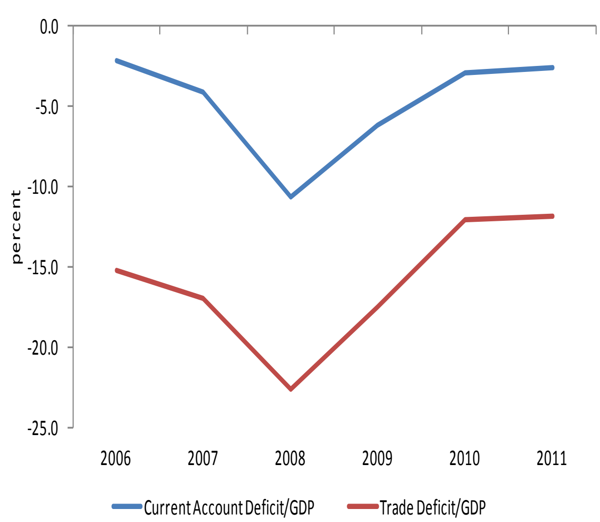
# Foreign Trade & Payments

Table 7.1: Balance of Payments

$mn

| | 2009 Net | 2010 Net | 2011 Net |
|---|---|---|---|
| **CURRENT ACCOUNT** | **-166.2** | **-80.1** | **-73.7** |
| Merchandise Trade | -473.7 | -337.8 | -341.4 |
| Services | 365.3 | 351.0 | 350.3 |
| Income | -216.5 | -277.0 | -250.7 |
| Current Transfers | 158.8 | 183.7 | 168.1 |
| **CAPITAL ACCOUNT** | **37.0** | **11.3** | **47.4** |
| **FINANCIAL ACCOUNT** | **234.1** | **55.6** | **34.3** |
| NET ERRORS & OMMISSIONS | -10.4 | 21.8 | 28.1 |
| OVERALL BALANCE | 94.5 | 8.6 | 36.2 |
| FINANCING | -94.5 | -8.6 | -36.2 |
| **Memo Items:** | | | |
| Import cover in months | **4.2** | **4.5** | **4.3** |
| Current Account/GDP Ratio (%) | **-6.2** | **-2.9** | **-2.5** |

Chart 7.1: Current Account & Trade Deficit

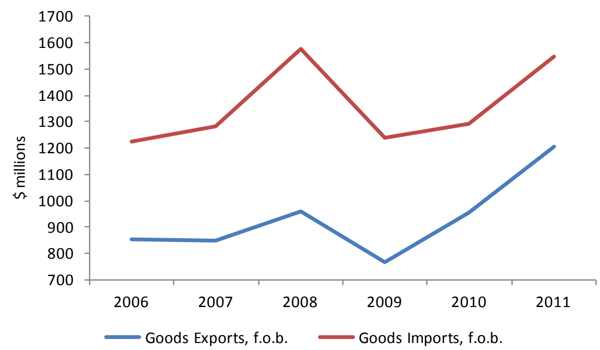



Belize's external current account deficit contracted for the third consecutive year, falling to 2.5% of GDP as a significant reduction in profit repatriation more than compensated for a marginal increase in the trade deficit and lower inflows from services and transfers. The surplus on the capital and financial account expanded by 22.2% to $81.7mn with grant inflows more than offsetting a net increase in the value of assets held abroad by the commercial banks and a marginal decline in foreign direct investment (FDI). The gross international reserves consequently rose by $36.2mn to $472.2mn, equivalent to 4.3 months of merchandise imports.

## Merchandise Trade

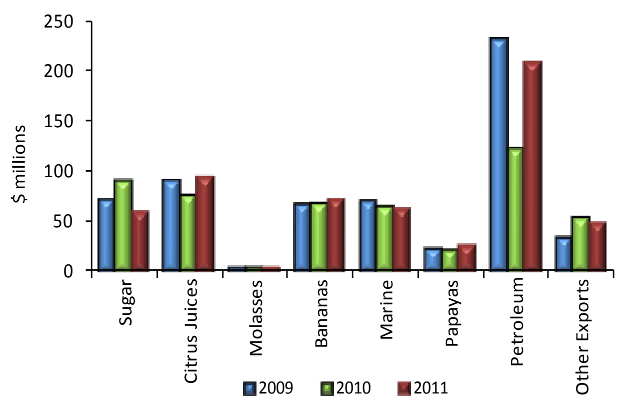
After improving significantly in the previous year, the merchandise trade deficit worsened slightly by 1.1% to $341.4mn (11.7% of GDP). Imports expanded by $253.5mn (19.6%) with a 12.5% increase in goods for domestic consumption, nearly half of which was accounted for by "Minerals, Fuels and Lubricants". CFZ imports were 50.7% higher as businesses successfully capitalized on the improvement in the Mexican economy with aggressive marketing efforts to stimulate cross border trade. Exports grew by $249.8mn (26.1%) with increases across the board in domestic exports, CFZ sales and re-exports. Escalating international oil prices substantially boosted petroleum revenues and higher earnings from citrus juices, sugar, marine products, sawn wood, and other miscellaneous commodities also contributed by offsetting lower revenues from banana and papaya.

Chart 7.2: Merchandise Exports and Imports



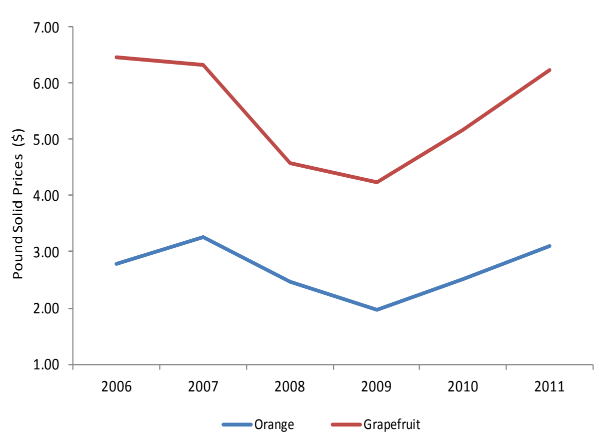

Source: SIB

Chart 7.3: Domestic Exports




Source: SIB

Chart 7.4: Citrus Prices




Source: CPBL

## Domestic Exports

### *Sugar and Molasses*

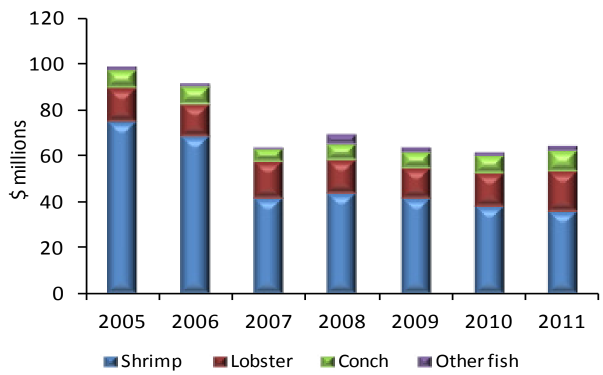
Receipts from sugar exports grew by 53.5% to \$90.1mn, reflecting a 12.0% improvement in export volume and a price rally across all markets. The bulk of sales (67,900 long tons) were to the EU, and for the first time in four years, the US quota of 13,730 long tons was filled. The EU remained the preferred export destination as sales to that market enabled the industry to access approximately \$7.0mn in Fair Trade grants, which were to be used to fund social and infrastructural projects in the sugarcane belt. With higher prices compensating for a halving in molasses export volume, earnings of \$2.9mn were recorded.

### *Citrus Juices and Pulp*

The impact of increased citrus juice production was somewhat offset by a reduced carry over of juice stocks from the previous year, hence, the volume of juice exports declined by 16.9% to 30.6mn ps, year-on-year. However, buoyant international juice prices more than offset the volume decline, and revenues rose by 1.5% to \$95.1mn.

Despite good orange harvests and juice production in Florida and Brazil, prices for orange concentrate strengthened in response to an upswing in demand from the major importing countries. Revenues from orange concentrates consequently rose by 11.4% to \$86.1mn notwithstanding a 9.8% reduction in export volume. While sales to the US market declined by 57.4%, the revenue loss was held to 51.0% and in the case of Europe, receipts were down by 47.3% in comparison with a 63.0% contraction in the volume sold. Revenues from sales to the Caribbean were

Chart 7.5: Exports of Marine Products




Source: SIB

up almost threefold to $42.3mn reflecting a more than doubling in the sale volume and a 12.4% price improvement. Sales of freeze concentrate juices to Japan yielded $16.8mn, a 150.8% increase over 2010 that reflected higher prices as well as volume.

Earnings from sales of grapefruit concentrate declined by 45.4% to $8.9mn with higher prices in some markets partly compensating for a 53.3% contraction in volume. While the EU accounted for a little more than half of sales, the export volume to this market was halved and earnings were down by 37.5% to $4.9mn. Receipts from Japan plummeted by 62.2% to $2.0mn mainly due to a 60.6% drop in export volume that was further exacerbated by a reduction in the average unit price. While exports to the Caribbean fell by 7.4%, revenues fell by a less than proportionate 2.7%. Exports of pulp amounted to 1.4mn pounds valued at $1.0mn compared to the previous year's outturn of 1.7mn pounds that had generated receipts of $1.2mn.

### Banana

Banana exports were down by 4.8% to 74,108 metric tons with a 0.5% fall in the average box price also contributing to the 5.2% fall in receipts to $67.9mn. The latter reflects the fact that while the three year marketing agreement with Fyffes provides for price stability, the export mix between the higher valued first class banana and the lower priced second class banana ultimately determines the final price received. Of overall exported volume, second class bananas accounted for 7.8% of the total in 2011, up from 7.0% in the previous year.

### Marine Products

Notwithstanding a reduction in shrimp sales, earnings from marine exports rose by 5.4% to $65.0mn during the year. While shrimp export volume contracted by 11.9%, producers focused on niche markets in Mexico and the Caribbean where demand and pricing arrangements were more favourable, hence, earnings declined by a lesser 6.1% to $36.1mn. Lobster receipts increased by 24.2% to $17.7mn, as export volume and the average unit price rose by 11.5%. Similarly, conch revenue increased by 17.1% to $8.9mn due to a rise in export volume and a minimal improvement in the average unit price. Reflecting a 24.8% rise in volume and an improvement in the average price of $0.37 per pound, export receipts from other fish rose to $2.2mn.

### Other Major Exports

Petroleum exports remained the lead export earner with a 50.8% improvement in the average unit price (from US$72.15 to US$108.38) overshadowing a 6.0% contraction in export volume. Receipts from oil exports consequently rose by 41.5% to $291.8mn.

Meanwhile, the volume of papaya exports declined by 9.3% with receipts contracting by 11.5% to $22.9mn.

### Non Traditional Exports

Earnings from non-traditional exports registered strong growth of 42.2% to $67.4mn, as higher receipts from sawn wood, orange oil, fresh oranges, pepper sauces and other miscellaneous exports outweighed lower income from grapefruit oil and veneer sheets. A higher volume accounted for the rise in sawn wood earnings, while improvements in prices and export volume boosted revenues from fresh orange and orange oil. Receipts from pepper sauces were higher as an improved price outweighed a fall in export volume.

### Re-Exports

Re-exports grew by 29.9%, reflecting higher sales from the CFZ as well as the customs area. At $438.6mn, receipts from CFZ sales were up by 25.0% as a substantial turnaround in the Mexican economy contributed to a pick-up in cross border trade. Other re-exports also expanded significantly due to higher sales of almost all major categories of goods but with "Minerals, Fuels and Lubricants" and "Beverages and Tobacco" being the most notable.

### Gross Imports

Gross Imports (f.o.b) surged upward by $253.4mn, and included increases in imports for domestic consumption and the CFZ of $131.8mn and $121.6mn, respectively. A $66.7mn hike in outlays on "Minerals, Fuels and Lubricants" that mostly reflected the sharp rise in fuel acquisition costs accounted for approximately half of the increased spending on imports for domestic consumption.

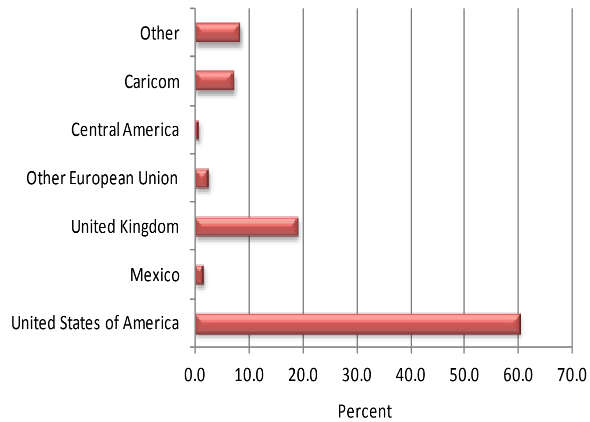
There was also an increased reliance on electricity imports from Mexico due to the extended dry season and sub-optimal performance of the co-generation plant. Since Mexican elecricity rates are indexed to international fuel prices, the heightened rates also helped to drive up the value of electricity imports by 40.6%. The next largest increase was in "Machinery and Transport Equipment", outlays for which rose by $14.0mn. Imports of "Chemical Products" and "Other Manufactures" grew by 11.1% and 14.5%, respectively.

### Direction of Visible Trade

The US maintained its position as Belize's principal export market with its share rising from 46.3% to 60.2% due to its increased purchases of petroleum, sugar and marine products such as lobster, conch and whole fish/fish fillet. With UK purchases of banana falling, its export share declined to 19.0%, while a fall off in sales of citrus juices accounted for a downward drift in the percentage share of exports to other EU countries from 5.3% to 2.7%. Central America accounted for only 0.8% of Belize's exports, as for the first time in five years, there were no petroleum sales to that region. CARICOM's share improved to 7.3% as shrimp producers strengthened their presence in niche markets for shrimp and whole fish in Trinidad and Jamaica. Since Mexico had hitherto been a target market for shrimp, the shift in marketing strategy resulted in a slight decline in its export share.

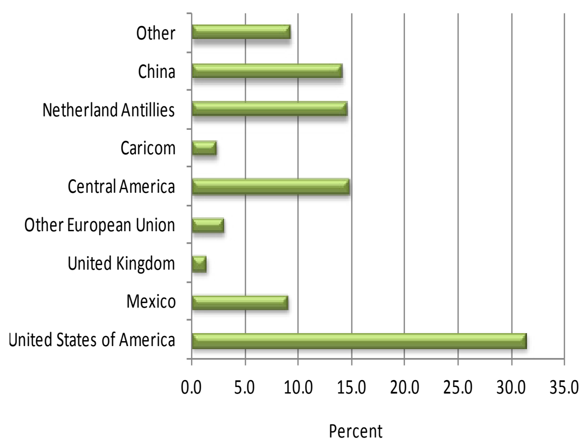
Imports continued to be sourced mainly from the US, which accounted for 31.4% of goods purchased from abroad. China's share of imports rose from 10.6% to 14.6% as CFZ companies continued to source cheaper goods from there rather than from

Chart 7.6: Direction of Visible Trade in 2011 - Exports



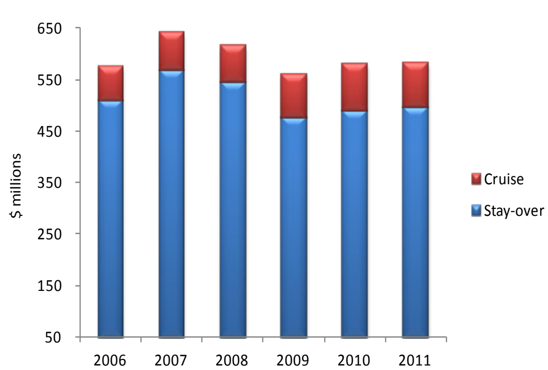

Source: SIB

Chart 7.7: Direction of Visible Trade in 2011 - Imports




Source: SIB

Chart 7.8: Tourism Expenditure




Sources: BTB and CBB

the Panama Free Zone. Thus, Central America's share moved slightly downward to 14.8%. Similarly, the share of imports from Mexico fell from 9.8% to 9.1%.

## Services

With outflows and inflows rising by $16.5mn and $15.8mn, respectively, net earnings from services edged down by 0.2% to $350.3mn. The former was attributed mostly to higher transportation costs materializing from the larger volume of international trade and hikes in freight charges due to rising fuel prices. Higher earnings from tourism and a modest fall-off in international travel by residents netted a 3.8% increase in travel inflows, and there was virtually no change in the performance of the other categories of services relative to the previous year.

## Income

Slumping citrus and banana harvests resulting in reduced need for foreign seasonal workers led to the third consecutive year of decline in net labour outflows, in this case by 13.6%. In a similar fashion, net outflows from investment income decreased by 9.4%, as lower profit remittances from the tourist industry and a sharp decline in commercial banks' retained earnings trumped the 17.1% growth in public sector interest expenses. The end result was $250.7mn in outflows from the income account, a year-on-year decline of $26.3mn.

## Current Transfers

A fall in Fair Trade receipts by the sugar industry and lower inflows to religious organizations, credit unions and insurance companies accounted for an 8.5% reduction in the surplus from current transfers. For a second consecutive year, family remittances edged downward, falling by 3.6% as high unemployment rates persisted in the developed

Chart 7.9: Net Balances for Services, Income and Current Transfers

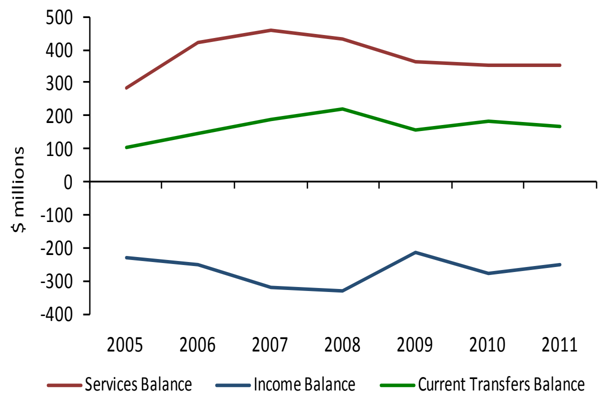



Chart 7.10: Remittance Inflows

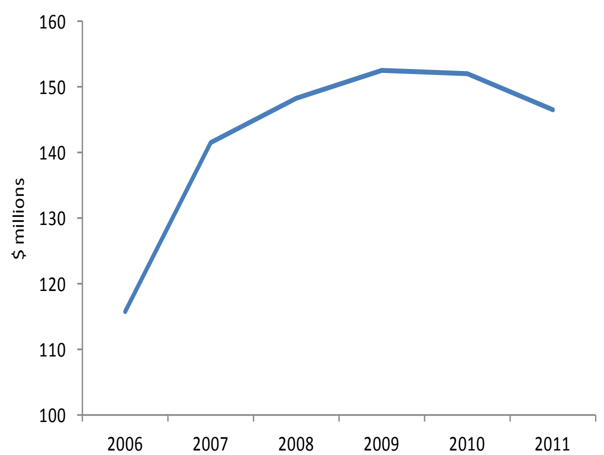
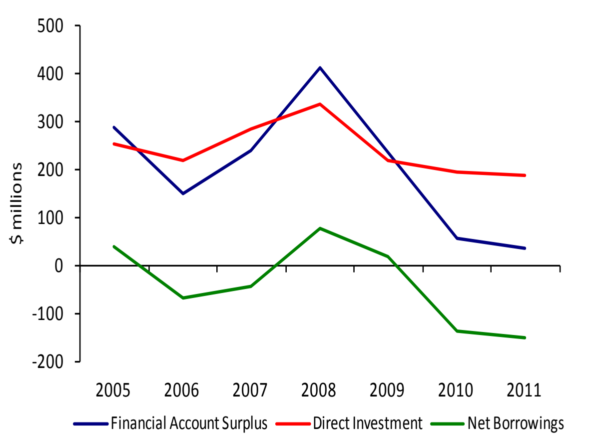



Chart 7.11: Main Components of the Financial Account

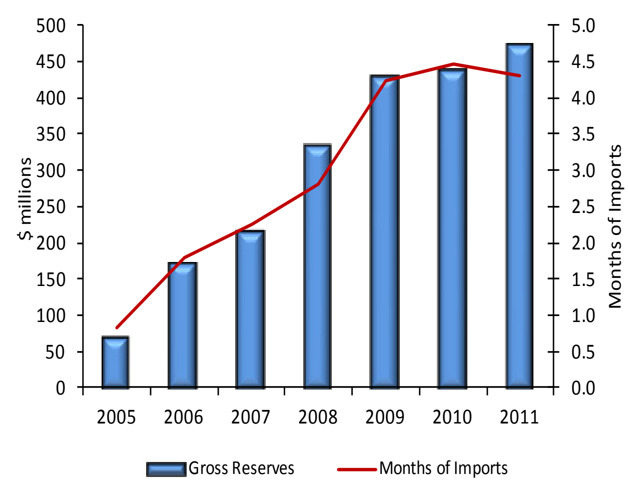



economies to which the country is closely linked. In other developments, the government recorded net outflows as grants were insufficient to offset routine transfers to international and regional organizations.

## Capital and Financial Accounts

The surplus on the capital account more than tripled to $47.4mn, beefed up by the final tranche of the UK's debt relief program and grant inflows for agricultural-based programs, capacity building and construction projects. In contrast, the surplus on the financial account almost halved to $34.3mn, as a fall in reinvested earnings reduced foreign direct investment by 3.4%, and the Central Bank purchased $14.0mn of an International Bank for Reconstruction and Development (IBRD) bond. In other developments, the commercial banks notably reduced their short-term foreign liabilities and built up their foreign asset holdings abroad.

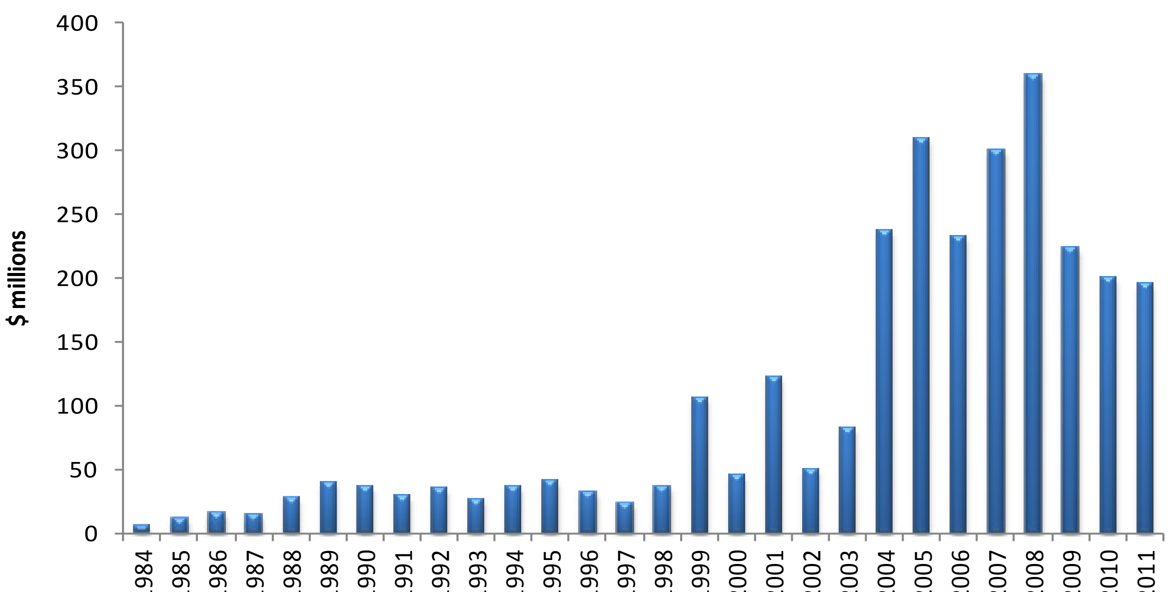
Chart 7.12: Gross Official International Reserves and Months of Imports



Box 5: Foreign Direct Investment in Belize

In view of the small size and general openness of its economy, Belize has actively welcomed FDI to provide a catalyst for economic growth since gaining political independence. Among the steps aimed at attracting foreign investors were the enactment of the Fiscal Incentives Act, International Business and Public Investment Companies Act, Export Processing Zone Act, the Commercial Free Zone Act and the International Banking Act in the late 1980's and 1990's. These measures have proved to be only moderately successful over the years, however. In the late 1980's, USAID funding of some US$2.5mn was used to establish an export development and investment promotion unit within the Belize Chamber of Commerce and Industry, but notwithstanding the stepping up of promotional efforts, investment inflows to the country did not immediately experience a sizeable increase comparable to some of its sister CARICOM states. The low level of national savings, the underdeveloped state of the country's basic infrastructure and its institutional bottlenecks appear to have been significant constraining factors. The latter is partly explained by deficiencies in governance, a lack of continuity in public investment strategy and the fact that Belize entered political independence at a comparatively lower level of economic development than several countries in the region. The need for FDI has nevertheless been a consistent theme of public policy across the political spectrum. When USAID funding for the investment promotion project terminated in 1993, the government saw the need in subsequent years to continue the initiative. Consequently, it eventually concentrated its investment promotion and export development functions in a specialized unit that has been operating since 1997.

Chart G: Foreign Direct Investment in Belize



Box 5: Foreign Direct Investment in Belize (cont'd)

Excluding unrecorded transactions, Belize has received cumulative FDI inflows totalling some $2.9 billion between 1984 and 2011 with the bulk being received in more recent years. Investment inflows received between 1984 and 1987 account for 1.7% of the total. The pace accelerated between 1988 and 1998 with investments into papaya, aquaculture, tourism, the commercial free zone and the partial privatizations of the telecommunications and the electricity utilities. A significantly higher plateau was reached between 1999 and 2011, a period which accounts for about 85.0% of FDI received by the country over the 28 year period. The upward surge was partly due to the 2001 repeal of the Alien Land Holdings Act, which had hitherto limited the amount of land that non-residents could own in town and rural areas. Subsequent loans by locally licensed international banks to assist non-residents to invest in domestic enterprises made a significant contribution to the surge in condominium and hotel developments. However, some deceleration has occurred in the financing of such projects since 2009 in the aftermath of the international financial crisis and continuing weakness in the recovery of the advanced economies.

A disaggregation of the data for 2001 through 2011 shows that 32.1% of investment inflows has been directed into tourism oriented condominium and hotel developments in major tourist destinations such as Ambergris Caye and Placencia. Real estate activities that consisted mostly of land purchases for the eventual construction of hotels and condominiums and speculative purposes accounted for another 16.1% of cumulative investment over the same time period. Financial intermediation has also accounted for 16.1% of foreign investments due to the retained earnings of foreign owned commercial banks. The latter have typically recorded positive retained earnings annually, except for 2011 when a net loss of $3.9 million was recorded due to the write-off of non-performing loans that had been building up in the system in recent years.

Seven percent of total investments went into "Mining & Quarrying" and were largely for petroleum exploration with the commercialization of the first oil find in 2005. Some of these funds have also been channelled into the search for other minerals such as gold, silver and granite, though not with the same degree of success. There were sizeable inflows into the telecommunications sub-sector between 2003 and 2006, however a significant portion of this was a reflection of the multiple changes of ownership of BTL, the major domestic telecommunications provider (GOB/Ashcroft Group/GOB/Prosser Group/GOB/Ashcroft Group). Other investments such as those that targeted the "Agriculture, Hunting, Forestry and Fishing" sub-sector involved the development of papaya plantations and construction of packing

Box 5: Foreign Direct Investment in Belize (cont'd)

facilities, and the establishment of a marine cage farming facility for the production of Cobia, the latter of which is temporarily in suspension due to damage inflicted by Hurricane Richard.

Investments into 'Electricity, Gas and Water Supply' included the privatization of the water utility and the construction of the Vaca Dam to expand hydroelectric facilities.

Table A: Foreign Investment Inflows by Industrial Classification

$mn

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, Hunting, Forestry and Fishing | 0.0 | 0.0 | 3.1 | 1.3 | 2.0 | 23.2 | 14.7 | 18.9 | 3.1 | 1.3 | 4.4 |
| Mining and Quarrying | 0.0 | 0.0 | 0.0 | 6.3 | 14.7 | 0.3 | 2.4 | 55.6 | 10.1 | 24.3 | 50.0 |
| Electricity, Gas and Water Supply | 49.6 | 0.0 | 10.0 | 32.0 | 47.3 | 7.1 | 9.3 | 6.7 | 9.7 | 4.0 | 0.0 |
| Trade and Repair | 6.0 | 5.5 | 5.2 | 8.7 | 5.5 | 0.8 | 3.1 | 4.7 | 1.6 | 0.4 | 0.0 |
| Hotels and Restaurants | 29.6 | 9.4 | 19.3 | 51.3 | 115.2 | 97.8 | 93.7 | 141.7 | 53.1 | 57.8 | 80.5 |
| Transport, Storage and Communications | 0.0 | 0.0 | 8.6 | 78.1 | 65.4 | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial Intermediation | 26.6 | 20.1 | 24.2 | 41.4 | 37.8 | 50.4 | 59.9 | 41.5 | 45.8 | 32.3 | -3.9 |
| Real Estate Activities | 3.3 | 6.1 | 6.4 | 11.0 | 7.7 | 21.8 | 49.8 | 59.4 | 83.5 | 71.6 | 54.9 |
| Miscellaneous | 7.2 | 10.1 | 7.0 | 10.0 | 20.0 | 28.6 | 67.7 | 31.3 | 18.1 | 9.8 | 10.9 |
| **Total** | **122.3** | **51.1** | **83.8** | **240.2** | **315.5** | **233.3** | **300.6** | **359.9** | **224.9** | **201.5** | **196.8** |

While FDI has had a positive impact on GDP growth, consideration must be given to the cyclical nature of the flows and the issue of sustainability as it relates to the balance of payments. The growth in number of foreign owned condominiums tends to lead to the siphoning off of business from the hotel sector and results in reduced inflows over the medium to long term. While the rise in FDI boosts capital and financial inflows in the first part of the cycle, as these investments mature, the level of profit repatriation increases. Over the past five years, it is notable that for every three dollars of FDI inflows to Belize, approximately two dollars have been repatriated as profits. The issue of the need for careful management to avoid giving foreign investors a competitive edge over local producers of the same product or service has also surfaced. Another pertinent issue is the fact that the tax breaks offered as investment incentives reduce the tax base and limit the fiscal space for much needed infrastructure maintenance and investment. This is an issue that other countries in the region have been recently revisiting, particularly in view of studies which show that fiscal incentives have not proven to be the determining factor in attracting foreign investment.  In looking forward, strategic adjustments may need to be made to re-orient domestic policies in order to attract FDI that will trigger the transfer of technology, assist human capital formation and improve economic linkages with other sectors of the economy.