guatemala in the West and in the South. But the adjacent region - the Peten Department of Guatemala - although larger in area than British Honduras is virtually undeveloped and has a population of barely 25 000 persons.

102. At present there are no through road transport services between British Honduras and Central America. The Western Road running from Belize City, through Orange Walk, reaches the Guatemalan border at

<sup>1/</sup> In 1956 intra-Central American trade represented only 3.4 per cent of the region's total imports.

Benque Viejo. From then on, however, there are no roads through the Petén providing links with Guatemala City and the Central American road network. This, in any case, would be by far the longest land route to the major markets of the region, and is not likely to be constructed for some time to come, because the Petén Department is virtually unpopulated and its future development will depend primarily on overseas exports. For the latter reason, a road is being constructed in the southern part of the Petén, which will provide access to the Atlantic ports of Matías de Gálvez and Barrios. This new road will pass through the Guatemala border town of Modesto Méndez on the southern tip of British Honduras, and will join the Interoceanic Highway at Morales, thereby providing access to the major markets of the region on the Pacific side, as well as to the Atlantic coast region of Guatemala and Honduras. Access to these markets by British Honduras would require considerable improvement of the Southern Highway, particularly from Stann Creek to Punta Gorda, and the construction of a new section from the latter point to the Guatemalan border. The official Development Plan foresaw the initiation of this project in 1969,<sup>2/</sup> although this is subject to the availability of financial resources and to the fact that higher priority may have to be given to the continued improvement of the northern and western roads, which carry heavier traffic. In any event, it is to be expected that the construction of the new Petén road will take a number of years.<sup>3/</sup>

103. It is apparent from the above considerations that trade with Central America will continue to rely for some time mainly on shipping services. As already noted, current trade is directed mostly to Guatemala and Honduras

<sup>2/</sup> Office of the Premier, Development Plan 1964-70, page 82.

<sup>3/</sup> It has been estimated that the completion of the section between the British Honduras border and the Interoceanic Highway (Modesto Méndez - Morales) might take up to seven years, partly because of the need to construct a high bridge over the Izábal lake. The road could be open to traffic within a shorter period, however by providing ferry services over the lake: see T.S.C. Consortium, Central American Transportation Study, Vol. I, p. 238.



and is facilitated by shipping connections between the ports of Belize City and Stann Creek on the one hand and Puerto Barrios (Guatemala) and Puerto Cortés (Honduras) on the other. There are also airline connections that link Belize City with Guatemala City, Tegucigalpa and San Salvador; but the capacity and frequency of these services are not such as to facilitate significant movements of goods.

104. In principle, it should be possible to extend British Honduras' trading links beyond the neighbouring coastal regions of Guatemala and Honduras, by utilizing combined shipping and road transport services. However, the long distances involved, the irregularity of shipping services and the relatively high costs of cargo handling in the port terminals severely limit this possibility. It has been estimated, on the basis of data available for 1963, that transport charges between Belize City and the other capitals of the region ranged between 20 and 66 per cent higher than for comparable distances within Central America. (Appendix tables XVII and XVIII.) This situation is not likely to have improved appreciably in more recent years.

105. Transport costs, however, may not be prohibitive in the case of non-perishable products that are shipped in bulk, such as food-grains and sugar. Upon accession to the Central American Common Market, British Honduras might, in principle, obtain an outlet for her potential surpluses of rice and corn,<sup>4/</sup> under the Special Protocol on Grains referred to earlier (paragraph 67). At present, there is still scope within Central America for further import-substitution in respect of these two commodities. Extra-regional imports of rice averaged over 10 000 tons in the years 1964 and 1965, while the corresponding figure for corn was over 23 000 tons.<sup>5/</sup> These levels of imports could easily accommodate the anticipated export surpluses of the country, which in the case of rice will probably amount to no more than some 1 400 tons. However, the surpluses of British Honduras

<sup>4/</sup> The Tripartite Economic Survey Mission notes the possibility of there being small export surpluses of corn and rice by 1970. See Report of Mission. Op. cit., pages 29-30.

<sup>5/</sup> Although precise data are not available, it is known that several countries of the region continued to import substantial quantities of corn in 1967, mainly from Mexico.

will have to compete against those of other countries in the region for the displacement of extra-regional imports. And it is not certain that the country enjoys any basic competitive advantage in the supply of these two staples.

106. If crop yields are used as an indicator of productive efficiency, it will be found that British Honduras has no decisive advantage over the main intra-regional suppliers. The current yield of rice production in the country is said to be some 1 681 kg per hectare, which compares with 1 950 for Guatemala, 2 665 for El Salvador, and 1 545 for Honduras. In the case of corn, the British Honduran yield is estimated to range between 816 to 879 kg per hectare, while that of Honduras is 835 kg, and of Nicaragua 865 kg. Moreover, the main importers of rice in Central America --Nicaragua and Costa Rica-- have under way plans to increase production which, if realized, may result in surpluses of this grain in the near future.

107. In the case of sugar, British Honduras would probably have a more favourable competitive position within the regional market. The sugar content of cane produced in the country is said to be one of the highest in the world; and at both the field and factory levels, mechanisation is being pushed to achieve maximum efficiency.<sup>6/</sup> On the other hand, production in certain regions of Central America is characterised by relatively high costs of cane production, because of the terrain and climate; and refining is dispersed among a multiplicity of small mills. Although the Central American region is a net exporter of sugar, domestic consumption absorbs about two-thirds of total production. Conceivably, arrangements might be made for British Honduras to obtain a share in the growth of intra-regional demand for sugar. However, at present there is no free trade in this product within the Central American Market. Imports and exports are controlled on a national basis, and it is doubtful that the freeing of intra-regional trade would be feasible in the near future, under circumstances that are likely to lead to some displacement of existing production. Moreover, this might give rise to the awkward problem of readjusting, on a regional basis, the existing national sugar export quotas in the United States market.

6/ Report of the Tripartite Economic Survey, op. cit. page 16.

108. One further possibility for achieving some degree of integration between Belizean and Central American agriculture, lies in the cooperative marketing of primary exports in overseas markets. In this respect, the commodity of most interest is bananas, bearing in mind the plans to develop export production in British Honduras. Shipping and distribution costs for this fruit account typically for 70 to 80 per cent of final retail prices. For example, it has been found in Jamaica that transport costs could be substantially reduced, depending upon the type of ships used, and the degree of utilization of shipping space.<sup>7/</sup> If similar unexploited economies exist in Central America, it might prove beneficial for British Honduras to join the countries of the region in negotiating shipping and marketing arrangements, that could yield a larger share of the foreign exchange accruing from this trade. Such collaboration might also include joint negotiation of terms of access for exports of primary products to extra-regional markets, such as the European Economic Community.

109. In the case of manufactured goods the limiting factors to the expansion of Belizean trade with Central America in the near future arise mainly on the supply side. As already noted, the manufacturing sector is exceedingly small, if one excludes sugar refining and the processing of citrus fruit. To be sure, free access to the larger regional market would open up new opportunities for diversification and expansion of existing industries. But in taking advantage of these opportunities, British Honduras is in a less favourable position than were the Central American countries upon establishing their common market. In the first place there is the already-mentioned disadvantage of location, and the consequent high costs of transport. Secondly, and perhaps more important, Belizean producers do not have an adequate domestic market as a basis for launching a successful export drive to the neighbouring countries. An earlier study made by a member of the United Nations Technical Assistance Mission, showed that the domestic

<sup>7/</sup> G. Beckford "The West Indian Banana Industry", Studies in Regional Economic Integration, Vol. 2 No. 3, Institute of Social and Economic Research, (University of the West Indies, Jamaica), page 19.

market permitted the establishment of certain light industries.<sup>8/</sup> But these would require tariff protection and their scale of operations would be too small for them to compete effectively in external markets, with the possible exception of garment fabrication and other activities based on imported goods, which are referred to below. Finally, British Honduras is probably in a disadvantageous position vis-a-vis the Central American countries with regard to the availability of trained manpower and labour costs. While the available information does not permit a comparative analysis of labour productivity and costs, it does indicate that money wages in British Honduras are considerably higher than in other countries of the region. Thus, according to a survey carried out in 1962, average hourly wages in manufacturing industries varied between a minimum of 20 U.S. cents in Nicaragua and a maximum of 27 U.S. cents in Honduras.<sup>9/</sup> The going hourly rates in British Honduras in the same year were the equivalent of 42 U.S. cents for skilled workers, 35 cents for semi-skilled, and 25 cents for unskilled workers.<sup>10/</sup>

110. In the light of the preceding considerations it is apparent that a realistic appraisal of the prospects for industrial development geared to the Central American Market must be centered on products for which British Honduras may have particular advantages in terms of her natural resource endowment. One might conceive, as a more immediate possibility, the establishment of plants for the assembly or fabrication of imported components and materials, with a view to exporting the finished products to Central America. This would have the obvious advantage of requiring relatively little capital and providing considerable employment, particularly in the capital city. Moreover, there is the precedent of the clothing factory established by an American manufacturer near Belize City, which has

<sup>8/</sup> Hugo Yañes, Report on the Possibilities of Development of Small and Medium Industries in British Honduras (Belize City, B. H., 22 January, 1963).

<sup>9/</sup> Economic Commission for Latin America, Industrial Productivity, Labour Costs and Costs of Production in the Central American Isthmus, (E/CN.12/CCE/335/Rev.1; TAO/LAT/51), table 10, p. 49.

<sup>10/</sup> Hugo Yañes, op. cit., page 25.

been successful in exporting the bulk of its output to the United States. Nevertheless, the possibility of extending these types of exports to Central America is not realizable. At present, and for the foreseeable future, goods which are based wholly or mainly on imported materials, and which receive only final processing or assembly in the area, do not enjoy free trade within the common market; and it is unlikely that the Central American countries would be prepared to make special concessions to British Honduras in this respect.

111. There remains to examine the prospects for industrial exports based on domestic raw materials. Here again, as in the case of agricultural commodities, the natural resource base of British Honduras is not sufficiently unique as to offer decisive locational advantages to industries oriented to the Central American market. Since no commercially exploitable mineral resources have been discovered to date, the choice narrows down essentially to timber resources and to certain by-products of the sugar and livestock industries.

112. Under present plans sugar production is expected to exceed 100 000 tons per year in the early 1970's. This would make possible the production of sufficient industrial alcohol, as a by-product, to meet the requirements of a plant for the production of polyethylene, with an annual capacity of about 8 000 tons. At present polyethylene is not produced in Central America, but regional demand is limited and will allow for the establishment of one or at best two economically sized plants within the next decade. This is, presumably, one of the industries which would have to be assigned under the Integration Industries Agreement mentioned earlier (paragraph 68 ). If British Honduras accedes to the Common Market, she may be in a position of a relative late-comer vis-a-vis other claimants for this industry, notably Nicaragua, where a project is now under active consideration. Among other factors, the claim of British Honduras would have to establish that the costs of production of its proposed plant would be such as to offset the disadvantage of location with respect to the main consumption centers.

113. Depending upon the rate of expansion of the livestock industry, British Honduras should eventually be in a position to export to Central

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America, under competitive conditions, such products as hides and upper shoe leather. This is a long-run prospect, however, even assuming that the cattle population will increase at the maximum rate considered feasible by the Tripartite Economic Survey Mission.<sup>11/</sup> On the basis of this projection, it would be possible to achieve by the early 1980's a slaughtering rate of some 80 000 head of cattle, which would be the minimum requirement for the operation of a mechanized tannery. Other by-products which could be marketed in Central America, when livestock production reaches adequate levels, are bones for the production of phosphatic fertilizers, as well as semi-processed raw materials for the pharmaceutical industry, based on the recovery of the liver and glands of the animals.

114. In the case of products based on timber resources, British Honduras would face highly competitive conditions in the regional market. Nevertheless, there are two possibilities which may warrant further exploration. One is the production of veneer and pre-cut pieces of specialty furniture based on mahogany and secondary hardwoods. Access to the regional market for these products would not be easy, but it might be assured with the participation of capital and management from the countries of the area, particularly El Salvador, which is a considerable importer of timber products. Such participation would be more attractive for Central American investors if the industry had good prospects of exporting also to high-income overseas markets. The other possibility is the construction of shrimp and fishing boats, for which Central American demand is likely to increase considerably in the future. The local shipyard, which has been used mainly for repair work, had, at the end of 1966, a trial order for 26 shrimp boats and an offshore cruiser for export.<sup>12/</sup> If the results of this first trial are positive, it may be possible to compete effectively in the Central American market against other potential suppliers, such as Mexico.

115. There are, in principle, opportunities for larger scale industries, such as pulp and paper. The demand for pulp products in Central America is

<sup>11/</sup> Report of the Tripartite Economic Survey, op. cit., page 24.

<sup>12/</sup> Budget Speech, 1967, page 2.

expected to reach nearly 330 000 tons by 1975, of which some 220 000 tons correspond to packaging paper, kraft and corrugating medium. However, given the depleted state of her pine resources, British Honduras is not in a position at present to compete successfully against other claimants for pulp and paper plants within the region. There are currently four projects under consideration, of which the largest one, in the Olancho area of Honduras, is expected to be initiated during 1968. The first phase of this project envisages an annual output of 115 000 tons of kraft paper and corrugating medium and 120 000 tons of sawn timber.

116. Yet, in the longer run, large scale industries of this kind are perhaps the only ones that can provide a sound basis for the economic integration of Belize with her Central American neighbours. This, however, cannot be conceived wholly in terms of intra-regional trade. For, even in the most favourable circumstances, the volume of such trade is not likely to be sufficiently large as to justify the heavy investments that would be required for the provision of adequate transport and communication facilities. The reason for this, of course, is that neither British Honduras, nor the adjacent area of the Peten in Guatemala, will become important consumption centers for quite some time to come. A further implication of this is that the market of British Honduras is of relatively minor interest to the Central American countries,<sup>13/</sup> thereby weakening her negotiating position with respect to the location of industries that are subject to special arrangements within the regional market.

117. For the above reasons it would appear that a more fruitful approach to the problem of integration would be to arrive at cooperative arrangements, whereby British Honduras participates in the development of regional industries oriented mainly to overseas markets. Her main asset, in this respect, is her geographical position alongside the Peten Department of Guatemala which, according to preliminary surveys, has considerable development potential.<sup>14/</sup> The Department covers an area of 35 000 km<sup>2</sup>,

<sup>13/</sup> Comparative data on market size are shown in Appendix tables XIX and XX.

<sup>14/</sup> For a general discussion of the development prospects of the Peten, see Ministerio de Hacienda y Crédito Público, Primer Seminario Nacional sobre el Desarrollo del Petén (Guatemala, C.A., octubre de 1964).

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which is said to contain the second largest forest concentration of Latin America, abounding in mahogany, cedar and pinewoods. It has also extensive pasture lands suitable for cattle raising. Occurrences of natural gas and petroleum have been discovered, though precise information is not available as to whether they are commercially exploitable. There are also indications of sulphur deposits in the northern part of the Peten, which are now being explored.

118. In recent years steps have been taken to intensify the development of the area. As already noted, a road is being constructed which will link the southern Peten with the Atlantic ports of Matias de Galvez and Puerto Barrios. Moreover, an inventory of the forestry resources of the area has been carried out by an FAO mission, under the auspices of the United Nations Development Programme (Special Fund). The report of the FAO mission is expected to be completed and published by the middle of 1968. If the results of the inventory confirm the earlier preliminary findings, it would be of interest both to Guatemala and to British Honduras that a follow-up mission be organized with the aid of the United Nations Special Fund, for the purpose of investigating intensively the possibilities of establishing export industries such as pulp and paper, sawn timber and plywood, based on the resources of the northern area of Peten. The shortest and most economical means of access to overseas markets from this area are through Belizean territory and its Atlantic seaports. The existing road and terminal facilities in Belize would have to undergo substantial improvement. However, this would be far less costly than the construction of new roads through the entire Peten region down to the Atlantic ports of Guatemala. In addition, the new industries in the Peten might derive considerable benefits from Belize's long-established trade links in the export of forestry products, as well as her trained manpower in the primary phases of production.

119. It is too early to say whether any processing plants, utilizing the Peten timber resources, might be located in British Honduras, but it is possible to conceive of a joint project embracing both the reserves of the Peten and British Honduras. Such an arrangement might be helpful in

/securing



securing extra-regional markets for paper and other timber products, particularly in countries with which British Honduras has special trading relations. As noted earlier, the demand for paper in the Commonwealth Caribbean is expected to reach over 120 000 tons by 1975. Provided that suitable commercial arrangements can be negotiated with the countries concerned, this possibility would be worthy of more detailed investigation. Once the feasibility of a joint project were established, British Honduras would find it economical to intensify her pine regeneration programme. It has been suggested that, by increasing the areas under maximum fire protection in the coastal plain forests, pulping operations might be possible within 10 to 15 years.<sup>15/</sup>

120. A somewhat similar line of reasoning can be applied to the prospects for cooperative development of tourism. The Maya ruins of British Honduras constitute one of the major tourist attractions of the country, and it has been suggested that the attractions of these ruins to tourists might be enhanced, if they are presented as part of a complex combining them with the more exposed ruins in neighbouring areas of Guatemala, Honduras and Mexico.<sup>16/</sup> It is conceivable that joint schemes for tourist promotion between British Honduras and Central America could yield an attractive package for tourists, that would include tours of archaeological interest, having the further attraction of involving visits to countries with varying linguistic, social, and cultural backgrounds. But it must be recognized that, with the exception of Guatemala, the tourist industry in Central America is relatively underdeveloped. Consequently, the net gains accruing to British Honduras from participation in such schemes are likely to be modest in the near future.

121. In regard to infra-structure, the scope for cooperation in the development of transport facilities will depend very much upon the industrial development of the neighbouring area of the Peten. In time, these could include the linking of British Honduras to the regional road network; the extension of the port facilities of the country to accommodate part of the

<sup>15/</sup> Report of the Tripartite Economic Survey, op. cit., page 45.

<sup>16/</sup> Ibid, page 45.

extra-regional trade of the integrated area; and cooperation in the development of air services to cater to the traffic in goods and tourists. The same can be said with respect to the integration of electricity systems. At present, British Honduras operates a diesel generating system which is relatively high-cost. The prices of electric energy in the country are substantially higher than those in Central America. It is apparently feasible for British Honduras to commence conversion to a hydro-electric system, by constructing a plant at Vaco Falls with an initial capacity of 6 MW. This could permit an immediate reduction in energy prices of some 15 per cent. At a later stage, advantage could be taken of economies of scale, through inter-connections in the north of the country with Chetumal in Mexico, and in the south with the system that will supply Matias de Galvez-Puerto Barrios in Guatemala, and the northwest of Honduras.<sup>17/</sup>

Apart from the financial and economic advantages that such inter-connections would yield to the countries concerned, they would also provide a greater margin of safety in relation to the quality and continuity of the service.

122. In the field of education, some advantages might be gained from cooperation, particularly at the vocational and technical levels. British Honduras is currently experiencing a shortage of trained technicians and craftsmen; and it is doubtful whether the wide variety of skills that are needed can be provided economically on the basis of local demand alone. If some harmonisation of curricula and standards can be achieved even at the primary level, this should permit British Honduras to take advantage of technical and vocational training facilities within the Central American countries, that are too costly to provide locally. At the University level, British Honduras is one of the contributing governments to the University of the West Indies. But there are some fields of study available in Central America, notably veterinary, medicine, dentistry, pharmacy, and architecture, that are not presently being offered by that University. In any event, the education of some of the country's nationals in Central America, ought to prove a useful complement to efforts aimed at the integration of production and trade.

<sup>17/</sup> ECLA, Electric Power in British Honduras (CEPAL/MEX/1; TAO/LAT/Pend., April, 1965).

123. Finally, gains can also accrue in the fields of industrial research and administration. Participation in ICAITI would make available expertise for the study of the industrial possibilities of the country on a more intensive and continuing basis than is practicable at present. Similarly, the facilities offered by ICAP can assist in providing the country with a cadre of trained public officers, the lack of which is currently said to be a pressing problem. Participation in these two institutions might also indirectly influence the scope for economic cooperation with Central America.

## V. IMPLICATIONS FOR BRITISH HONDURAS OF ACCESSION TO THE CENTRAL AMERICAN COMMON MARKET

124. Because British Honduras is a relatively open economy, its full accession to the Central American Common Market is likely to have considerable repercussions on the level and structure of internal prices and costs. It would also call for certain readjustments in the country's external economic ties. Finally, consideration would have to be given to the limitations imposed by the smallness of the domestic market. In the absence of countervailing measures, integration with the larger regional market may inhibit the growth of local industries.

125. In the short run, the most important effects of integration on the domestic economy would arise from the fact that the customs duties of British Honduras would have to be revised to the substantially higher levels of the Central American common tariff. The results of a calculation of the average incidence of the respective tariffs on the imports of British Honduras for the year 1965 are shown in table 7. It will be seen that the average incidence of the Central American tariff on total imports was 65.5 per cent as against 13.1 per cent for the British Honduras tariff. The differences are even greater for cost-of-living items such as food (104.6 and 6.5 per cent, respectively) and beverages and tobacco (212.5 and 74.5 per cent). For other categories of goods the Central American tariff is also substantially higher, with the exception of machinery and equipment.

126. These variations in the incidence of the two tariffs can, under certain circumstances, be regarded as upper limits of the extent to which internal prices might rise if British Honduras adopted the Central American common tariff.<sup>1/</sup> The effect on prices might turn out to be particularly important in regard to wage-goods, notably food, where the difference in incidence amounts almost to 100 percentage points.

<sup>1/</sup> For example, if there is no domestic production of importables in British Honduras, if no trade diversion to Central America takes place, if the prices of extra-regional imports remain unchanged, and if distributive margins on imports also remain unchanged, then final retail prices will tend to rise by the full extent of the difference between the two tariffs.

Table 7

COMPARATIVE ANALYSIS OF THE AVERAGE INCIDENCE OF THE TARIFFS  
OF BRITISH HONDURAS AND CENTRAL AMERICA ON THE IMPORTS  
OF BRITISH HONDURAS a/

(Per cents of the unit value cif of imports)

Selected SITC classes	British Honduras	Central America
<u>All imports</u>	<u>13.1</u>	<u>65.5</u>
0. Food	6.5	104.6
1. Beverages and tobacco	74.5	212.5
3. Mineral fuels and lubricants	39.9	97.7
5. Chemicals	10.8	30.6
6. Manufactured goods, classified by materials	9.2	59.7
7. Machinery and transport equipment	6.4	18.7
8. Miscellaneous manufactured goods	13.7	70.0

Source: The Laws of British Honduras, Chapter 43, Customs and Exercise Duties (including amendments up to 19 July 1967); British Honduras, Trade Report for the year 1965; SIECA, Arancel de Aduanas Centroamericano; Anuario Estadístico Centroamericano de Comercio Exterior, 1965.

a/ For methodology used, see Annex II.

127. Closer investigation might show that prices would probably rise to a lesser extent than the variations in tariff suggest, if only because some trade diversion to Central America is certain to take place. It is extremely difficult to calculate, with any degree of accuracy, what would be the price effects of integration. However, it is possible to get rough indications of these effects by making calculations based upon past import data and upon simple hypotheses about the likely extent of trade diversion to Central America. Because of lack of complete statistical data the investigation was limited to food only. On the assumptions enumerated in Annex II, it was estimated that the average rise in import prices of food might approximate to 6 per cent while after-duty prices of these imports might rise by some 44 per cent. These figures may be subject to a certain margin of error, but they suggest that the adoption of the Central American tariff would result in a deterioration in the terms of trade and a substantial rise in the cost of living.

128. The likelihood of adverse effects on the terms of trade and the level of internal prices is fortified by the relatively disadvantageous location of British Honduras vis-a-vis the Central American countries. As was seen earlier, transport costs between Belize City and the capitals of the Central American republics, are considerably higher than those for comparable distances within Central America (paragraph 104). It is not improbable therefore that the estimates of price increases cited above are somewhat on the conservative side. The rise in consumer prices would soon give way to higher money wages, which in turn may adversely affect the cost structure of the economy, particularly in the export sector.

129. The preceding analysis indicates that the accession of British Honduras to the Central American Common Market can only be affected gradually and over a considerable period of time, if serious dislocations in the country's economy are to be avoided. This is not to say that the present levels of the British Honduras tariff are to be maintained indefinitely. Some upward revisions may be necessary in order to meet revenue requirements and to promote the substitution of imports of foodstuffs and certain other light consumer goods. Tariff policy, however, must be

/selective,

selective, giving proper weight also to the need of maintaining and if necessary improving the competitive position of the agricultural export industries.

130. On a more general plane, is the question of whether the accession of British Honduras to the Central American Common Market will have adverse effects on the pace of its industrial development as a result of the well known process of economic polarisation. The integration of countries at different stages of development may, in the absence of special measures, confer a disproportionate share of the gains from integration upon the more industrially advanced countries, sometimes at the expense of dislocating output and employment in the less advanced countries. Competition arising from the freeing of trade might damage "infant" industries in the less developed areas of the common market. The economies of conglomeration tend to attract the bulk of new productive activities to the more developed countries in the market; and may even drain away, from the less developed ones, scarce supplies of capital and skills.

131. Although per capita income in British Honduras is estimated to be higher than that of all of the countries in Central America, except Costa Rica (Appendix table XX), in terms of industrial development, she is the least advanced among the six countries. Moreover, her total domestic market is barely comparable to that of the smaller capital cities in the region. It might well be asked, therefore, whether free trade with Central America, might not damage the fledgling industrial sector that it is hoped would emerge in the 1970's. However, three circumstances might combine to mitigate the possibilities of polarisation.

132. In the first place, the present "transport gap" between British Honduras and Central America will provide some degree of protection for the nascent industries of the country, pending the improvement in transport facilities and costs between the two parties. Secondly, the common market arrangements do not provide for the free movement of capital and labour; so that the possibility of there being a drain of scarce resources from the country might not turn out to be a major difficulty. Thirdly, and perhaps most important of all, the institutional arrangements of the

integration programme are explicitly designed to minimize the possibilities of polarisation. As was explained earlier, the formula for assigning integration industries to member countries was devised for the purpose of ensuring that the less developed countries in the common market would receive an equitable share of the gains from integrated industrial development (paragraph 70). It was also indicated that the Central American Bank for Economic Integration has, as one of its principal tasks, the promotion of the balanced growth of the member countries. Beyond this, it might be possible for British Honduras to negotiate slower rates of trade liberalisation in regard to selected manufactured goods. She might be able to obtain preferential treatment under the Central American Agreement on Fiscal Incentives to Industrial Development, following the precedent established in the case of Honduras in 1966.

133. The question of fiscal incentives is of particular interest, since the concessions that are currently offered by British Honduras are more generous than those granted under the Central American Agreement. At present, the Development Incentives Ordinance (1960) of British Honduras offers ten year tax holidays to both agricultural and industrial enterprises, plus a tax free period that takes account of the length of time required to establish the enterprise. Accordingly, agricultural industries like cocoa, coconuts, and livestock, might get a tax holiday of up to 15 years; sugar, rice, and beans, 12 years; and a "factory of any description", 11 years.<sup>2/</sup> Eligible enterprises may also qualify for duty-free importation of plant machinery and raw materials for the length of the tax holiday period. While it might prove acceptable to the Central American countries for British Honduras to retain more generous concessions for manufacturing industry upon acceding to the integration programme, it is not known what view would be taken in regard to extending concessions to agricultural enterprises. This, however, would not be an immediate issue, since the Central American Agreement on Fiscal Incentives covers only manufacturing activities. No attempt has been made thus far to unify the national laws for the promotion of agriculture,

<sup>2/</sup> See Investment Opportunities, British Honduras, (Government Printer, Belize City).



partly because some of the major agricultural products (sugar cane, sugar, cane spirits, coffee and cotton) do not enjoy free trade treatment within the Common Market.

134. There remains, finally, the question of the implications of integration for the country's external economic relations. It was observed in paragraph 64 that full participation in the Common Market requires the renunciation of preferential trading arrangements with non-member countries. Thus, if British Honduras became a full member, she would have to eliminate her preferential tariffs on imports from the Commonwealth. If this occurred, the rest of the Commonwealth would be free, in principle, to withdraw the concessions that they extend to her. However, this might not apply uniformly to all of her exports. For instance, the status of the Commonwealth Sugar Agreement is somewhat ambiguous. It is formally a separate arrangement from the Ottawa treaties, since it is a unilateral undertaking by the United Kingdom to buy sugar from the Commonwealth at prescribed terms; and involves no reciprocal extension of trade concessions by Commonwealth countries.

135. It might be possible therefore for British Honduras to retain her quota under the Agreement, if she renounces Commonwealth Preference. A similar, though not exactly parallel case, is that of South Africa, which upon the termination of her membership of the Commonwealth, negotiated a special sugar agreement with the United Kingdom, at no less favourable terms than those that she received under the Commonwealth Sugar Agreement. In any event, the Agreement is scheduled to run until 1971; so British Honduras does not face the immediate prospect of the loss of her market for sugar.

136. As far as citrus is concerned, little loss might be entailed from terminating Commonwealth Preference. As mentioned earlier, the main source of protection for citrus originates from the quantitative restrictions that the United Kingdom applies on "dollar" supplies. It might be difficult for the United Kingdom to withdraw this, by imposing quotas on imports from British Honduras, since this would not be justified under article XII of the GATT. Moreover, some non-Commonwealth countries, such as Israel, are

/benefitting from

benefitting from the restrictions. Apart from this, however, renunciation of Commonwealth Preference will mean that British Honduras will not be entitled to preferential tariff treatment for any new exports, such as bananas. But in this last case, she could benefit from the quantitative restrictions that the United Kingdom applies against "dollar" fruit from some of the Latin American countries. In any event, it will be recalled that all of these arrangements may be subject to change in the light of the United Kingdom's interest in joining the European Economic Community.

137. Full accession to the integration programme might however affect adversely the commercial relations between British Honduras and Commonwealth countries other than the United Kingdom. This might be of some importance in regard to the Commonwealth Caribbean. It was noted in paragraphs 42 and 43 that trade with the Commonwealth Caribbean, notably with Jamaica, is of both actual and potential significance to the country. It can be questioned whether, in the absence of special arrangements, the countries of that area will be disposed towards continuing the extension of preferences to British Honduras, if they are deprived of preferences in her market. Conceivably, the termination of preferential treatment by British Honduras could also affect other aspects of economic ties, such as joint bargaining for trade concessions and economic aid with countries outside of the area.

138. One possibility is that British Honduras might request limited participation in the Central American Common Market. This could take the form of a free-trade area relationship, or of a preferential agreement in relation to specific commodities. Although it was shown earlier that the General Treaty on Economic Integration does not provide for such arrangements, it was also observed that the negotiation of a special waiver might not prove to be impossible. It is conceivable that British Honduras could negotiate a free-trade area relationship or a limited preferential agreement, which would not involve discrimination against imports from the Commonwealth. This could be avoided if British Honduras extended the same tariff treatment to both the countries of Central America and the Commonwealth. Although this would involve an abrogation of the

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principle of Commonwealth Preference, it would be somewhat similar to the relationship that the United Kingdom has negotiated with the other countries of the European Free Trade Association. Nonetheless, such an agreement will directly contravene the Central American exception clause, which is basic to all of the commercial treaties that exist between the Central American countries. In general, forms of special relationship might raise other difficulties. As far as a free-trade area relationship is concerned, awkward problems of trade deflection might arise, if British Honduras abolished tariffs on imports from both Central America and the Commonwealth. Furthermore, such an arrangement would imply an increase in preferences to the Commonwealth, and it is not impossible that this can incur the opposition of third countries.

139. Accession to the integration programme might also require some modification of the country's external monetary arrangements. To the extent that the Sterling Area arrangements continue to include discriminatory restrictions against payments to Non-Sterling Area countries, this might be considered incompatible with membership in the Central American Common Market. In the longer run, the prospects of there being a Central American Monetary Union might demand eventual alteration of the country's arrangements with respect to the exchange parity with sterling; and in relation to policies regarding capital flows, as well as the holding and disposition of foreign exchange reserves.

## VI. SUMMARY AND CONCLUSIONS

140. From the analysis of the preceding sections certain conclusions are derived, which may be useful as policy guidelines with respect to the economic development of British Honduras within the regional framework.

141. Free access to the Central American Common Market is not likely to give rise in the near future, to a significant expansion of Belizean exports to the countries of the area and of domestic industries oriented to this market. The obstacles to such trade are Belize's geographical location at long distances away from the main consumption centers of the region, the lack of adequate transport facilities and the supply constraints imposed by the country's incipient industrial development.

142. Such short-run possibilities of increasing trade as do exist, although worthy of further investigation, are not likely to provide sufficient gains as to justify Belize's immediate accession, as a full member, to the Central American Common Market. This would imply the renunciation of her present special trading arrangements within the Commonwealth. It would also give rise to a considerable increase in internal prices and costs, as a result of adopting the much higher Central American common tariffs.

143. These consequences would in turn have adverse effects on the development of Belize's export industries. Given her favourable supply conditions, there would appear to be little doubt that continued emphasis must be given to the expansion of these industries, in spite of the uncertainties of the world market for agricultural commodities. At the same time efforts should be made to reduce the country's dependence on the importation of foodstuffs and of such light consumption goods as can be produced locally. Indeed, it was shown that in time the expansion of primary production, particularly of livestock, will strengthen Belize's competitive position within the regional market.

144. But even in the longer run the volume of trade between Belize and Central America may not be sufficient as to justify the heavy investments required for the construction of adequate transport facilities. The combined

/population of

population of Belize and of the large adjacent area of the Peten in Guatemala is less than 150 000, and for many years to come it will constitute a relatively minor outlet for products originating in Central America. Consequently, the integration of Belize with her Central American neighbours cannot be conceived wholly in terms of intra-regional trade. A more promising solution would appear to lie in cooperative arrangements, whereby she participated in the development of regional industries oriented mainly to overseas markets.

145. Preliminary surveys would indicate that the adjacent area of the Peten has the potential for the establishment of large-scale export industries, such as pulp and paper and sawn timber. An inventory of the forestry resources of the Peten has been carried out by an FAO mission, under the auspices of the United Nations Development Programme (Special Fund), the results of which will be published in mid-1968. If the inventory confirms the earlier findings, it would be of interest both to Guatemala and to British Honduras that a second Mission be organized. These studies should endeavour to identify, initially, at least one project for the production of pulp and sawn timber for export, of sufficient magnitude as to justify the construction of transport facilities linking the Peten to ports on the Atlantic seaboard. The shortest and most economical route from the northern Peten to the sea lies through Belizean territory. Consequently, on the Belizean side, the infrastructure investments would be limited to the improvement of the existing transport facilities. It may also be possible to organize a joint project based on the reserves of both the Peten and Belize, with a view to securing overseas markets. The demand for paper and other timber products in the countries of the Commonwealth Caribbean is considerable, and access to this market might be facilitated by the fact that British Honduras has preferential arrangements with the countries of the area.

/146. While

146. While the aforementioned studies are carried out, it would be desirable to establish contacts with the authorities of the Central American Common Market, with a view to investigating in detail the more immediate possibilities of Belizean trade within the region mentioned in Section IV. The research services of ICAITI and of the Permanent Secretariat (SIECA) would be available for such purposes. Once these opportunities, as well as other that may arise in the course of the investigation, are firmly established, it would be possible to begin formal negotiations of trade arrangements. It is conceivable that in the initial phase the Central American countries might be prepared to extend one-way free-trade or preferential treatment to British Honduras for a limited number of products. In fact, a first step has already been taken in this direction. The Managua Protocol contains a transitional article which provides that the Central American common tariff would not apply to domestic exports from British Honduras that receive special customs treatment from Guatemala.<sup>1/</sup> It is possible that the other member countries would also grant unilateral preferences for certain domestic exports of British Honduras. This would take into consideration her incipient stage of industrial development and the fact that her tariff levels are relatively low. In time, this initial arrangement could be modified into a free trade zone between the two parties, as the opportunities for trade increase, and depending upon the changes that Belize's existing commercial relations may undergo in the future.

147. Finally, British Honduras may derive considerable advantage from participating in the technical activities of the Central American Integration Programme (paragraphs 78 to 84). This would not involve formal commitments on her part with respect to the Common Market

1/ Protocolo al Convenio Centroamericano sobre Equiparación de Gravámenes a la Importación, Artículo Transitorio (E/CN.12/CCE/224).

Treaties. Of particular interest to British Honduras is the work of the technical bodies concerned with the co-ordinated development of the regional road network, ports and shipping services, communications and electric power. The basic studies in these fields, as well as surveys of natural resources, are carried out on a regional basis with the aid of the United Nations Development Programme and other international agencies. Participation in these activities would enable British Honduras to carry out much needed basic studies of her economy at considerably lower costs than if she did it on her own.

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Annex I  
STATISTICAL TABLES



Table I

BRITISH HONDURAS: INDUSTRIAL ORIGIN OF THE GROSS DOMESTIC  
PRODUCT (CURRENT PRICES), 1955, 1959, 1964(Value in thousands of U.S. dollars)

Sectors	1955		1959		1964	
	Value	Percentage	Value	Percentage	Value	Percentage
<u>Total</u>	<u>15,755</u>	<u>100</u>	<u>21 398</u>	<u>100</u>	<u>34 752</u>	<u>100</u>
Sugar	312	2	1 282	6	4 218	12
Citrus	332	2	761	4	3 163	9
Other crops	1 609	10	1 716	8	1 092	3
Livestock and fisheries	1 573	10	2 075	10	1 164	3
Forestry	2 451	16	2 121	10	4 717	14
Manufacturing	606	4	783	4	999	3
Construction	1 749	11	2 661	12	4 268	12
Commerce and distribution	1 954	12	2 567	12	3 772	11
Transport	1 033	7	1 511	7	2 325	7
Rent of dwellings	1 007	6	1 256	6	1 565	5
Government	2 160	14	3 383	16	5 670	16
Services	968	6	1 282	6	1 800	5

Sources: British Honduras, Development Plan 1964-70, page 5; Report of the Tripartite Economic Survey of British Honduras, May 1966, page 95.

Table II

## BRITISH HONDURAS: SELECTED INDICATORS OF ACTIVITY IN TRANSPORT

Year	Gross arrivals of persons	Gross departures of persons	No. of aircraft arriving and departing	No. of commercial vehicles registered	No. of ships registered
1955	20 652	20 463	1 881	407	76
1959	29 196	29 526	1 791	674	60
1960	28 599	29 407	1 761	739	62
1961	30 972	33 822	1 455	713	63
1962	31 206	29 947	1 927	1 064	66
1963	34 144	33 564	2 126	1 099	67
1964	46 725	47 005	2 191	963	70
1965	57 794	57 675	2 115	1 202	69

Sources: Ministry of Finance and Economic Development, Annual abstract of statistics.

Table III

## BRITISH HONDURAS: FINANCING OF THE PUBLIC SECTOR

(Thousands of British Honduras dollars)

	1955	1959	1960	1961	1962	1963	1964	1965	1966
<b>A. Expenditure and revenue</b>									
Current expenditure	3 532	7 013	7 467	8 098	8 427	9 288	8 933	9 430	11 003
Current revenue	3 686	6 023	6 246	7 027	9 335	9 108	10 492	10 954	11 500
Current deficit (-) or surplus (+)	154	- 990	-1 221	-1 071	908	- 180	1 559	1 524	497
Capital expenditure	3 386	3 388	2 329	1 317	3 531	7 931	3 744	4 078	3 790
Total deficit	-3 232	-4 378	-3 550	-2 388	-2 623	-8 111	-2 185	-2 554	-3 293
<b>B. Sources of finance</b>									
Grants-in-aid	...	609	436	1 558	2 002	946	694	500	300
G. D. & W.	1 171	3 444	2 152	1 873	909	1 576	1 485	1 537	812
Other grants	336	299	114	43	118	3 917	2 183	519	2 010
Changes in treasury balances: increase (-) or decrease (+)	...	26	848	-1 086	- 406	1 672	2 177	-2	181

Sources: Report of the tripartite economic survey of British Honduras, May 1966 and the Ministry of Finance and Development, Annual Abstract of Statistics.

Table IV  
BRITISH HONDURAS: REVENUE OF CENTRAL GOVERNMENT  
(Thousands of British Honduras dollars)

	1955	1959	1960	1961	1962	1963	1964	1965	1966
Total	3 888	6 023	6 246	7 027	9 335	9 108	10 491	10 954	11 500
Import duties	1 652	2 396	2 479	2 683	4 094	3 778	4 195	4 344	5 100
Income tax	483	732	890	1 003	1 114	1 493	2 018	1 791	1 400
Other taxes <sup>a/</sup>	886	1 578	1 596	2 038	2 236	1 843	1 986	1 953	2 529
Non-tax revenue <sup>b/</sup>	867	1 317	1 281	1 303	1 890	1 944	2 292	2 466	2 471

Source: The Ministry of Finance and Economic Development, Annual Abstract of Statistics.

a/ Includes export duties, entry tax, excise duties, estate duty, land tax, oil mining and prospecting licences.

b/ Includes fines and fees, revenue from property and repayment of loans.

Table V

BRITISH HONDURAS: CONSUMER PRICE INDICES

(June 1958 = 100)

	All items	Food
June 1960	99.6	99.3
June 1961	99.0	97.8
June 1962	100.6	99.9
June 1963	101.8	99.9
June 1964	101.5	99.3
June 1965	102.6	102.1

Source: Ministry of Finance and Economic Development, Annual Abstract of Statistics.

Table VI

## BRITISH HONDURAS: COMPOSITION OF DOMESTIC EXPORTS (SELECTED SITC CLASSES)

(Value in thousands of US dollars)

Año	Total		Food		Crude materials		Other	
	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
1955	4 910	100.0	1 106	22.5	3 758	76.5	46	0.9
1959	6 198	100.0	3 196	51.6	2 901	46.8	101	1.6
1960	7 116	100.0	3 904	54.9	3 098	43.5	114	1.6
1961	7 831	100.0	5 501	70.2	2 119	27.1	211	2.7
1962	5 777	100.0	3 954	68.4	1 635	28.3	188	3.3
1963	10 802	100.0	6 702	62.0	3 611	33.4	489	4.5
1964	11 994	100.0	7 700	64.2	3 654	30.5	640	5.3
1965	10 653	100.0	6 941	65.2	3 153	29.6	559	5.2

Source: British Honduras, Annual Trade Reports.



TABLE VII  
BRITISH HONDURAS: COMPOSITION OF IMPORTS (SITC CLASSES)<sup>a/</sup>

SITC classes	1955	1959	1960	1961	1962	1963	1964	1965
A. <u>Thousands of U.S. dollars</u>								
<u>Total</u>	<u>10 039</u>	<u>13 693</u>	<u>13 148</u>	<u>15 896</u>	<u>21 842</u>	<u>19 287</u>	<u>23 731</u>	<u>24 492</u>
0. Food	2 739	3 630	3 789	3 657	4 906	5 153	5 732	5 405
1. Beverages and tobacco	378	536	498	565	990	847	1 015	1 080
2. Crude materials, except fuels	102	57	139	150	74	108	81	84
3. Mineral fuels	1 014	963	916	797	1 191	1 063	1 139	1 247
4. Animal and vegetable oils	8	8	9	11	63	27	45	81
5. Chemicals	594	1 110	1 112	988	1 540	1 543	1 740	2 081
6. Manufactured goods, classified by material	2 252	2 623	2 736	3 157	4 063	4 166	4 586	5 443
7. Machinery and transport equipment	1 934	3 373	2 422	4 944	6 236	4 131	5 028	6 115
8. Miscellaneous manufactured goods	974	1 243	1 353	1 430	2 454	1 929	2 188	2 666
9. Miscellaneous transactions and commodities	45	151	174	198	325	320	2 176	289

/Continues

Table VII (concluded)

SITC classes	1955	1959	1960	1961	1962	1963	1964	1965
<b>B. <u>Percentage of total</u></b>								
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0. Food	27.3	26.5	28.8	23.0	22.5	26.7	24.1	22.1
1. Beverages and tobacco	3.8	3.9	3.8	3.6	4.5	4.4	4.3	4.4
2. Crude materials, except fuels	1.0	0.4	1.1	0.9	0.3	0.6	0.3	0.3
3. Mineral fuels	10.1	7.0	7.0	5.0	5.5	5.5	4.8	5.1
4. Animal and vegetable oils	0.1	0.1	0.1	0.1	0.3	0.1	0.2	0.3
5. Chemicals	5.9	8.1	8.5	6.2	7.1	8.0	7.3	8.5
6. Manufactured goods, classified by material	22.4	19.2	20.8	19.9	18.6	21.6	19.3	22.2
7. Machinery and transport equipment	19.3	24.6	18.4	31.1	28.6	21.4	21.2	25.0
8. Miscellaneous manufactured goods	9.7	9.1	10.3	9.0	11.2	10.0	9.2	10.9
9. Miscellaneous transaction and commodities	0.4	1.1	1.3	1.2	1.5	1.7	9.2	1.2

Source: British Honduras, Annual Trade Reports.

Table VIII

BRITISH HONDURAS: DIRECTION OF TOTAL EXPORTS, 1959-1965

(Value in thousands of US dollars)

	1959		1960		1961		1962		1963		1964		1965	
	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage
Total	6 693	100.0	7 871	100.0	8 680	100.0	8 666	100.0	13 001	100.0	13 433	100.0	12 224	100.0
United Kingdom	3 564	53.2	4 225	53.7	5 328	61.4	3 734	43.1	5 451	41.9	5 384	40.1	4 946	40.5
Canada	60	0.9	50	0.6	686	7.9	608	7.0	947	7.3	1 086	8.1	741	6.1
Commonwealth Caribbean	925	13.8	1 447	18.4	471	5.4	346	4.0	569	4.4	749	5.6	648	5.3
Rest of Commonwealth	56	0.8	48	0.6	2	-	2	-	8	0.1	21	0.2	34	0.3
United States of America	1 053	15.7	842	10.7	1 079	12.4	2 502	28.9	4 043	31.1	4 507	33.5	4 098	33.5
Central American Common Market	111	1.7	102	1.3	74	0.9	608	7.0	885	6.8	177	1.3	200	1.6
Mexico	398	6.0	608	7.7	521	6.0	500	5.8	658	5.0	941	7.0	966	7.9
Other countries	526	7.9	549	7.0	519	6.0	366	4.2	440	3.4	568	4.2	591	4.8

Source: British Honduras, Annual Trade Reports.

Table IX

BRITISH HONDURAS: DIRECTION OF IMPORTS, 1959-1965  
(Value in thousands of US dollars)

	1959		1960		1961		1962		1963		1964		1965	
	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage	Value	Per-centage
<b>Total</b>	<b>13 691</b>	<b>100.0</b>	<b>13 211</b>	<b>100.0</b>	<b>15 896</b>	<b>100.0</b>	<b>21 841</b>	<b>100.0</b>	<b>19 286</b>	<b>100.0</b>	<b>21 902</b>	<b>100.0</b>	<b>24 492</b>	<b>100.0</b>
United Kingdom	4 593	33.6	4 245	32.1	4 584	28.9	5 403	24.7	5 030	26.1	5 893	26.9	7 865	32.1
Canada	290	2.1	401	3.0	472	3.0	860	3.9	761	3.9	1 011	4.6	1 091	4.4
Commonwealth Caribbean	880	6.4	1 050	7.9	1 021	6.4	1 132	5.2	1 375	7.1	1 648	7.5	1 648	6.7
Rest of Commonwealth	482	3.5	509	3.9	456	2.9	734	3.4	562	2.9	526	2.4	738	3.0
United States of America	5 695	41.6	5 050	38.2	7 292	45.9	10 455	47.9	8 437	43.8	9 031	41.3	9 034	36.9
Central American Common Market	52	0.4	59	0.5	54	0.3	183	0.8	176	0.9	197	0.9	381	1.6
Mexico	228	1.7	204	1.6	118	0.7	190	0.9	293	1.5	302	1.4	363	1.5
Other countries	1 471	10.7	1 693	12.8	1 899	11.9	2 884	13.2	2 652	13.8	3 294	15.0	3 372	13.8

Source: British Honduras, Annual Trade Reports.

Table X

## BRITISH HONDURAS: SELECTED ITEMS IN THE BALANCE OF PAYMENTS, 1959-1965

(Thousands of US dollars)

	1959	1960	1961	1962	1963	1964	1965
Balance of trade	-6 998	-5 277	-7 214	-13 175	-6 287	-8 468	-12 267
Official grants	3 046	1 891	2 432	2 120	4 507	3 053	1 789
Net change in external assets of commercial banks	- 349	78	- 229	8 503	-4 542	- 734	- 304
Change in external assets of currency board	125	15	594	- 2	172	84	299

Source: The Ministry of Finance and Economic Development, Annual Abstract of Statistics.

Table XI

## BRITISH HONDURAS: COMPARISON OF AVERAGE UNIT VALUES OF EXPORTS OF SUGAR

(U.S. cents per kilo)

Year	All desti nations	United Kingdom	Canada	United States	"World price" <u>a/</u>
1960	11.93	11.88	-	-	6.92
1961	11.07	12.13	7.83	-	5.95
1962	10.96	11.95	8.25	-	6.13
1963	13.87	...	...	...	18.28
1964	12.26	10.36	10.21	12.83	12.61
1965	11.00	11.57	9.99	18.36	4.48

Sources: British Honduras, Annual trade reports, and International Sugar Council, 1965 Sugar Yearbook, p. 345.

a/ No. 4 (World) contract (fas Guba).

Table XII

TRADE BETWEEN BRITISH HONDURAS AND THE COMMONWEALTH CARIBBEAN,  
1961-1965

(U.S. dollars)

	1961	1962	1963	1964	1965
<b>A. Total exports</b>					
<b>Total</b>	<b>471 457</b>	<b>345 879</b>	<b>571 167</b>	<b>749 300</b>	<b>648 496</b>
Bahamas	5 974	-	10 609	6 827	-
Barbados	1 769	-	2 458	2 842	280
Guyana	2 143	-	805	-	308
Jamaica	457 275	343 712	545 176	601 940	635 891
Leeward and Windward Islands	1 228	2 167	3 533	137 617	3 119
Trinidad and Tobago	3 068	-	8 586	74	8 898
<b>B. Total imports</b>					
<b>Total</b>	<b>1 020 757</b>	<b>1 131 752</b>	<b>1 375 313</b>	<b>1 647 863</b>	<b>1 647 478</b>
Bahamas	-	78	17	70	3 318
Barbados	6 640	17 120	14 650	17 625	19 753
Guyana	3 851	5 944	4 857	6 544	19 825
Jamaica	354 068	450 374	661 349	995 758	1 351 991
Leeward and Windward Islands	-	1 950	134	1 085	799
Trinidad and Tobago	656 198	656 286	694 306	626 781	251 792

Source: British Honduras, Annual Trade Reports.

Table XIII

## JAMAICAN DOMESTIC EXPORTS TO BRITISH HONDURAS, 1965

SITC classes	U.S. dollars
<b>Total</b>	<b>1 434 488</b>
0. Food	27 684
1. Beverages and tobacco	8 764
2. Trade materials, except fuels	-
3. Mineral fuels and lubricants	684 205
4. Animal and vegetable oils and fats	484
5. Chemicals	154 815
6. Manufactured goods, classified by materials	528 853
7. Marketing and transport equipment	-
8. Miscellaneous manufactured goods	23 209
9. Miscellaneous transactions and commodities	6 622

Source: Jamaica, Department of Statistics, External Trade of Jamaica, calendar year 1965.



Table XIV

BRITISH HONDURAS: COMPOSITION OF INTRA-CENTRAL AMERICAN TRADE, 1961-66

(Millions of U.S. dollars)

SITC classes	1961	1962	1963	1964	1965	1966
<b>Total</b>	<b>36.9</b>	<b>50.4</b>	<b>66.2</b>	<b>105.4</b>	<b>136.0</b>	<b>176.3</b>
0. Food	14.6	22.2	21.6	29.4	36.2	39.7
1. Beverages and tobacco	0.9	1.0	1.1	1.4	1.9	2.5
2. Crude materials	2.0	2.4	3.3	3.9	4.6	6.3
3. Mineral fuels, etc.	0.2	0.1	3.8	5.0	3.5	1.9
4. Animal, vegetable oils, etc.	1.7	1.8	1.6	1.6	2.4	5.2
5. Chemicals	3.5	5.2	7.8	18.9	21.1	26.4
6. Manufactured goods	8.1	11.0	16.3	26.3	37.1	51.4
7. Machinery and transport equipment	1.3	1.1	1.6	3.0	5.0	7.6
8. Miscellaneous manufactured goods	4.4	5.4	8.9	15.4	23.9	34.6
9. Miscellaneous transactions	0.2	0.2	0.2	0.5	0.3	0.7

Source: SIECA, Anuario Estadístico Centroamericano de Comercio Exterior, 1965 and Cartas informativas, anexos estadísticos.

Table XV

## BRITISH HONDURAS: COMPOSITION OF EXPORTS TO CENTRAL AMERICA, 1965

(Thousands of U.S. dollars)

SITC classes	Total	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
<u>Total</u>	<u>202.4</u>	<u>113.8</u>	<u>3.5</u>	<u>54.5</u>	<u>17.9</u>	<u>11.0</u>
<u>Domestic</u>	<u>29.0</u>	<u>14.0</u>	-	<u>14.1</u>	<u>0.5</u>	<u>0.4</u>
0. Food	27.3	14.0	-	13.3	-	-
9. Miscellaneous transactions	1.7	-	-	0.8	0.5	0.4
<u>Re-exports</u>	<u>173.4</u>	<u>99.8</u>	<u>3.5</u>	<u>40.4</u>	<u>17.4</u>	<u>10.6</u>
0. Food	0.8	0.8	-	-	-	-
1. Beverages and tobacco	28.1	6.5	1.3	9.2	1.0	10.1
2. Crude materials	-	-	-	-	-	-
3. Mineral fuels, etc.	28.5	28.5	-	-	-	-
4. Animal, vegetable oils, etc.	-	-	-	-	-	-
5. Chemicals	1.0	1.0	-	-	-	-
6. Manufactured goods	39.0	37.9	-	0.3	0.8	-
7. Machinery and transport equipment	61.9	20.6	0.7	25.6	15.0	-
8. Miscellaneous manufactured goods	12.4	4.5	1.5	5.3	0.6	0.5
9. Miscellaneous transactions	1.7	-	-	-	-	-

Source: British Honduras, Annual Trade Reports.

Table XVI

BRITISH HONDURAS: COMPOSITION OF IMPORTS FROM CENTRAL AMERICA, 1965

(Thousands of U.S. dollars)

SITC classes	Total	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
<b>Total</b>	<b>381.6</b>	<b>198.6</b>	<b>14.1</b>	<b>165.3</b>	-	<b>3.6</b>
0. Food	73.8	45.1	12.1	16.5	-	-
1. Beverages and tobacco	3.4	-	-	3.4	-	-
2. Crude materials	4.6	4.5	-	0.1	-	-
3. Mineral fuels, etc.	82.0	82.0	-	-	-	-
4. Animal, vegetable oils, etc.	-	-	-	-	-	-
5. Chemicals	5.7	3.7	-	2.0	-	-
6. Manufactured goods	184.2	40.5	1.5	142.2	-	-
7. Machinery and transport equipment	3.4	3.3	-	0.07	-	-
8. Miscellaneous manufactured goods	23.9	19.5	0.5	0.8	-	3.1
9. Miscellaneous transactions	0.6	-	-	0.2	-	0.4

Source: British Honduras, Annual Trade Reports.

Table XVII

BRITISH HONDURAS AND CENTRAL AMERICA: COMPARISON  
OF TRANSPORTATION CHARGES, 1963

Distance (km)	Charges within Central America	Charges for transports between Belize and Central America	Increase of charges for Belize (Percentage)
	(US dollars per ton)		
250	9.25	14.25	54.1
500	18.45	22.60	22.5
750	25.50	33.90	32.9
1 000	33.10	55.30	66.1
1 250	42.40	65.00	53.3
1 500	59.55	72.00	20.9
1 750	...	77.00	...

Source: ECLA, calculated from rates supplied by transport enterprises.

Table XVIII

## BRITISH HONDURAS AND CENTRAL AMERICA: ESTIMATED TRANSPORT CHARGES, 1963

Belize City and Central America	Route	Distance (km)	Trans-shipment	Transport charges (US dollars per ton)	Remarks
San Pedro Sula (253 km)	Sea	195	Cortés	13.50	Principal route with weekly services
	Road	58			
San Pedro Sula (255 km)	Sea	60	Cortés	15.40	Used mainly for transport of cement for which lower contract rates apply
	Rail				
Guatemala City (517 km)	Sea	200	Barrios	19.00	Regular services for imports to Guatemala
	Rail	317			
Guatemala City (518 km)	Sea	205	M. Gálvez	24.00	At present no regular services
	Road	303			
Tegucigalpa (536 km)	Sea	195	Cortés	28.05	
	Road	341			
San Salvador (619 km)	Sea	200	Barrios	28.80	
	Rail	419			
San Salvador (767 km)	Sea	205	M. Gálvez	34.50	Following the completion of CA-10 in 1965, the overall distance will be 583 km
	Road	562			
San Salvador (895 km)	Sea	195	Cortés	39.10	Following the completion of CA the overall distance will be 610 km
	Road	700			
Managua (1 005 km)	Sea	195	Cortés	55.55	Following the completion of CA-3 the overall distance will be 934 km
	Road	810			
Managua (1 357 km)	Sea	205	M. Gálvez	67.00	Reduction of transport, distance following the completion of CA-10 and CA-3 to 1 100 km
	Road	1 152			
San José (1 215 km)	Sea	1 150	Limón	<del>32.50</del>	At present no shipping is available
	Rail	165			
San José (1 460 km)	Sea	195	Cortés	61.30	Reduction of route to 1 390 km upon completion of CA-3
	Road	1 265			
San José (1 812 km)	Sea	205	M. Gálvez	79.00	Reduction of route following the completion of CA-10 and CA-3 to 1 557 km
	Road	1 607			

Source: ECLA, calculated from rates supplied by transport enterprises.

Table XIX

COMPARISON OF THE VALUE OF SELECTED INTRA-CENTRAL AMERICAN IMPORTS WITH TOTAL IMPORTS  
OF BRITISH HONDURAS, FROM NON-CENTRAL AMERICAN COUNTRIES, 1965

(Thousands of US dollars)

	Intra-Central American (1)	British Honduras (2)	2 as percentage of 1 (3)
Clothing, except fur	8 792	741	8.4
Perfume products, cosmetics, soap, etc.	7 601	515	6.8
Maize, unground	6 201	14	0.2
Articles of pulp, paper & paper board	6 093	229	3.8
Cotton fabrics, standard type	5 742	421	7.3
Footwear	5 408	259	4.8
Fresh and dry vegetables, roots and tubers	5 208	287	5.5
Miscellaneous chemical materials and products	4 131	387	9.4
Manufactured fertilizers	4 023	454	11.3
Manufactured articles n.e.s.	3 866	827	21.4
Live animals for use as food	3 757	27	0.7
Electric machinery apparatus and appliances	3 536	890	25.2
Petroleum products	3 187	1 176	36.9
Made-up textile articles	3 106	213	6.9
Confectionery and sugar preparations	3 034	106	3.5
Yarn and thread of textile fibres	2 999	37	1.2
Lime, cement and mineral materials for construction	2 910	157	5.4
Manufactures of metals n.e.s.	2 879	278	9.7
Furniture and fixtures	2 775	188	6.8
Textile fabrics, other than cotton	2 707	520	19.2

Source: SIEGA, Compendio Estadístico Centroamericano de Comercio Exterior, 1965, and British Honduras Annual Trade Report, 1965.

Table XX

**CENTRAL AMERICA AND BRITISH HONDURAS: POPULATION AND  
GROSS DOMESTIC PRODUCT, 1965**

	Population (Thousands) <sup>a/</sup>	Gross domestic product (Dollar/m) <sup>b/</sup>	Gross domestic product per capita (Dollars)
<u>Central America</u>	<u>12 739</u>	<u>3 875</u>	<u>304</u>
Guatemala	4 438	1 428	322
El Salvador	2 929	800	273
Honduras	2 284	514	225
Nicaragua	1 655	531	321
Costa Rica	1 433	602	420
<u>British Honduras</u>	<u>106</u>	<u>37</u>	<u>349</u>

Source: Gross domestic product: United Nations, Statistical Yearbook, 1966  
Population, United Nations, Demographic Yearbook, 1966

a/ Provisional estimates.

b/ Measured in current prices, except for Nicaragua, which is measured in 1958 prices. The virtually static level of domestic prices since 1958 means that constant price values correspond roughly to those in current prices.





Annex II

METHODOLOGY USED FOR CALCULATING THE AVERAGE INCIDENCE OF TARIFFS,  
AND THE EFFECTS OF INTEGRATION ON CUSTOMS REVENUE AND PRICES

Average Incidence of Tariffs

1. A sample was taken of British Honduran imports in 1965, which included all commodity categories valued at and above 70 000 dollars (100 000 B.H. dollars)<sup>1/</sup> This yielded the following coverage of imports, according to SITC classes:

	<u>Percentage</u>
<u>Total</u>	<u>79.7</u>
0. Food	81.2
1. Beverages and tobacco	82.6
2. Crude materials	--
3. Mineral fuels and lubricants	89.8
4. Animal and vegetable oils and fats	--
5. Chemicals	81.4
6. Manufactured goods, classified by material	77.7
7. Machinery and transport equipment	91.7
8. Miscellaneous manufactured goods	59.9
9. Miscellaneous transactions and commodities	--

2. Specific duties in both tariffs were converted to their ad-valorem equivalents, by applying unit values of British Honduran imports in that year. In cases where quantities were not recorded in the British Honduran Trade Report, the unit values of Central American imports of the commodities concerned from extra-regional sources, were used for the conversion.

3. In respect of commodities for which there were more than one tariff rate, the simple arithmetic mean of those rates was used. A similar procedure was followed for deriving the Central American rates on commodities

1/ With the exception of miscellaneous manufactures articles n.e.s.

for which common rates have not yet been fixed. In these cases the mean of existing national tariffs was used.

4. The British Honduras rate for any commodity was defined as the average of preferential and general rates, weighted by the value of imports from the respective sources. The rate for a commodity class was similarly the weighted average of the rates for commodities in that class. Likewise, the rate for total imports was the weighted average of the rates for all commodities included in the sample.

#### Effects on Customs Revenue

5. The sample of commodities used for calculating the incidence of tariffs was also utilized for estimating the effects on customs revenue.

6. It was assumed in respect of each commodity in the sample, that if British Honduras enters the Common Market, the proportion of her imports of those commodities that would be supplied by Central America, would be the same as the proportion of similar Central American imports that were supplied from intra-regional sources in 1965.

7. It was assumed also that all of the commodities in the sample were subject to free intra-regional trade.

8. The Central American rates of duty were then applied to the hypothetical value of imports from extra-regional sources, in order to estimate the hypothetical revenue that British Honduras would have collected in 1965, under the Central American common tariff.

#### Effects on Import and After-Duty Prices of Food

9. The sample of food imports that was used for the calculation of incidence and revenue effects, was also utilized for estimating the notional effects of integration on import and after-duty prices.

10. Utilizing the assumption about rates of Trade Diversion described in paragraph 5 above, unit values of intra-Central American imports of the commodities concerned, were then applied to estimates of the notional quantities that would have been imported from Central America, in order

/to determine

to determine hypothetical expenditure on imports from Central America. Estimates of the hypothetical expenditure on imports from the rest of the world were then derived (by applying British Honduras unit values to notional quantities imported from the rest of the world), in order to find total hypothetical expenditure on imports.

11. Hypothetical after-duty expenditure on food was calculated on the basis of hypothetical expenditure on food imported from Central America and the rest of the world, with Central American rates of duty being applied to the latter.

#### Limitations of the Analysis

12. All of these calculations are subject to the major limitation that they ignore altogether the responses of import demand and supply to discriminatory changes in tariff rates. To cite one example, the increase in the duty on rice from 2.5 per cent to 84.2 per cent may stimulate domestic production to the extent where imports of rice are substantially reduced or eliminated. On the other hand duty-free competition from Central American supplies may have adverse effects on local production. But the analysis assumes that the volume of imports of rice will remain unchanged after the adoption of the Central American common tariff. Alternatively, an increase in after-duty prices of extra-regional imports arising from the increase in tariffs, may dampen domestic demand for the commodities concerned. Conversely, a fall in after-duty prices of Central American imports may stimulate increases in domestic demand..

13. Similarly, the analysis assumes that the supply prices of imports will remain unchanged. But a switch in British Honduras import demand towards Central America may raise supply prices from that source. At the same time, the diversion of import demand from the rest of the world may encourage third countries to lower their supply prices, in order to retain the British Honduran market.

14. The assumptions that are implicit in the analysis, may however be vindicated by the fact that there is little domestic production in British Honduras of the large majority of the commodities that she imports.

/Furthermore,

Furthermore, the volume of British Honduran import demand is probably not large enough to induce charges in the supply prices of imports, either from Central America or from the rest of the world.

15. A further limitation of the analysis is that it is based on data for one year only (1965). It is not known whether this year was a 'normal' one from the point of view of British Honduras and Central American import volumes and unit values, or in respect of the shares of intra-regional imports in total Central American imports, of the commodities included in the sample. Moreover, no account has been taken of possible changes over time in all of these variables.



