Trade-Related Policies and Practices in Honduras

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Acronyms and Abbreviations

BCIE	Central American Bank for Economic Integration
BDV	Brussels Definition of Value
CACM	Central American Common Market
CAANEP	National High-Level Advisory Committee of the Private Sector
CBI	Caribbean Basin Initiative
CBTEA	Caribbean Basin Trade Enhancement Act
CECOMI	Business Committee for International Trade Negotiations
COHEP	Honduran Private Sector Council
EPZ	Export processing zone
ERP	Effective rate of protection
EU	European Union
FDI	Foreign direct investment
FEER	Fundamental equilibrium exchange rate
FTAA	Free Trade Agreement of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
ERP	Effective rate of protection
FIDE	Foundation for Investment and Development of Exports
FPX	Honduran Federation of Producers and Exporters of Non-Traditional Agricultural Products
FTZ	Free trade zone
GDP	Gross domestic production
GOH	Government of Honduras
GSP	Generalized System of Preferences
HIPC	Heavily Indebted Poor Countries (Initiative)
HS	Harmonized System
IDB	Inter-American Development Bank
IDA	International Development Association
IMF	International Monetary Fund
IPR	Intellectual property rights
MFA	Multi-Fibre Arrangement
MIT	Ministry of Industry and Trade
MSMEs	Micro, Small and Medium Size Enterprises
NAFTA	North American Free Trade Agreement
NAUCA	Nomenclature for Central America
NRP	Nominal rate of protection
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
PCT	Patent Cooperation Treaty
PEP	Policy Enhancement and Productivity (Project)
PTMs	Para-tariff measures
REER	Real effective exchange rate
RIT	Temporary Import Law (‘Regimen Temporal de Importación’)

RUTA	Regional Unit for Technical Assistance
SAC	Central American Tariff System
SIECA	Permanent Secretariat for Economic Integration
SMEs	Small and medium size enterprises
SOEs	State-owned enterprises
TCMs	Trade control measures
TRIPS	Trade-Related Intellectual Property Rights
TPR	Trade policy review
UNDP	United Nations Development Program
UPEG	Management Planning and Evaluation Unit
USAID	United States Agency for International Development
USDA	US Department of Agriculture
WIPO	World Intellectual Property Rights Organization
WTO	World Trade Organization

Executive Summary

Background

This document is the final report of the trade policy review study conducted jointly by the Honduras Policy Enhancement and Productivity (PEP) Project and the General Department of Economic Integration and Trade Policy of the Ministry of Industry and Trade (MIT). It aims to review trade policy advances in 1998-99 and examine the need for further policy reforms to improve the competitive position of the Honduran producers in foreign and domestic markets. The results will be used by PEP and the MIT to implement and monitor the recommended policy reforms. The report also supports the Honduran Trade Policy Review that the Government of Honduras (GOH) will present to the Trade Policy Review Body of the World Trade Organization (WTO).

The study is organized into the following components: Chapter 1 reviews the recent performance of the Honduran economy and the objective and coverage of the study. Chapter 2 provides a detailed examination of policies guiding trade and key institutions controlling trade practices. Chapter 3 describes trade control measures in terms of tariff measures, price controls, financial measures, quality controls, and technical measures. Chapter 4 examines trade and macroeconomic policies affecting exports through direct export policies, tariff-induced biases against exports, and exchange rate policies affecting the international competitiveness of exports. Chapter 5 proposes a trade strategy for Honduras in the light of its existing national development plan, and it identifies the key initiatives needed to support the proposed strategy and the preparation of the WTO trade policy review. The Annexes contain detailed information on (a) trade-related government organizations; (b) classification of trade control measures; (c) technical notes; and (d) meetings conducted during the course of the study.

The study was conducted in Honduras during November 2000 by Ms. Greta Boye and Dr. Montague Lord, Chemonics International consultants, under the direction of Dr. Julio Paz Cafferata, Chief of Party for the PEP Project, and with the collaboration of Mr. Reinaldo Osorio, General Director of the Sub-Secretariat of Economic Integration and Trade Policy. Ms. Berta Fiallo provided local support in the quantitative analysis underlying the results of the study. The study benefited greatly from the extensive data and information provided by Ms. Gerónima Orbina, Sub-Director, and the staff of the Sub-Secretariat of Economic Integration and Trade Policy.

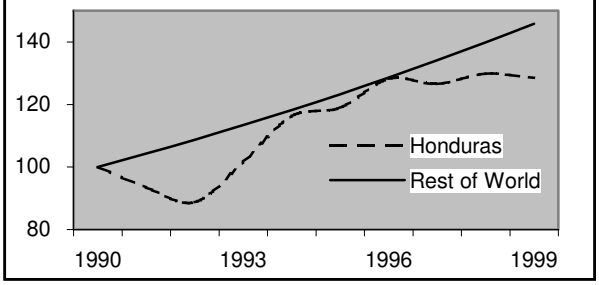
Recent Developments

Honduras achieved moderate economic growth in the 1990s, but the recent economic performance of the country has been dominated by the devastation caused by Hurricane Mitch, as well as an appreciating currency, expensive credit, and depressed world markets for the country's leading exports. The pervasive impact of the hurricane on the country will undoubtedly influence the Government's pace and sequencing efforts to

reduce poverty, strengthen the financial system, modernize the state, and provide an enabling environment for a sustainable private sector-led growth.

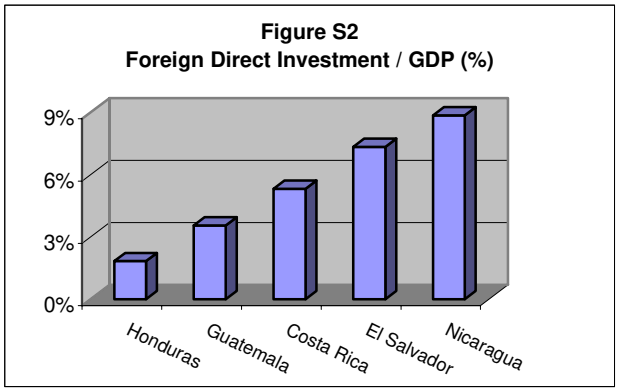
Like many other countries, Honduras has expanded its international trade relative to output, increased its share of cross-border production by multinational firms in the country, and participated in the growth of international banking transactions. This process of globalization matched that of the rest of the world until 1996, after which it achieved small growth margins because of its commodity and geographic trade concentration, domestic trade and macroeconomic policies, and severe external shocks to the economy like that of Hurricane Mitch and world market price volatility in the country's leading exports. Since foreign out-sourcing has been the driving factor for globalization in manufacturing output and Honduras' trade has been concentrated on a relatively few primary commodity exports, only the *maquiladora*, or assembly, industry has kept up with global cross-border production activities. Transfer of new technologies and the dissemination of new skills in the workforce have therefore been limited, and production specialization has continued to depend on the country's unskilled labor and natural resource endowments.

Figure S1
Globalization of World Economy and Honduras, 1990-99



The geographic concentration of export and imports in the US market had a favorable impact on the country throughout the 1990s because of the strong and sustained economic growth of that market. Diversification to other markets has, however, occurred and will reduce the risk from market concentration in the coming years. Trade with other Central American countries currently represents about 17 percent of the total, and the balance between exports and imports is fairly even. In contrast, Honduras imports from the European Union far exceed its exports to that market, although efforts to penetrate that market have recently increased. In Asia only Japan is a major trading partner, and trade with that country is fairly balanced.

Figure S2
Foreign Direct Investment / GDP (%)



Equally important to the export performance of Honduras have been the reform policies instituted by the Government since the early 1990s, when the country began to liberalize and emphasize sustainable export activities as part of its overall development program. The economic reforms have nevertheless provided a strong encouragement to develop the

maquiladoras in Honduras. There are currently over 200 plants employing 125,000 workers that generate more than US$300 million in foreign exchange revenue. That amount makes it the largest export revenue generating industry in the country. While it is clear that geographic and product diversification will be needed over the medium and long run to reduce the economy's susceptibility to external shocks, there is a lack of consensus on prescriptions for alleviating shocks in the near term.

Legal and Institutional Framework

The Ministry of Industry and Trade (MIT) is the primary government agency responsible for the formulation, coordination and implementation of trade and investment policies. Within that Ministry, mainly two sub-secretariats are involved in policy-making, namely the Sub-Secretariat of Economic Integration and External Trade and the Sub-Secretariat of Business Development and International Trade. The MIT has recently undergone an institutional restructuring that has widened its responsibilities to include export promotion and dispute settlement. These changes have resulted in new units that are understaffed or with staff whose skills require upgrading.

The National Tariff Commission formulates tariff policy at the national level; at the regional level the Central American Treaty Commission formulates it. Other government agencies involved in trade and investment policy include the Ministry of Finance, the Central Bank, the Ministry of Agriculture and Livestock and the Ministry of Natural Resources. The private sector is mainly linked to government policy-making activities through the Honduran Private Sector Council (COHEP) and the Foundation for Investment and Development of Exports (FIDE). COHEP has recently taken a leadership role in promoting international trade; FIDE creates and advocates new legislation aimed at improving the business climate in the country, thereby promoting investment in Honduras and developing the export sector.

Honduras became a founding member of the WTO in January 1995. As a developing country, the country was afforded special and differential treatment to implement its commitments under the multilateral trading system. To date, the only remaining implementation issues relate to the Textile Agreement and the Trade-Related Intellectual Property Rights (TRIPS) Agreement. Policies to comply with these two agreements will be adopted in 2001. At the regional level, Honduras is a founding member of the Central American Common Market (CACM), which provides a forum for many of the trade negotiations in which it participates, such as the trade agreement with Colombia and Venezuela, and two separate agreements with Chile and the Dominican Republic. Outside the CACM framework, Honduras recently entered into a trade agreement with Mexico, El Salvador and Guatemala (referred to as the 'Triángulo Norte').

Outside the Central American region Honduras has entered into bilateral agreements with Canada, Dominican Republic and Panama. It is also a beneficiary of the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) of the United States. The recently adopted US-Caribbean Basin Trade Enhancement Act (CBTEA) expects to allow countries like Honduras to increase the aggregated value of their exports to the United States through apparel assembled in the country. In addition to the United

States, Germany, Belgium, the Netherlands and Italy offer preferential tariff schemes to Honduras. Coffee is the dominant product traded under the CBI, GSP and partial scope agreements; bananas, zinc, cigars and wooden furniture less frequently traded under these schemes.

The 1992 Investment Law is the major piece of legislation governing investment in Honduras and is currently under revision to remove restrictions on foreign direct investment (FDI). Revisions will likely loosen requirements for special government authorization required for FDI in key sectors such as forestry, telecommunications, basic health services, air transport, and financial services, among others. New provisions will also revise the law's requirements for Honduran majority ownership in certain types of investment, and allow more flexibility for foreigners to establish businesses. Honduras also boasts at least 45 pieces of invest-related legislation in addition to the Investment Law. Those most focused on trade and investment relate to intellectual property rights, government procurement, consumer protection and income tax.

Box S.1 lays out the fiscal incentives that Honduras offers to potential investors. The incentives are particularly important to the promotion of the apparel assembly ('maquila') industry, which has proliferated in the country during the last few years. Nonetheless, the future of this industry is uncertain due to the scheduled phase-out of the Multi-Fibre Arrangement (MFA) quota regime by 2005 and the threat of the relocation of companies currently operating in Honduras to more competitive areas in Asia. Honduras will therefore be required to improve its competitiveness vis à vis Asia by adopting so-called full package capabilities and improving information technology, communication and logistic systems.

Box S.1
Trade and Investment Incentives

Incentive a/	Free Trade Zone (FTZ) b/	Export Processing Zone (EPZ) c/	Temporary Import Law
Import duties on raw materials, components	100% exemption	100% exemption	100% exemption if exported out of Central America
Local sales and excise taxes	100% exemption	100% exemption	100% exemption
Taxes on profits	100% exemption	100% exemption	Subject to pay
Capital repatriation	100% exemption	100% exemption	Subject to Central Bank
Taxes on profit repatriation	100% exemption	100% exemption	Subject to Central Bank
Currency conversion	Unrestricted	Unrestricted	Subject to Central Bank
Customs	Cleared on site	Cleared on site	Cleared on site
Sales to local market	5% of total production, paying customs duties	Only paying customs duties	Not applicable
Eligibility requirements	Industrial & commercial companies	Industrial and supporting companies	HTS 9802 d/ 807A b/
Park ownership	Public/private	Private	Private

a/ More commonly known by the Spanish acronyms 'ZOLI', 'ZIP' and 'RIT', respectively.
b/ The following cities have been designated as free zones: Puerto Cortes, Omoa, Choloma, Tela, La Ceiba and Amapala.
c/ EPZs are located in Choloma, Bufalo, La Lima, San Pedro Sula, Villanueva and Tegucigalpa.
d/ Harmonized Tariff Schedule of the United States.
Source: FIDE.

The current development plan, which covers the period 2000-2005 lays out a master plan for the reconstruction of Honduras following hurricane Mitch. As such, it is oriented towards four broad thematic areas: (i) poverty reduction and human resource

development, (ii) economic reactivation with a focus on employment generation through the development of the country's productive sectors and infrastructure improvements, (iii) sustainable protection of natural resources, and (iv) strengthening democratic participation. To date, the MIT has not prepared a trade and investment strategy and appears to have no time-line to do so.

While the development plan has no direct links to international trade and investment policy, it lays out strategies to revitalize the agricultural and agroindustrial sectors and improve infrastructure and macroeconomic conditions, all of which impact on international trade. In the agricultural sector, the Government will focus on supporting small and medium-size producers through implementing technical assistance programs related to improving production, improving the legal and regulatory framework for investment, and establishing a national program for upgrading the health and sanitary inspection process for agricultural products.

These programs should mainly benefit producers of coffee, basic grains and African palm, sugar cane and milk. In the agro-industrial sector, the Government has laid out strategic guidelines that include penetrating international markets under the Free Trade Agreement of the Americans (FTAA) trade scheme and maintaining trade preferences under existing arrangements, defending the country's interests in international trade negotiations as well as those of the agro-industrial sub-sector against illegal trade practices. At the same time, the Government pledged to accelerate the process of Central American economic integration.

Import Policies and Practices

As a member of the CACM, Honduras adopted the Central American Tariff System (SAC), which extended the six-digit product classification under the Harmonized System (HS) to eight digit and implemented a tariff range of 5 to 20 percent. Products traded within the CACM receive zero tariff treatment with exceptions for sensitive products such as fuels, vehicles and their parts and certain electronic equipment. In 1995 Honduras and other CACM members agreed to work toward the full implementation of a common external tariff ranging between zero and 15 percent for most products, but allowed each country to determine the timing of the changes. Despite the harmonization of external tariffs and the liberalization program for internal tariffs, which legally sets most tariffs to zero, the system has recently experienced problems that have negatively affected the regional trading system.

Honduras' SAC tariff structure largely reflects the reforms that have been made in recent years. The 7.5 percent unweighted average is fairly low, and a slight improvement from its 1999 average of 7.8 percent. Our calculated 1999 trade-weighted average for the 2000 tariff schedule is 8.3 percent. The standard deviation equals 7.6 for the 2000 tariff scheduled, compared with 8.0 one year earlier. The dispersion, although considered reasonable, suggests the possible existence of differences in protection across industries, and consequently the preference afforded to some industries over others.

At a more disaggregated level, most tariff lines in the current tariff schedule fall within five bands although there are currently a total of 13 bands. The most common tariff rate is 1 percent, which is applied to 47 percent of tariff lines. The rates of 5, 10, 17 and percent are each applied to between 11 and 13 percent of all tariff lines. The distribution of tariffs indicates that the schedule could be further simplified while following the established CACM guidelines. For example, the four tariff bands above 35 percent (*viz.*, 40, 45, 50 and 55 percent) that are only applied to nine products could be collapsed into the 20 percent category. Likewise, the 25 and 30 percent tariffs could be eliminated, thereby incorporating the six products that are currently taxed at those rates into the 20 or 17 percent tariff categories. The high tariffs can also be interpreted as tariff peaks, which typically are limited to tariff lines where the local industry can supply certain agricultural or finished products. This situation holds for Honduras: in the poultry section of the tariff schedule, tariffs for certain chicken and turkey cuts are up to five or seven times the average rate for Honduras, and in the motor vehicles section certain vehicles are up to five times the average rate.

The distribution of the value of imports and estimated revenue by tariff band also argues for continued simplification of the tariff structure. In 1999, most of Honduras' estimated revenue (79 percent) from import taxes was generated from imports with four different applied tariff rates (17, 15, 20 and 10 percent). Less revenue (22 percent) was generated from imports with six applied tariff rates (5, 1, 30, 35, 45, 40 percent); and an insignificant amount (0.4 percent) of revenue was generated from imports taxed at the remaining three rates. These data confirm that it would be useful for Honduras to consider collapsing all tariffs above 25 percent into the 20 percent range, and reducing the 20 percent rate according to the Common Market schedule.

The suggested revisions to the current tariff structure have important implications. From a practical point of view, they would make the tariff schedule more logical, and would likely lower the trade-weighted average and standard deviation. The elimination of the high tariff bands also requires political will on the part of the Government, since it is apparent that lobbying efforts have been made to provide high protection to a limited number of products. Most importantly, a revised tariff schedule would better reflect the country's shift away from protecting infant industries by forcing them to compete on more equal grounds than at the present time and would be more in line with the overall move to trade liberalization.

Other tariff-related issues include the price band system, which was adopted by all CACM members except Costa Rica and that has the objective of smoothing out wide fluctuations in international prices. The price band system effectively acts as system of a variable tariffs; the variations in international prices are used as criteria for modifying the level of the tariff applied to the product within the system. The price band mechanism is compatible with regulations set out by the Uruguay Round as long as the tariffs do no exceed the bound tariffs agreed upon in tariff negotiations. It also complements the special agricultural safeguard permitted under the GATT: while the price band system allows for the variation of tariffs below the level of a country's tariff bindings, the special safeguard allows the raising of tariffs above the tariff bindings under certain conditions.

Valuation of imports is also an important issue in trade. Despite important progress made in implementing the WTO Valuation Agreement, work still remains in its application. Most notably, it appears that reference price lists, especially for agricultural products, remain in use by the Customs Department. Not only is the use of reference price lists a violation of the Agreement, but it has caused considerable confusion within the Customs Department by border officials who, having received some training by the WTO, are unsure of action to be taken when given a price list by their superiors.

Honduras also applies four different surcharges in addition to ad valorem tariffs. The first tax is a customs administration fee of 0.05 percent that is applied to 28 percent of the tariff lines; the criteria for the selection of products to be taxed by this fee are not clear. The second tax is a 'specific consumption tax' of 20 percent, which is applied to certain agricultural products (pears, apples, green tea), perfumes, alcoholic beverages and vehicles, among others; these products make up only 1.5 percent of total tariff lines. A third 'selective consumption tax' of either 15 percent or a specific tax is applied to products like alcohol and cigarettes; these taxes are only applied to 88 products that make up less than one percent (0.4) of the total number of tariff lines. Finally, a sales tax of 12 percent is applied to most products and 15 percent to liquor and tobacco, although certain goods are exempted.

Honduras has made significant improvements in non-tariff trade control measures in recent years, especially by eliminating import quotas and import licensing requirements. Nonetheless, other more difficult-to-measure obstacles remain. Field interviews revealed that Honduras still retains a large number of import barriers in the form of administrative obstacles. We then compared our findings with those of a study involving import barriers in 25 other countries, shown in Box S.2, and found that Honduras ties with Pakistan in being the fifth highest-ranking country applying administrative obstacles to imports. The Honduran authorities currently use 11 of the 22 possible types of obstacles identified in the study. This relatively high incidence compares with 7.6 types of barriers used on average by all countries.

Measures Affecting Exports

Effective Rates of Protection – Over time Honduras has reduced interventions aimed at controlling or taxing exports. Except for controls over sugar, export policy measures are more closely linked to its policies on imports than to direct export measures. The existing graduated tariff structure directly affects domestic production and indirectly affects exports of other industries that have had resources drawn from them by import-substituting policies. The extent of this type of protection has been measured by the effective rate of protection (ERP).

In contrast to the nominal rate of protection (NRP) that measures the extent of protection by the difference between the border price of foreign-made products and the price of domestic import-substitutes made by local producers, the ERP measures the increase in value-added of the protected industry over value added of that same industry measured in terms of border prices. For an industry or firm, the value added is the difference between

Box S.2
Import Barriers in Honduras and Other Selected Developing Countries

	ARG	BRA	CHL	COL	EGY	HON	IDA	IDO	MAL	MAR	MOR	PAK	PHI	PRC	ROC	ROK	ROM	RUS	SRI	THA	UKR	URU	VNM
Creating difficult customs procedures	x	x			x		x	x				x		x		x		x			x		
Allowing or tolerating corruption	x	x		x	x	x	x	x		x	x	x	x	x			x	x		x	x	x	x
Intellectual property rights infringement	x	x		x	x	x	x	x				x		x	x	x	x	x		x	x	x	x
Lowering tariffs but adding new taxes	x	x			x	x	x	x			x	x				x			x				x
Keeping tariffs prohibitively high	x	x			x	x	x	x			x	x		x			x			x	x		x
Difficult marking rules	x				x	x	x									x		x					
Avoiding VAT on domestic goods	x						x	x				x		x							x		
Lower tariffs but imposing (specific) duties	x		x		x		x				x			x			x	x	x	x	x		x
Subsidizing domestic industries	x	x	x	x	x	x	x	x	x	x		x		x	x				x	x			
Changing customs rules without notification	x	x		x						x		x		x				x		x			
Changing applied rates frequently	x	x			x									x			x	x			x		x
Not binding tariffs	x	x		x	x		x	x			x	x		x		x	x			x			
Restricting imports for unusual reasons					x	x	x					x								x			x
Making letters of credit unacceptable,		x														x							
Valuing imports by ad hoc means		x		x	x	x	x	x	x			x		x		x				x			
Faking "automatic" licensing systems		x		x	x																		
Pre-inspection of imports for high fees	x			x										x									
Adhering to strange rules of origin	x			x	x	x																	
Imposing arcane technical standards					x	x								x		x		x			x		
Keeping distribution system difficult					x									x									
Forming domestic cartels						x		x	x					x		x							
Buy-domestic policies by government														x									
Average = 7.8	14	12	2	9	16	11	12	10	3	3	5	11	1	16	2	9	6	8	3	9	8	2	7

ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; EGY = Egypt; HON = Honduras; IDA = India; IDO = Indonesia; MAL = Malaysia; MAR = Mauritius; MOR = Morocco; PAK = Pakistan; PHI = Philippines; PRC = China; ROC = Taiwan; ROK = South Korea; ROM = Romania; RUS = Russia; SRI = Sri Lanka; THA = Thailand; UKR = Ukraine; URU = Uruguay; VNM = Vietnam.

the total value of output and the cost of the intermediate inputs used in the production of the final product. Since the value added measures the return to capital and labor used in the industry or firm, the larger the proportion of low-tariff imports used in the production of the product the higher the ERP, and therefore the more attractive the industry is for investment. Similarly, the magnitude of ERP rises steeply as the amount of value-added components becomes smaller relative to inputs. For this reason, low value-added production that simply mixes imported materials, packages or assembles products are high ERP industries.

The analysis of ERPs across industries can show how the present tariff structure influences the production and the distribution of benefits and costs among the Honduran industries and consumers, and it can show the extent to which further tariff policy

reforms could shift the existing tariff-induced bias away from import substitution to export expansion and investment in the production of non-tradables. The analysis, however, requires the application of technical coefficients of production derived from input-output tables to the total value of the tradable material inputs. Since an input-output table for Honduras does not exist, we have limited the present analysis to selected agricultural products for which technical coefficients of production can be constructed. Future work of this type of analysis for Honduras could easily be extended to much wider industry coverage by undertaking selective interviews with businesses in the leading industries and benchmarking the results with other input-output tables.

Table S.1
Honduras: Effective Rates of Protection for Selected Products (%)

	Production Value (mill. Lempira)	Existing Regime	
		NRP	ERP
Bananas	5,189.3	17%	27%
Coffee	3,267.5	17%	20%
Maize, traditional	1,258.4	20%	20%
Maize, mechanized		20%	26%
Sugar	881.0	40%	75%
Pineapple	819.4	17%	33%
Beans, traditional	789.5	17%	18%
Beans, mechanized		17%	23%
African Palm	712.8	5%	7%
Sorghum	291.5	20%	23%
Melon	186.6	17%	21%
Rice, traditional	46.3	45%	57%
Rice, mechanized		45%	127%
Watermelon	31.2	17%	18%
Cotton	11.6	1%	1%

NRP – Nominal rate of protection.
ERP – Effective rate of protection.

In the selected agricultural products that were examined, the ERPs almost always exceed the corresponding NRPs of each product, suggesting that producers are more protected relative to others than is revealed by looking at output tariff protection alone. The products with the highest ERPs are rice and sugar (Table S.1). Mechanized rice has a higher ERP than traditionally produced rice because of its lower value added. The high rate for sugar is associated with the high rate of nominal protection on the product. At the low end of the ERP distribution is cotton, whose nominal output tariff is only 1 percent, and African palm with a nominal output tariff of 5 percent. Those products with the higher ERPs are the ones that are most protected, and resources will generally have been drawn more into the production of these products compared with their resource draw under free trade. There is therefore considerable economic inefficiency because resources have been diverted to less productive activities that are protected from otherwise low international prices, and away from the activities in which Honduras has a natural comparative advantage. This level of protection may help to explain why Honduras does not export more than it does.

Tariff-Induced Biases on Exports – The current structure of tariffs gives more protection to finished goods than to raw materials, capital goods, and other inputs. While this graduated tariff structure aims to foster manufacturing through import-substitution, it creates an anti-export bias that is inconsistent with the Government's stated objective of promoting a globalization strategy.

Table S.2
Honduras: Anti-Export Bias

	Anti-Export bias
Rice, traditional	44.7%
Rice, mechanized	44.1%
Sugar	39.3%
Maize, traditional	20.0%
Maize, mechanized	19.8%
Beans, traditional	16.9%
Watermelon	16.9%
Bananas	16.8%
Coffee	16.8%
Melon	16.8%
Beans, mechanized	16.7%
Pineapple	16.4%
Sorghum	6.2%
African Palm	4.7%
Cotton	0.6%
Average	**19.8%**
Standard Deviation	**13.2%**

Source: Statistical Appendix Table A.10.

The extent of the bias across the major agricultural products in Honduras is shown in Table S.2. Those products having the highest product tariffs and lowest input tariffs divert production and investment from export-oriented activities and into the other sectors of the economy. Generally those other sectors tend to be newly emerging export-oriented activities that have to compete in the international economy under highly competitive conditions.

Other Trade Control Measures **–** Beyond the implied export tax that an import tariff can produce, negative protectionism affecting exporters is further magnified by NTBs. Because of their potential sectoral and economy-wide effects, it is important to examine the magnitude and tariff-equivalence of theses non-tariff barriers. Unfortunately, while the direct approach to NTB classification and measurement is useful for policy purposes, it is often difficult to calculate their individual magnitudes and associated impacts. Among the various general methods that have been used to measure NTBs is the *price-comparison measure,* which calculates NTBs in terms of tariff equivalents or price relatives. This approach focuses on the price wedge arising from various trade control measures.

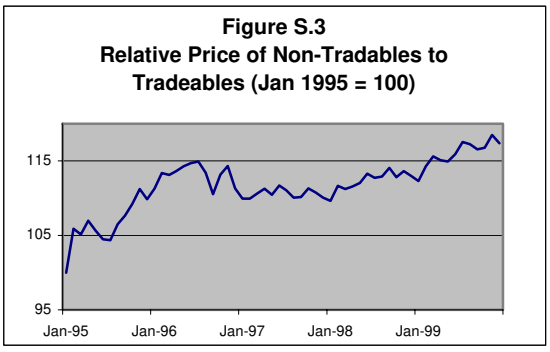
We estimated the price wedge from the observed cif import prices of selected agricultural products and the corresponding domestic producer prices. The results are summarized in Table S.3. The price wedge caused by non-tariff distorting policies is greatest for sugar. Between 1997 and 1999 the implicit tariff rate from both the customs tariffs and non-tariff barriers rose from 43 to 137 percent, and in 1999 the *ad valorem* tariff equivalent of the non-tariff distorting policies rose to 97 percent. Both sorghum and rice have similar rates of non-tariff distorting policies, although those of sorghum remained nearly unchanged between 1997 and 1999, while those of rice increased during the period. Maize barriers have been primarily in the form of customs tariffs. In contrast, coffee, African Palm, bananas and beans have all had negative rates of protection since measured prices at the boarder exceeded domestic prices. Essentially, this measured difference represents a subsidy to producers and domestic consumers. These price distortions are difficult to measure from simple calculations of tariff price equivalents, and a better approach would be to measure the

Table S.3
Honduras: Price-Comparison Measure of Trade Control Measures, 1999

	Price Wedge (A)	Tariff (B)	(A) - (B)
Sugar	137%	40%	97%
Sorghum	36%	20%	16%
Rice	60%	45%	15%
Maize	18%	20%	-2%
Coffee	-12%	0%	-12%
African Palm	-21%	0%	-21%
Bananas	-26%	-3%	-22%
Beans	-10%	17%	-27%

Source: Appendix Table A.13.

output subsidy equivalent (OSE), which is the direct subsidy to production that would have the same effect on output as the actual subsidy.



Effective Exchange Rate - In large part, the appreciation in the post-Mitch reconstruction effort reflects the large inflows of capital from donors associated with an increase in the prices of the nontradables sector. Figure 4.2 shows the movements of the relative price of non-tradables to tradables since 1995. A relative price rise reflects an increase in the domestic cost of producing tradable goods. It makes production of tradables less profitable and induces resources to move to the nontradables sector.

If relative prices in other Central American countries and the rest of the world have remained unchanged, then the relative price rise in Honduras represents a deterioration of degree of international competitiveness of the economy. In fact, the lempira appreciated by nearly 24 percent between 1994 and 1999 because of the slow adjustment of the nominal exchange rate to relative price changes between Honduras and its trading partners. The currencies of other Central American countries also appreciated in real terms during that period, but the appreciations in those countries were considerably smaller than in Honduras. As a result, exports of Honduras are now substantially less competitiveness with competing neighboring countries than in the mid-1990s. With the continued appreciation of the lempira in 2000 and beyond, the competitiveness of the tradables sector of the economy could be greatly undermined.

Table S.4
Honduras: International Competitiveness Indices, Total and Regional, 1990-99
(1994 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	84.1	84.3	84.0	91.5	100.0	90.1	92.2	86.9	81.5	81.0
North America	87.7	86.2	85.1	92.4	100.0	87.1	90.2	86.1	81.4	82.4
CACM	67.9	74.2	75.1	86.7	100.0	94.4	100.6	98.8	93.6	88.5
Other LA Countries	87.2	87.8	85.9	94.5	100.0	91.6	90.3	88.8	85.6	79.9
European Union	95.9	91.5	94.8	91.3	100.0	97.8	97.6	81.4	75.8	72.6
Other Countries	88.7	84.5	81.7	85.8	100.0	100.9	101.1	84.1	73.0	70.7
Middle East	77.6	78.2	79.6	88.4	100.0	95.2	100.8	97.1	91.5	90.3
Asia	75.6	76.0	77.4	89.9	100.0	95.2	88.0	76.0	63.6	70.3

Note: An increase in the index reflects an improvement in the competitiveness; a fall reflects a loss of competitiveness.
Source: Calculated from the inverse of the real effective exchange rates for each region in Appendix Table A.7.

In addition to this loss of competitiveness, the appreciation of the lempira is likely to have stimulated imports, and undermined a recovery in domestic production, employment and fiscal revenue because of the loss of domestic profitability of production. Eventually, an unsustainable trade deficit will lead to devaluation, and consumers who anticipate

such devaluation are likely to purchase more foreign goods in anticipation of higher prices for those goods at a later time, while speculators shift to dollars and other currencies in anticipation of the devaluation.

At issue is whether Honduras can use the exchange rate as an equilibrating instrument for the current account and one that can be used to replace trade restrictions as an instrument with which to achieve a sustainable medium-term internal and external balance. Internal balance in this context refers to the condition needed to achieve equilibrium in the non-tradable goods market, while external balance refers to the condition need to achieve equilibrium in the current account, a condition that implies compatibility with sustainable long-term capital inflows.

Recommendations

The proposed policy reforms summarized in Box S.3 aim to support a strategy for trade and investment that addresses four inter-related issues: (i) trade liberalization policies aimed at reducing and simplifying the tariff structure; (ii) reduction or elimination of non-tariff distorting barriers to trade; (iii) macroeconomic sustainability and predictability of monetary, fiscal and exchange rate policies; and (iv) improvement in the regulatory environment and procedural issues affecting trade and investment activity. Particular attention has been given to the consistency of proposed policy reforms with the national plans, and the support that the identified initiatives could offer. As part of these initiatives, it is important to note that the analysis supporting policy-making decisions requires fairly detailed information not currently available. Trade, investment and production data are not readily available in MIT, nor does the capability exist to quickly process the databases that are available. Production data for industry sub-sector or segments are available from the Central Bank, but data on their material inputs are not. Moreover, data reliability for industry segments, as well as those at the industry level, remains questionable, and large discrepancies exist between the information provided by different sources of data, notwithstanding the use of the same nomenclatures. Improved access to data, greater data reliability, and database processing and analysis capability therefore remain important priorities for the country.

Other issues of importance to trade and investment in Honduras are those related to institution building and programs that would support policies that have already been adopted or that could be implemented. These issues are presented in Box S.4, yet are not expanded in this report given the focus of the PEP project on economic policy. For example, to strengthen institutions international donors could provide assistance to establish an integrated information system that would include upgraded computer facilities, updated information on trade control measures, and a system on the implementation of trade agreements. To disseminate a new trade policy, an action that is recommended in the current report, training could be provided on the preparation of recurrent trade development reports. Training could also be provided to support future trade negotiations, such as impact analysis of joining a particular agreement, and English-language training. Finally, assistance in the implementation and monitoring of trade agreements could be provided, especially in the areas of trade settlement dispute and illegal commercial practices.

Box S.3
Proposed Trade and Investment Policies

Existing Constraint	Proposed Initiative		Expected Impact / Benefits
	No. / Title	Project Description	
Lack of cohesive trade and investment strategies to guide policy formulation prevents the GOH from developing internally consistent policies and negotiating positions.	**[P1] Design and Implement a National Trade and Investment Strategy**	Create a working group with representatives from key private sector organizations (FIDE, COHEP) and the GOH (Ministry of Industry and Trade) to lay out priorities, recommend solutions and develop an integrated strategy consistent with national and regional development plans. The strategy would also contain an action plan that allocates responsibilities to both the private and public sector. Create an institutional base to adjust the strategy as needed and maintain dialogue between private and public sectors.	The strategies will help determine the priorities for negotiations and determine a joint position for the Central American countries to be presented at the numerous negotiations where these countries are presented as a group, while at the same time ensuring the involvement of private sector representatives.
Tariff-Related Policies			
Prohibitively high tariffs are applied to few products that do not generate significant trade tax revenue; other high import tariffs limit potential of FDI and technology transfer.	**[P2] Reduce Number of Tariff Bands**	Eliminate tariff bands above 25 percent (*viz.*, 25,30, 40, 45, 50 and 55 percent) that are only applied to 29 products.	A simplified tariff structure would allow importers to take full advantage of the improved market access conditions that would result from trade liberalization.
The effective rate of protection (ERP) for agricultural products is high, and has led to consumer welfare loss and misallocation of resources.	**[P3] Move Tariff Regime to a Neutral Incentive System**	Gradually move to a uniform tariff by beginning to adopt a generalized *concertina* strategy that lowers the highest tariffs to a given level with no change in the lower tariffs, followed by successive rounds until the prevailing high tariffs are lowered to a uniform tariff at the end of the transition period.	A uniform tariff would encourage the development of industries that have a natural comparative advantage, and would promote downstream industries from increased technology transfers. Moreover, its neutral incentive structure would reduce political lobbying, eliminate smuggling, introduce administrative transparency and improve customs clearance.
Non-Tariff Related Import Policies			
To date, little attention has been given to 'second-generation' reforms that address the way that non-tariff distortions restrict trade and create obstacles to doing business. Existing non-tariff constraints include use of improper technical regulations (difficult market and labeling rules, arcane technical standards), unclear rules of origin, and ad-hoc valuation.	**[P4] Implement Second-Generation Policy Reforms of Trade Control Measures**	The proposal is based on a sequential approach to the design and implementation of policies to redress existing distortions to trade that will be used in the upcoming WTO Trade Policy Review: (a) prepare an inventory of trade control measures using the TRAINS classification system, (b) use the results of (a) to quantify trade control measures, (c) measure effects of trade control measures, and (d) adopt policies to eliminate non-tariff distortions to trade.	Since there has been relatively little undertaken in the way of measurement, evaluation and remedies to non-tariff distortions in Honduras, the initiative will address significantly high potential tariff-equivalent measures and lay the groundwork for their elimination.

Box S.3 (Continued)
Proposed Trade and Investment Policies

Information on the complete set and rankings of the remaining bureaucratic and administrative factors influencing the business environment is inadequate and outdated.	**[P5]** **Monitor and Streamline Administrative Import/Export Procedures**	Review, streamline and publish a short list of export and import regulations and procedures on ongoing basis. Ensure that 'one-stop shops' are operating effectively and efficiently and that documentation is required for statistical purposes only.	This initiative will allow MIT to adopt a more active role than in the recent past to identify and eliminate the bureaucratic and administrative obstacles to doing business in Honduras.
Despite adherence to the WTO Agreement on Technical Barriers to Trade and the adoption of consumer protection legislation, concrete reforms in the design and application of sanitary and phytosanitary regulations and labeling requirements remain an important impediment to doing business.	**[P6]** **Remove Technical Barriers to Trade**	Review sanitary and phytosanitary regulations and practices and labeling requirements and remove unnecessary regulations.	The first step would establish a technical commission made up of public and private sector representatives to document the regulations currently in practice. The second step would adopt, on a time-phased schedule, policies and regulations to remove these barriers to trade.
Export-Related Policies			
Honduras' international competitiveness has declined since the mid-1990s based on the real exchange rate of the lempira.	**[P7]** **Exchange Rate Policy Impact on Balance of Payments and International Competitiveness**	Examine the conditions needed to determine the fundamental equilibrium exchange rate (FEER) for the balance of payments with guidelines for the optimal real effective exchange rate (and associated nominal exchange rate) needed to achieve overall equilibrium in the balance of payments.	It is likely that Honduras could significantly affect the demand for its exports in the global market, as well as particular export markets such as the United States and the European Union, by improving its international competitiveness based on the real exchange rate of the lempira.
Adverse transitory terms-of-trade movements decrease income, reduce aggregate savings and worsen the current account.	**[P8]** **National Stabilization Fund**	Establish buffer stock schemes or those that operate a buffer fund to reduce the effects of volatile world commodity prices on export returns.	Until Honduras diversifies its exports sufficiently to ameliorate external shocks, the benefits to stabilizing national income from a buffer stock fund are likely to outweigh the opportunity cost of holding a large amount of reserves.
Export processing zones (EPZ) remain highly concentrated in the textile industry and have few backward linkages to locally produced raw materials.	**[P9]** **EPZ Industry Diversification and Backward Linkages**	Make outward-oriented economic policies central to the EPZ industry diversification program with backward linkages through the liberalization of investment code and regulation, elimination of discretionary trade barriers, and promotion of foreign technology inflows.	The integration of the outward-oriented export policies to support an EPZ diversification and backward linkages program will also encourage foreign direct investment into diversified industries, facilitate foreign technology inflows, thereby developing entrepreneurial capability, and fostering the pace of private sector expansion in supporting industries.
Although many firms operate throughout Central America, the RIT does not extend benefits to intermediate inputs originating from other Central American countries, thereby restricting potential scale economies.	**[P10]** **Extend RIT Coverage to All Central American Producers**	Extend RIT benefits to potential suppliers of export-oriented firms in all Central American countries to allow firms to qualify as being of local origin even if they sell their intermediate inputs to a firm in a different Central American country.	Extension of the RIT benefits would support the development of region-wide scale economies in the production of intermediate goods, and provide a mechanism for distribution of those intermediate products to firms operating in more than one Central American country.

Box S.3 (Continued)
Proposed Trade and Investment Policies

Tariff reform is narrowly viewed in the context of market access. Rather, it would be beneficial from a policy viewpoint to consider tariff liberalization as part of a broader program of tax reform that supports the transition from a large dependence on trade taxes for fiscal revenue to a broad tax revenue base that ensures revenue growth and stability. At the same time, tax reform program would strive to increase productivity at the firm level from the more efficient use of existing resources under freer trade.	**[P11]** **Integrate Tariff Reforms into Overall Tax Reform Program**	Coordinate trade and macroeconomic policies within the Ministry of Industry and Trade, Ministry of Finance and Central Bank through the design and implementation of macro-modeling capabilities.	While trade liberalization by itself is likely to improve the efficiency of the economy and therefore impact on output and employment, it may also aggravate the current account imbalance. Policy reforms will also be able to consider complementary exchange rate adjustments that would help to produce a sustainable balance of payments and move the economy closer to overall equilibrium.

Box S.4
Proposed Institutional Strengthening Activities

Complementary Policy Recommendation	Proposed Activity	Description
[P1]: Design and Implement a National Trade and Investment Strategy	**Information System on Export Promotion**	Develop a comprehensive information system on export promotion in the MIT that would serve as a focal point for both government officials and current and potential exporters. In addition to installing a link to TCM information system, this system will focus on export opportunities and new market analysis using Web-based technology to the greatest extent possible.
	Information System on Implementation of Trade Agreements	To date, Honduras has entered into numerous trade agreements without having established follow-up mechanisms for implementation and monitoring. This information system would be liked to the TCM and export promotion systems and would provide detailed material on trade obligations and future negotiations. Case studies from other countries on dispute settlement would also be included.
	Training on the Preparation of Recurrent Trade Development Reports	This assistance intends to establish a framework for the publication and dissemination of recurrent trade reports on a quarterly or annual basis, including the impact of joining trade agreements. Each issue would contain standard trade concepts with a special issue on trade that is of concern to Honduras. Training would be provided on how to design and prepare the report. Assistance would be given to implement a mechanism for on-going dissemination through the information systems established above.
	Establishment of Trade Point for Honduras	In collaboration with COHEP and FIDE, establish and maintain Trade Point site on the Internet by MIT.

Box S.4 (Continued)
Proposed Institutional Strengthening Activities

Complementary Policy Recommendation	Proposed Activity	Description
[P1]: Design and Implement a National Trade and Investment Strategy	**Support of Future Trade Negotiations**	Provide support in future trade negotiations, specifically with Canada and China by providing training in negotiation techniques for specific subject. Training would also be provided in area of impact analysis of negotiations, and the English-language.
	Creation of Anti-Dumping Legislation Executing Authority	Establish authority to execute anti-dumping legislation and provide training on implementation and monitoring of current and upcoming commitments.
	Dispute Settlement	Technical assistance would be provided to: (i) prepare manual on procedures; (ii) prepare informative programs on issues related to illegal trade practices (iii) develop an automated data base in area of dumping and subsidies; (iv) train personnel in the application of Government commitments to WTO and CACM Agreements; and (v) enable disputes to be conducted using or understanding the English languages through English-language technical training.
[P4]: Implement Second-Generation Policy Reforms of Trade Control Measures	**Monitor Administrative Procedures Governing Trade**	Establish a permanent unit within the MIT to monitor administrative steps required to import and export goods and services.
	Monitor Administrative Procedures for Foreign Investment	In collaboration with COHEP and FIDE, establish a working group to monitor all administrative steps required for entry, operation and exit of foreign enterprises in the country.
	Information System on Trade/Trade Control Measures	To ensure consistent and detailed information on trade statistics and trade control measures, this activity will centralize trade data to provide an easily accessible system for widespread information dissemination, and will develop a comprehensive and consistent information system covering tariffs and other trade control measures under the TRAINS classification scheme.
	Simplify Customs Procedures	Further simplification of customs procedures with special emphasis on procedures outside free trade zones and industrial parks, and on phytosanitary.
	Streamline Foreign Direct Investment Procedures	Simplification of investment approval and post-approval procedures.
[P7]: Exchange Rate Policy Impact on Balance of Payments and International Competitiveness	**Enhance Capabilities to Analyze Balance of Payments**	Provide training to the MIT, Ministry of Finance, and Central Bank on the elasticities approach to the balance of payments using a partial equilibrium model to address the effects of changes in the tariff and exchange rate regimes on the current and capital accounts.
	Develop Macroeconomic Modeling Capabilities	Support design and coordination of trade and macroeconomic policies with development of macro-modeling capabilities in the MIT, Trade and Ministry of Finance, and Central Bank to examine the effects of trade liberalization and exchange rate changes in the macro-economy of Honduras, using the familiar IS-LM framework that includes the determination of the trade and capital accounts of the balance of payments.

Part I: Introduction

A. Background

This document is the final report of the trade policy review study conducted jointly by the Honduras Policy Enhancement and Productivity (PEP) Project and the General Department of Economic Integration and Trade Policy of the Ministry of Industry and Trade (MIT). It aims to review trade policy advances in 1998-99 and examine the need for further policy reforms to improve the competitive position of the Honduran producers in foreign and domestic markets.

The study examines the following areas: (a) the recent trade performance of Honduras; (b) the structure of tariffs and non-tariff barriers (NTBs) to trade, and their effect on different levels of economic activity in the country; (c) the importance of regional and multilateral trade arrangements to Honduras; (d) major implementation issues surrounding the Government's regional and international commitments; (e) existing mechanisms to deal with unfair trade practices; (f) export incentive mechanisms and remaining constraints on exports; and (g) possible policy initiatives to improve the domestic and international competitiveness of Honduran producers. The results will be used by PEP and the MIT to implement and monitor the recommended policy reforms. The report also supports the Honduran Trade Policy Review that the Government of Honduras (GOH) will present to the Trade Policy Review Body of the World Trade Organization (WTO).

The study was conducted in Honduras during November 2000 by Ms. Greta Boye and Dr. Montague Lord, Chemonics International consultants, under the direction of Dr. Julio Paz Cafferata, Chief of Party for the PEP Project, and with the collaboration of Mr. Reinaldo Osorio, General Director of the Sub-Secretariat of Economic Integration and Trade Policy. Ms. Berta Fiallo provided local support in the quantitative analysis underlying the results of the study. The study benefited greatly from the extensive data and information provided by Ms. Gerónima Orbina, Sub-Director, and the staff of the Sub-Secretariat of Economic Integration and Trade Policy.

B. Recent Developments

1. The Economic Environment

Honduras achieved moderate economic growth in the 1990s. On average, real gross domestic product (GDP) grew by 2.8 percent a year, although there were large year-to-year variations. GDP per capita, estimated at only US$800 in 1999, remained nearly unchanged in real terms throughout the decade. The recent economic performance of the country has been dominated by the devastation caused by Hurricane Mitch in October 1998, as well as an appreciating currency, expensive credit, and depressed world markets for the country's leading exports.

Despite the devastation caused by the hurricane in 1998, the economy grew by nearly 3 percent in real terms, a rate matched by the population growth, but in 1999 economic activity contracted by around 3 percent. Large government expenditures needed for the relief and rehabilitation effort and lower fiscal revenues increased the fiscal deficit, while the fall in exports and higher import bill for the rehabilitation and restructuring aggravated the trade deficit and financing gap. During the course of 1999, however, large grant inflows helped to reduce the combined public sector deficit after grants to 0.7 percent of GDP, and large-scale transfers helped to limit the widening current account deficit to less than 6 percent of GDP. According to the International Monetary Fund (IMF, 2000a), gross international reserves amounted to 4.3 months of imports of goods and services at the end of 1999. The pervasive impact of the hurricane on the country will undoubtedly influence the Government's pace and sequencing efforts to reduce poverty, strengthen the financial system, modernize the state, and provide an enabling environment for a sustainable private sector-led growth.

2. The Process of Globalization

Like many other countries, the growth of trade in Honduras has been faster than that of output since the early 1990s. This so-called globalization process reflects the rapid expansion of international production networks driven by the desire of companies to locate their affiliates wherever they can carry out discrete functions most effectively for production and market penetration purposes. In general, such cross-national production networks are motivated by efforts to exploit international factor cost differentials, minimize transaction costs, access clusters of specialized capabilities and contested growth markets, and reduce the response time to technological changes and market requirements. In the global economy, the growth of trade motivated by cross-border production exceeded the growth of global output by an average of over 3 percentage points a year between 1990 and 1999. Year-to-year variations in this margin have been small, ranging from 1.5 to 5.5 percentage points.

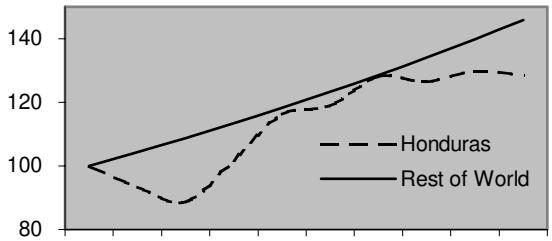
Table 1.1
Honduras: Key Economic Indicators, 1990-99
(Average annual growth rates, unless otherwise indicated)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real GDP	0.1	3.3	5.6	6.2	-1.3	4.1	3.6	5.1	2.9	-1.9
by origin:										
Agriculture	1.1	6.1	3.6	-0.6	0.9	8.8	2.5	5.6	-7.0	n.a.
Other	-0.9	1.1	7.0	8.9	-3.0	4.4	3.4	5.1	6.9	n.a.
by use:										
Private Consumption	-4.3	4.4	4.1	3.5	-4.5	5.3	6.4	6.3	1.7	1.5
Government Expenditures	-9.3	-13.4	12.5	-2.5	-10.3	0.7	6.1	-8.3	24.7	11.3
Gross Fixed Capital Formation	10.9	-3.0	24.4	36.9	-3.7	-11.2	0.5	12.8	21.4	3.2
Exports of Goods and Services	20.1	-4.2	-1.6	14.5	13.4	14.2	11.1	3.0	5.5	-11.0
Imports of Goods and Services	16.4	-2.9	2.0	28.0	12.6	0.4	12.0	4.5	5.7	4.3
Inflation	23.3	34.0	8.8	10.7	21.7	29.5	23.8	20.2	13.7	11.6
Population (millions)	5.1	5.3	5.4	5.6	5.8	6.0	6.1	6.3	6.5	6.7
GDP per capita (US$ current prices)	571	574	618	621	594	665	665	745	803	800

n.a. Not available.
Source: Derived from data of Central Bank of Honduras.

Despite large year-to-year variations, Honduras succeeded in maintaining the same rate of globalization as the rest of the world until 1996.[1] Following a sharp decline in the early part of the decade, the importance of trade to the economy rose dramatically between 1993 and 1996. Since then, however, the growth of trade has only exceeded that of total output by an average margin of 2 percentage points, and more recently the margin has virtually disappeared. This situation is demonstrated in Figure 1.1, where the difference between the volume of trade and that of output is calculated as an index (1990=100) to allow for a visual comparison between Honduras and the rest of the world.

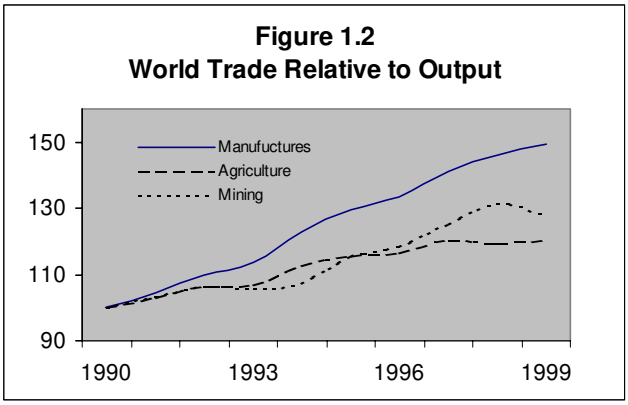
Figure 1.1
Globalization of World Economy and Honduras, 1990-99



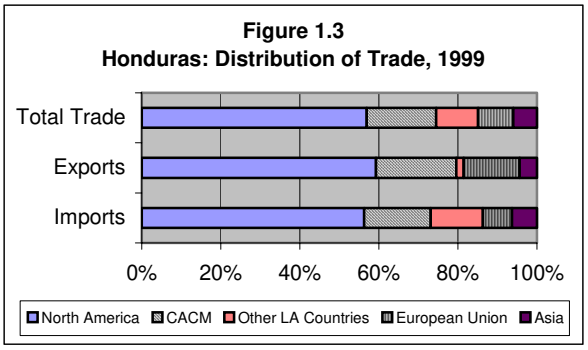
The experience of Honduras during this last decade and especially in the last two years reflects a number of important features of globalization in the economy, especially as they relate to the commodity and geographic composition of trade, domestic trade and macroeconomic policies, and severe external shocks to the economy like that of Hurricane Mitch and world market price volatility in the country's leading exports.

Trade Volumes and Trade Dependence - In both production and exports, Honduras remains highly dependent on a relatively few primary commodities, and the country therefore imports most of capital goods and final products. Coffee accounts for over one-fourth of the export revenue, and over one-half of total revenue comes from only eight primary products (Table 1.1 and Appendix Tables A.1 and A.3). Since foreign out-sourcing has been the driving factor for globalization in the world economy, manufacturing trade has grown much faster than agricultural and mining activities (Figure 1.2). As a result, with the exception of the *maquiladora*, or assembly, industry the products produced and exported by Honduras have been less closely associated with cross-border production activities than in many other developing countries. Transfer of new technologies and the dissemination of new skills in the workforce have therefore been more limited than elsewhere, and production specialization has continued to depend on the country's unskilled labor and natural resource endowments. Nevertheless, a growing number of local firms have been undertaking franchising agreements to acquire brand equity, business technology and economies of scale.

Figure 1.2
World Trade Relative to Output



[1] The rate of globalization through the intensification of international trade and finance linkages is measured by the expansion of international trade relative to output, cross-border production by multinational firms outside their home countries, and net international bank lending.

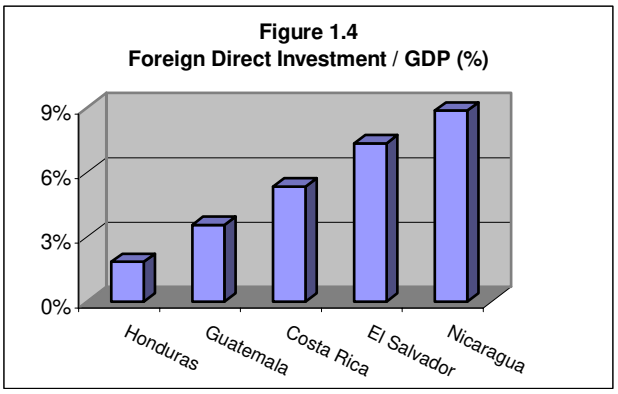


The geographic concentration of export and imports in the US market had a favorable impact on the country throughout the 1990s because of the strong and sustained economic growth of that market (Figure 1.3). Diversification to other markets has, however, occurred and will reduce the risk from market concentration in the coming years. Trade with other Central American countries currently represents about 17 percent of the total, and the balance between exports and imports is fairly even. In contrast, Honduras imports from the European Union far exceed its exports to that market, although efforts to penetrate that market have recently increased. In Asia only Japan is a major trading partner, and trade with that country is fairly balanced.

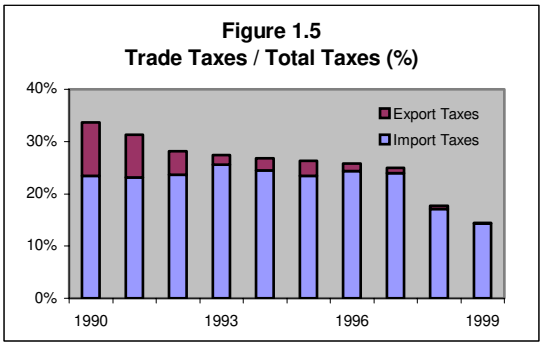
Economic Policy Reforms - Equally important to the export performance of Honduras have been the reform policies instituted by the Government since the early 1990s, when the country began to liberalize and emphasize sustainable export activities as part of its overall development program. The introduction of a comprehensive reform program in 1990 followed a decade of lost economic growth from import-substitution policies and government intervention that discouraged private sector investment and domestic savings. The reforms implemented between 1990 and 1992 included (a) tariff reductions to a 5-20 percent range and the elimination of NTBs to trade; (b) liberalization of agricultural trade by removing price controls and guarantees; (c) exchange rate liberalization through the floating of the lempira; (d) improved legal framework to secure property rights; and (e) liberalization of financial markets that eliminated interest rate controls (World Bank, 1994). The reversal of many of these economic policies in 1993 led to sharp increases in the public deficit and the trade imbalance, accelerated inflation, and foreign exchange controls.

Between 1994 and 1998 the Government succeeded in reducing the fiscal deficit from 11 percent to 1.5 percent of GDP, and lowering inflation from 23 to 13 percent. The trade imbalance, however, continued to grow and external debt servicing reached 35 percent of the Government's budget. At the end of 1999, Honduras' total external public debt, after full application of traditional debt relief mechanisms, was about US$3.1 billion in net present value terms. This equaled about 135 percent of exports and more than 300 percent of the country's central government revenue. In July 2000 the World Bank Group's International Development Association (IDA) and the IMF agreed to support a comprehensive debt reduction package for Honduras under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The debt relief package will save Honduras more than US$1.1 billion in debt service over the coming years. Additionally, the HIPC is expected to provide resources aimed to reduce poverty, and is not necessarily intended for programs of reconstruction.

In its trade policy, the Government joined the other Central American Common Market (CACM) members in working toward the full implementation of a common external tariff of between zero and 15 percent for most products. In 1997 tariff rates were reduced to one percent on all capital



goods, medicines and agricultural inputs, and on raw materials and input products originating outside the Central American region. To date, manufacturing industries in Honduras have yet to fully benefit from these and other regional arrangements, since relatively high interest rates, insufficient credit, high input costs and a complicated investment law have undermined the competitiveness of industries. Foreign direct investment as a percentage of GDP is lower in Honduras than in any other Central American country (Figure 1.4). Nevertheless, Dole Food Company and Chiquita Brands International have invested heavily in the country in a variety of industries that include breweries, plastics, cement, soap, cans and shoes.



The economic reforms have nevertheless provided a strong encouragement to develop the *maquiladoras* in Honduras. Established under the US Caribbean Basin Initiative, the industry in Honduras is geared to textiles and apparel market of the United States. With the passage of the 1998 law designating the entire country a free trade zone (FTZ), Honduras has become the leading Central American exporter of assembly industry products to the US market, and the second largest world supplier to that market. According to the Foundation for Investment and Development of Exports (FIDE) and the *Asociación Hondureña de Maquiladores*, there are currently over 200 plants employing 125,000 workers that generate more than US$300 million in foreign exchange revenue. That amount makes it the largest export revenue generating industry in the country.

In recent years, the Central Bank has followed a policy of monetary prudence based on maintaining the growth of broad money in line with the nominal GDP. Open market operations are replacing reserve requirements and mandatory investment requirements. Inflation was lowered to 11 percent at the end of 1999, the lowest since 1992. Until early 1999 the authorities had followed a rule in which the exchange rate was adjusted on the basis of the country's inflation differential with its major trading partners. This rule was subsequently abandoned as a result of strong pressure towards an appreciation of the lempira from large capital inflows. Although the maintenance of the exchange rate rule would have led to a depreciation of the lempira, the IMF supported the policy shift since it would have otherwise caused a significant monetary expansion from the large reserve accumulation (IMF, 2000a). Once the capital inflows subside, the IMF expects the authorities to revert to exchange rate rule and follow a more market-based system of exchange rate determination.

Fiscal taxes have remained fairly stable relative to GDP since the start of the reforms. Taxes on international trade, however, have declined steadily from 33 to 14 percent (Figure 1.5). Although

much of this revenue loss resulted from the reduction or elimination of export taxes on coffee, bananas and other products, the share of import taxes in total tax revenue fell from 23 to 14 percent. The fiscal revenue implications of further reforms initiatives are therefore especially important to the Government, especially in the light of the narrowing productive tax base after Hurricane Mitch. Moreover, the appreciation of the currency has substantially reduced the value of imports measured in domestic prices. As a result, there have been negative effects on the fiscal balance from the small domestically priced tax base.

External Shocks **–** Honduras has been subjected to large natural disasters and terms of trade shocks. Hurricane Mitch destroyed over 70 percent of the country's road network, 90 bridges were either completely destroyed or severely damaged, and the entire banana crop was virtually destroyed. Heavy rains during the 1999 rainy season followed and exacerbated the difficult situation. The massive international assistance was slow to arrive and implement because of the need for agency oversight and the lack of planning and executive capacity within the country (US Department of State, 2000). Despite delays in reconstruction, recovery occurred at a faster pace than had been anticipated. The rebuilding of the country's infrastructure and productive capacity, however, will require several years.

In addition to the effects from natural disaster, Honduras is highly susceptible to fluctuations in the markets for its leading exports. Coffee and bananas together account for 40 percent of the value of merchandise exports, and the downturn in world market prices for these products in 1998-99 further reduced earnings from exports that were already severely affected by hurricane damage to its crops (Tables 1.2 and 1.3). Exports of both products, as well as those of wood, zinc and sugar, recovered strongly in 2000. As a result of these increases and only a modest expansion of imports, the merchandise trade deficit contracted from a year ago.

While it is clear that geographic and product diversification will be needed over the medium and long run to reduce the economy's susceptibility to

Table 1.2
Honduras: Export Prices, 1996-99
(Percentages)

	% of Exports	1996	1997	1998	1999
Coffee	28%	-30%	40%	-3%	-30%
Banana	11%	7%	-11%	-3%	-10%
Shrimp	9%	-1%	8%	-6%	2%
Melon	2.8%	5%	3%	0%	5%
Soap	2.4%	1%	1%	0%	1%
Zinc	2.3%	-2%	33%	-25%	26%
Lobsters	2.0%	1%	0%	1%	0%
Pineapple	1.2%	5%	2%	0%	2%
Wood	1.1%	9%	6%	-12%	7%
Sugar	0.7%	-4%	0%	-2%	4%
Tobacco	0.6%	0%	30%	6%	-11%
Silver	0.5%	2%	-10%	14%	-4%
Meat	0.3%	-14%	7%	10%	-13%
Lead	0.2%	20%	-6%	-9%	-3%

Source: Derived from data of Central Bank of Honduras.

Table 1.3
Honduras: Export Performance, 1990-99
(Average annual change)

	Value	Volume	Price
Banana	-13.9	-11.7	-3.9
Coffee	9.9	3.3	8.0
Wood	-1.2	-7.1	6.2
Meat	-15.6	-14.7	-1.2
Silver	4.8	4.1	1.5
Lead	12.5	11.8	-0.4
Zinc	4.6	2.8	-0.5
Sugar	-3.8	-4.7	1.1
Shrimp	21.4	14.6	5.6
Lobster	4.8	-2.5	8.5
Tobacco	21.6	15.8	4.2
Melon	28.4	14.0	13.1
Pineapple	6.6	0.0	7.1
Soap	42.5	29.4	7.7
Honduras Total	5.3	na	na
World Agr Products b/	3.3	4.1	-0.8
World Manufactures b/	6.6	6.9	-0.3

Source: Derived from data from Central Bank of Honduras and WTO.

external shocks, there is a lack of consensus on prescriptions for alleviating shocks in the near term (see World Bank Project RPO 674-98: Consequences of Temporary Trade Shocks in Developing Countries; and Engel and Meller, 1993).

C. Organization of the Study

- Chapter 1 has reviewed the recent performance of the Honduran economy and the objective and coverage of the study.

- Chapter 2 provides a detailed examination of policies guiding trade and key institutions controlling trade practices.

- Chapter 3 describes trade control measures in terms of tariff measures, price controls, financial measures, quality controls, and technical measures.

- Chapter 4 examines trade and macroeconomic policies affecting exports through direct export policies, tariff-induced biases against exports, and exchange rate policies affecting the international competitiveness of exports.

- Chapter 5 proposes a trade strategy for Honduras in the light of its existing national development plan, and it identifies the key initiatives needed to support the proposed strategy and the preparation of the WTO trade policy review.

- The Annexes contain detailed information on (a) trade-related government organizations; (b) classification of trade control measures; (c) technical notes; and (d) meetings conducted during the course of the study.

- The Statistical Appendix contains the data used in the study.

Part II: Legal and Institutional Framework

A. Institutional Structure

1. Formulation and Implementation of Trade and Investment Policies

Five government ministries are currently involved in trade and investment policy formulation in Honduras (see boxes underlined in Annex A: Figure A1), although the MIT is the primary body responsible for the formulation, coordination and implementation of trade and investment policies. Within that Ministry, the Sub-Secretariat of Economic Integration and External Trade, and in particular the General Department of Economic Integration and Trade Policy, is responsible for trade policy and the General Department of Investment and Sectoral Policies is responsible for investment policy (see Annex A: Figure A2). The General Department of Productive Sectors of the Sub-Secretariat of Business Development and International Trade is also involved in investment policy. The National Tariff Commission formulates tariff policy at the national level; at the regional level the Central American Treaty Commission formulates it.

1.1. Ministry of Industry and Trade

(i) General Department of Economic Integration and Trade Policy -- The recent re-organization of the MIT has resulted in five departments in the General Department of Economic Integration and Trade Policy that support the formulation of trade policy (see Annex A: Figure A3).

(a) Department of Economic Integration -- The Department of Economic Integration is composed of five technicians trained in the fields of customs administration, international trade, economics, public policy and industrial administration. Their responsibilities include the planning and execution of activities related to the process of Central American economic integration and the inter-relation of Honduras with other economic trading blocs, monitoring and evaluating trade between Honduras and other Central American countries, providing support in the area of tariff policy, and participating in negotiations with regional trading partners. This department is key to the formulation and implementation of trade policy.

(b) Department of Illegal Trade Practices -- Three technicians trained in law, economics and public administration will staff the Department of Illegal Trade Practices, which is in the process of being established. Their main function will be to defend national companies against illegal practices by applying the agreements within both the Central American and WTO frameworks that relate to safeguards, anti-dumping and countervailing duties. To date, the staff has had no practical experience in defending a case, nor any training to do so.

(c) Export Promotion Department – One supervisor and two technicians will staff the Export Promotion Department, which is also the process of being established. Their role will be to develop and promote Honduran traditional and non-traditional exports of goods and services through the analysis of the country's exportable production, competitiveness, and market

research. This department is also responsible for the creation of a trade information and market intelligence system, providing advisory services to businesses, and organizing and assisting in international trade fairs. The role of this department will be further examined in the accompanying report on export promotion that is currently being prepared by PEP. However, it merits stating that a significant amount of funding and training would be required to make this unit functional. Moreover, its role within a public sector institution is questionable.

(d) Trade Negotiations Department – The primary role of the Trade Negotiations Department is to support the Sub-Secretariat of the Ministry in matters related to all free trade agreements (regional, sub-regional, bilateral and multilateral) that have entered into force or that are being negotiated. Seven persons trained in economics, international trade, public administration and agricultural economics staff this department. The personnel lack training in examining the consequences and impact of joining a treaty, however, and they expressed a desire for specific training in the methodology of negotiation.

(e) Department of Administration of Treaties – The Department of Administration of Treaties is responsible for the follow-up of the free trade agreements to which the Government of Honduras has subscribed. Also currently being formed, this department will be staff by five persons who will work in the following areas: trade in goods, regional customs procedures, services and investment, illegal commercial practices, dispute settlement, and an information center. Given that this department is new, the staff has had no practical experience in solving illegal commercial practices and settling disputes, nor do they have the proper training. Moreover, there are no materials to distribute, even if an information center were to be established.

(ii) General Department of Investment and Sectoral Policies – Annex A: Figure A4 shows the institutional structure of the General Department of Investment and Sectoral Policies, which is organized into two main branches: Micro, Small and Medium Size Enterprises (MSMEs) and Investments. There are several departments, but only two are staffed and are functioning: (a) Promotion of MSMEs and (b) International Agreements (underlined in Annex A: Figure A4). Most activities occur within the International Agreements Department, which is responsible for producing an investment guide and other publications relating to investment promotion, all of which are currently out of date. Because of the lack of funding, there are no plans to update the publications, despite major changes made to the laws. This department is also charged with the One-Stop Shop for Investment, but it was recently closed due to lack of activity.

(iii) General Department of Business Management – This department is organized into four groups (see Annex A: Figure A5): Administrative Control and National Goods, Technical Banana Unit, One-Stop Shop for Exports, and Data Processing. The One-Stop Shop for exports, CENTREX, is the responsibility of this department according to the organizational chart. Reportedly CENTREX works well, with the exception of the processing of phytosanitary certificates. During field visits, little activity was evident in the Tegucigalpa office, though movement was reported in the San Pedro Sula office.

(iv) General Department of Productive Sectors – This Department is part of the Sub-Secretariat of Business Development and Domestic Trade and is involved in preparing and dissemination

legislation on foreign direct investment in Honduras, and also for its promotion (refer to Annex A: Figure A2). Considerable overlap exists in the activities of this department and that of the aforementioned General Department of Investment and Sectoral Policies.

1.2. Other Government Agencies Involved in Trade Policy Formulation

(i) Ministry of Finance -- The Ministry of Finance has as its objective the design and execution of fiscal policy. Its functions that are directly related to trade and investment include the administration and regulation of the Customs Administration. It has direct involvement with trade and investment policy formulation when revisions occur to duties and taxes that are applied to imports.

(ii) Central Bank of Honduras (www.bch.hn) – The objective of this institution, as in other countries, is to formulate and apply monetary policies. Within the Central Bank, the Balance of Payments section maintains trade data at a fairly aggregate level and produces ad-hoc analysis. The Research Unit also analyzes macroeconomic issues and is currently preparing a working paper on the exchange rate. Within the context of the WTO, the Central Bank is involved in issues related to trade in financial services.

(iii) Ministry of Agriculture and Livestock – Given the importance of agriculture to the Honduran economy, the input of the Ministry of Agriculture and Livestock in agricultural trade and investment policy formulation is highly important. Within that Ministry, the Management Planning and Evaluation Unit (UPEG) is involved in agricultural trade policy.

(iv) Ministry of Natural Resources and the Environment – This Ministry has become increasingly important in trade policy formulation. Nonetheless, its involvement in trade and investment policy is mainly limited to the issue of trade and the environment within the context of the WTO.

(v) Ministry of External Relations (www.sre.hn) -- The Ministry of External Relations has as one of its objective the promotion of Honduras abroad through the country's embassies and consulates and, as such, it plays a complementary role in trade and investment policy formulation, mainly from the point of view of implementation. It is also active in receiving foreign delegates who are interested in importing products from Honduras, and in participating in foreign trade shows.

(vi) Other Ministries – The Ministry of Health is involved in trade as it relates to the control of food and food products. Within the context of the WTO and trade in services, the Ministry of Public Works and Transport is involved in issues related to transport, the Ministry of Tourism involved in issues related to tourism, and the Ministry of Telecommunications (known as 'CONATEL') is involved in telecommunication services.

2. Interaction with Private Sector

2.1. Honduran Private Sector Council

The Honduran Private Sector Council (COHEP) provides one of the main links of the private sector to the public sector in the area of international trade and investment, and has recently taken a leadership role in promoting international trade. Its overall objective is to develop business activity throughout the country by representing the interests of its members, which are mainly business and producer groups. COHEP recently established the Business Committee for International Trade Negotiations (CECOMI) to ensure the participation of the private sector at all levels of the negotiating process, and to coordinate the activities of the private sector with those of public sector institutions involved in trade negotiations. Members of the CECOMI include the National High-Level Advisory Committee of the Private Sector (CAANEP), the Executive Department and Board of Directors of COHEP, COHEP Executive Committee for External Trade, and the General Coordination for Public Sector. Coordinators at sector levels have been named (viz., industry, agriculture, trade, construction, finance, tourism and exports) that act as direct links to businesses.

COHEP also established the Executive Committee for External Trade with the objective of providing advice, analyzing and recommending proposals to COHEP's Board of Directors. The members of this committee include the Chambers of Commerce of Tegucigalpa and San Pedro Sula, national producer groups (industry, agriculture and livestock and sugar), and representative groups for insurance and banking institutions. COHEP has also prepared a policy paper on trade and has published a detailed report on obstacles to establishing a business in Honduras that outlines six proposals for the government to improve the business environment and promote trade.

2.2. FIDE (www.hondurasinfo.hn)

The Foundation for Investment and Development of Exports (FIDE) was founded in 1984 as a not-for-profit organization to promote investment in Honduras and to develop the export sector. It works with government agencies to create and advocate new legislation aimed at improving the business climate in Honduras. Its headquarters is located in Tegucigalpa, with representative offices in San Pedro Sula, Miami and Taiwan. It maintains close ties with the European Union through Eurocenter-Honduras, which is housed in the Tegucigalpa offices.

FIDE's most recent activity includes the publication (electronic and paper) of an export registry, which lists export companies and their contact information. The Foundation also has a commercial information center and works with companies seeking to identify joint venture partners, establish local operations and export. It also offers other business advisory services to promote trade and investment. The Inter-American Development Bank (IDB), United Nations Development Program (UNDP) and the Unites States Agency for International Development (USAID) have funded projects sponsored by FIDE, and an alliance has been established between FIDE and BANCOMEX to promote trade and investment between Honduras and Mexico.

B. Legal Framework for Trade and Investment Promotion

1. Trade agreements

1.1. Multilateral Trade Agreements

Honduras became a founding member of the WTO in January 1995. As a developing country, Honduras was afforded special and differential treatment to implement its commitments under the multilateral trading system. To date, the only remaining implementation issues relate to the Textile Agreement and the Trade-Related Intellectual Property Rights (TRIPS) Agreement. Policies to comply with these two agreements will be adopted in 2001.

1.2. Regional and Sub-Regional Trade Agreements

In 1960 El Salvador, Nicaragua, Guatemala and Honduras signed the General Treaty on Economic Integration, thereby establishing the legislative framework for the CACM. In October 1961, the Permanent Secretariat for Economic Integration (SIECA) was established in Guatemala. SIECA along with the Central American Bank for Economic Integration (BCIE), which is headquartered in Tegucicalpa, have been the main regional institutions responsible for the administration of the economic integration efforts in Central America. In 1963 Costa Rica joined the Treaty. The CACM provides a forum for many of the trade negotiations in which Honduras participates, such as the trade agreement with Colombia and Venezuela, and two separate agreements with Chile and the Dominican Republic. Outside the CACM framework, Honduras recently entered into a trade agreement with Mexico, El Salvador and Guatemala (referred to as the 'Triángulo Norte').

1.3 Other Preferential Trade Arrangements

Honduras has entered into bilateral agreements with Canada, Dominican Republic and Panama. It is also a beneficiary of two preferential agreements with the United States that provide for unilateral and temporary duty-free trade preferences to designated countries: the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI).[2] Under a new GSP scheme adopted in December 1998, Honduras and other Central American countries are permitted to export certain agricultural and industrial products to the US market. The US-Caribbean Basin Trade Enhancement Act (CBTEA), which entered into effect in October 2000, extended several North American Free Trade Agreement (NAFTA) benefits to Caribbean Basin countries.[3]

[2] The European Union, Canada, Japan, Australia, Norway, New Zealand, Switzerland, Bulgaria, Russia, Poland and Slovakia also offer tariff preferences under their own GSP schemes.

[3] The following 24 countries and territories in the Caribbean and Central America benefit from the existing CBI program, and are potential beneficiaries of the CBTEA: Antigua, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

Table 2.1
Exports under Preferential Tariff Schemes by Partner, Quarter I 2000

Partner	No. of Certificates Approved	Export Value (US$ '000)	Share (%)
United States	2,723	96,757	29.8
Germany	623	68,377	21.1
Belgium	350	24,904	7.7
Netherlands	748	21,772	6.7
Italy	203	16,425	5.1
Japan	215	16,146	5.0
Spain	500	15,009	4.6
Ireland	718	11,774	3.6
France	168	10,329	3.2
Sweden	66	6,850	2.1
United Kingdom	233	6,543	2.0
Canada	55	5,019	1.5
Denmark	54	3,864	1.2
Korea	10	3,708	1.1
Finland	41	3,277	1.0
Others a/	-	13,921	-
TOTAL	**6,707**	**324,675**	**96**

a/ Includes 38 countries.
Notes: (i) Data refer only to the export value appearing on the certificates of origin authorized by the One-Stop Shop for Exports; (ii) data account for products exported under the CBI, GSP and other partial scope trade arrangements.
Source: Ministry of Industry and Trade.

The new program is expected to allow countries like Honduras to increase the aggregated value of their exports to the United States through apparel assembled in the country. Under the new CBTEA, apparel manufactured in eligible CBI countries from yarns and fabric made in the United States, as well as non-textile products currently excluded from CBI legislation, are permitted to enter the United States free of quota and duty.[4] [5] By creating strategic alliances with apparel manufacturers in the CBI, the United States hopes to prepare for the opening of its market in 2005 as a result of textile and apparel quota phase-out as stipulated by the WTO Agreement on Textiles and Clothing, while at the same time helping Honduras and other CBI countries recover from the increased unemployment and lack of foreign exchange earnings resulting from damage incurred by Hurricanes Mitch and George.

Honduras also benefits from preferential trade arrangements with countries other than the United States (see Table 2.1). At the end of the first quarter of 2000, exports to the United States accounted for 30 percent of the exports registered at the One-Stop Shop for Exports (CEBEX) that require certificates of origin under the CBI, GSP and partial scope trade agreements, while those destined for Germany made up 21 percent. Other European countries (viz., Belgium, the Netherlands and Italy) made up the remaining top five destinations for exports enjoying preferential tariffs. Coffee is the dominant product traded under the CBI, GSP and partial scope agreements; in early 2000 this product accounted for two-thirds of those registered at CEBEX.

[4] The eligibility criteria include advances made by the beneficiary country in several areas of importance to the United States such as worker rights, intellectual property, environmental protection and cooperation against illegal drugs.

[5] Together, CBI countries represent the largest supplier of apparel to the United States, with 1998 shipments amounting to $8.4 billion. About 80 percent of these apparel products are made from US fabric. Current US tariffs average 5.7 percent on apparel made from US fabric, and 15.8 percent for apparel made from CBI regional and other non-US fabric (www.state.gov/www/regions/wha/fs_990510_cb_trade.html).

Exporters of bananas, zinc, cigars and wooden furniture are also important beneficiaries of those schemes, although each of these products made up less than 5 percent of the total value of products traded at the end of the first quarter of 2000 (see Table 2.2).

Table 2.2
Exports under Preferential Tariff Schemes by Product, Quarter I 2000

Product	No. of Certificates Approved	Export Value (US$ '000)	Share (%)
Coffee	1,946	215,110	66.3
Bananas	659	15,338	4.7
Zinc	6	14,092	4.3
Cigars, cigarettes	189	12,386	3.8
Wooden furniture	560	10,281	3.2
T-shirts	98	5,758	1.8
Electric parts	412	4,624	1.4
Shrimp	30	3,744	1.2
Sugar	9	3,725	1.1
Pine wood	242	3,565	1.1
Metal furniture	184	3,130	1.0
Subtotal	**4,335**	**291,753**	**89.9**
Other Products	**1,374**	**32,922**	**10.1**
TOTAL	**5,709**	**324,675**	**100.0**

Notes: (i) Data refer only to the export value appearing on the certificates of origin authorized by the One-Stop Shop for Exports; (ii) data account for products exported under the CBI, GSP and other partial scope trade arrangements.
Source: Ministry of Industry and Trade.

2. Trade and Investment Incentives

2.1. Main Features

The Investment Law of 1992 provides the legal framework for promoting exports and investment in Honduras. Its objective is to stimulate and guarantee national and foreign direct investment (FDI) and joint ventures to promote the economic and social growth and development of the country. The law offers the following basic guarantees: (a) equal treatment of national and foreign capital; (b) access to foreign currency exchange for business operations; (c) free transfer of capital, dividends and other remunerations from foreign investments made in Honduras; (d) freedom in the production and sale of goods and services; (e) foreign currency accounts in national banks; (g) unlimited participation in business capital percentages; and (h) availability of insurance against non-commercial risks.

The 1992 law is currently under revision to remove restrictions on FDI, such as the special government authorization that is required for foreign investment in the following sectors: forestry, telecommunications, basic health services, air transport, fishing and aquaculture, exploration of sub-surface resources, insurance and financial services, private education services, and agriculture and agro-industrial activities. New provisions will also revise the law's requirements for Honduran majority ownership in certain types of investment, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources. Amendments are also being considered to allow foreigners to establish businesses capitalized at under 150,000 lempiras (about US$10,000), and to repeal provisions that require that at least 90 percent of a company's labor force be national, and at least 80 percent of the payroll must be paid to Hondurans.

Box 2.2 lays out the fiscal incentives that Honduras offers to potential investors. The incentives are particularly important to the promotion of the apparel assembly ('maquila') industry, which has proliferated in the country during the last few years (for an overview of investment opportunities in this sector, see Murphy, 2000). Nonetheless, the future of this industry is

uncertain due to the scheduled phase-out of the Multi-Fibre Arrangement (MFA) quota regime by 2005 and the threat of the relocation of companies currently operating in Honduras to more competitive areas in Asia. Under the MFA Honduras has significantly expanded its exports to the US market. Honduras will therefore be required to improve its competitiveness vis à vis Asia by adopting so-called full package capabilities (whereby services include design, marker-making, cutting, sewing and finishing) and improving information technology, communication and logistic systems.

Currently approximately 510 companies take advantage of the Temporary Import Law, known by its Spanish acronym 'RIT'. The companies are mainly agroindustrial, such as those involved in coffee, bananas, wood, melons, watermelon, pineapple and aquaculture. Indirect exporters also benefit from the RIT, as do companies that receive the rights of the law through a transfer.[6] And while the law formally excludes products from local sales tax, the application of this exemption is reportedly arbitrary. Companies that do not participate in this tax incentive usually operate informally due to the lengthy process in legally establishing a company (about 150 steps that can last up to seven months, compared with a few weeks in neighboring countries), and the need for a legal opinion given by a judge to formalize a company. Nonetheless, one of the main features of this law is that companies having RIT status are able to import raw materials and components duty-free, provided that the products are exported out of Central America.

During the last few years the number of export processing zones (EPZ), known as 'ZIPs', has remained relatively unchanged, and currently number 21 with an average of 14 buildings per industrial park. The park operator is usually a Honduran national that offers services to an assembly company, which is usually operated by a foreigner. Despite the lack of change in the number of parks, there has been significant movement in the number of firms that use the parks to assemble garments or other products for export. According to officials in the MIT, one of the reasons for such high turnover is the conflict between local and national laws over tax payment. Lastly, the concept for the establishment of free trade zones (FTZs), known by their Spanish acronym 'ZOLI', originated to afford fiscal benefits to certain companies operating in ports, such as in Puerto Cortes. A fourth fiscal incentive exists to promote tourism. The Law for Tourism Incentives replaced the Free Zones for Tourism Law in April 1999. Nonetheless, the 52 firms that enjoy those tax benefits still operate under the former legislation. Like the companies receiving benefits under the RIT, those located in EPZs and FTZs enjoy tax-free importation of raw materials and components.

Like the 1992 Investment Law, Government officials would like to modify and consolidate these fiscal incentives. For example, while imports of inputs and machinery enter Honduras duty-free, the same products are taxed if they are sourced locally. This type of tax penalization discourages the development of backward linkages to domestic industries. Discretion for approval of products that are exempt from sales tax is also detrimental to potential investors, who look for transparency and consistency in the application of laws. The Government would also like to introduce one law that would be consistent with other the laws on export promotion and investment of other Central American countries.

[6] The transfer of 'RIT' rights reportedly occurred after Hurricane Mitch. For example, melon producers that had purchased insecticides and other inputs were permitted to transfer their rights to other companies when their crops were destroyed.

Box 2.2
Trade and Investment Incentives

Incentive a/	Free Trade Zone (FTZ) b/	Export Processing Zone (EPZ) c/	Temporary Import Law
Import duties on raw materials, components	100% exemption	100% exemption	100% exemption if exported out of Central America
Local sales and excise taxes	100% exemption	100% exemption	100% exemption
Taxes on profits	100% exemption	100% exemption	Subject to pay
Capital repatriation	100% exemption	100% exemption	Subject to Central Bank
Taxes on profit repatriation	100% exemption	100% exemption	Subject to Central Bank
Currency conversion	Unrestricted	Unrestricted	Subject to Central Bank
Customs	Cleared on site	Cleared on site	Cleared on site
Sales to local market	5% of total production, paying customs duties	Only paying customs duties	Not applicable
Eligibility requirements	Industrial & commercial companies	Industrial and supporting companies	HTS 9802 d/ 807A b/
Park ownership	Public/private	Private	private

a/ More commonly known by the Spanish acronyms 'ZOLI', 'ZIP' and 'RIT', respectively.
b/ The following cities have been designated as free zones: Puerto Cortes, Omoa, Choloma, Tela, La Ceiba and Amapala.
c/ EPZs are located in Choloma, Bufalo, La Lima, San Pedro Sula, Villanueva and Tegucigalpa.
d/ Harmonized Tariff Schedule of the United States.
Source: FIDE.

2.2. Other Trade and Investment Legislation

Honduras currently boasts approximately 45 pieces of legislation in addition to the Law on Investments that are related to investment (see Box 2.3). A summary description of certain laws and agreements that have been adopted or that are currently being revised and that have a direct impact on foreign trade follows.

(i) Intellectual Property Rights (IPR) – Honduras is a member of the World Intellectual Property Rights Organization (WIPO) and is signatory to the Berne Convention and the Inter-American General Convention on Trademarks and Trade Protection. During the last two years the country adopted important legal framework to ensure protection of intellectual property (IP). To partially meet international standards set forth by the WTO TRIPS Agreement; in December 1999 Honduras amended the 1993 Patent Law that extended protection for pharmaceuticals from 17 to 20 years. In February 2000, new legislation went into effect on industrial property, and in June 2001 Honduras expects to adopt the Law on Integral Circuits, thereby meeting all WTO obligations under the TRIPS Agreement. In March 1999 Honduras adopted a bilateral IPR agreement with the United States. Currently, the country is in the process of adhering to three new WIPO treaties: the Copyright Treaty, the Treaty on Performances and Phonograms and the Patent Cooperation Treaty (PCT). Under the PCT Treaty, one international patent application can be filed for protection for an invention in each of the PCT Treaty member countries, thereby avoiding the need to file and process multiple applications in various countries. In 1999 an Anti-Piracy Commission was established that is made up of representatives of CONOTEL, the Police Department and the General Department of Consumer Protection in the MIT. This action was taken in response to a temporary loss of part of the country's trade preferences under the United States GSP and CBI schemes in 1998, when the Government failed to control broadcast television piracy. Steps have also been taken to enforce the new legislation.

Box 2.3
Legislation Related to Investment Promotion

Legislation	Year Adopted
▪ Investment Law	1992
▪ Law on Tourism Incentives	1999
▪ Law on Promotion and Development of Public Works and National Infrastructure	1999
▪ Law on Stimulation of Production, Competitiveness and Support for Human Development	1998
▪ General Law on Mining	1999
▪ Temporary Import Regime	1984
▪ Framework Law for Telecommunications Sector	1985
▪ Framework Law for Electricity Sub-Sector	1994
▪ Law for the Creation of the Foundation for Tourism Development	1976
▪ Law on Industrial Development	1958
▪ Free Zone Law	1976
▪ Export Processing Zone Law	1987
▪ Law on Creation of Foundation for Environmental Protection	1994
▪ Law on Incentives for Banana Production	1991
▪ Procedures on Migratory Facilities for Foreign Investors and Traders	1988
▪ Special Law on Naturalization	1991
▪ Regulation on the Law onf External Debt Conversion of Honduras	1989
▪ Law on Work Permit for Foreigners	1966
▪ Law on the Restructuring of Mechanisms for Income and the Reduction in Public Sector Expenditures, the Development of Production and Social Compensation	1994
▪ Law on the Structural Ordering of the Economy	1990
▪ Law for Residents, Retired Persons and Renters	1991
▪ Law for the Declaration, Planning and Development of Tourism Zones	1980
▪ Law on Industrial Property	2000
▪ Law on Repatriation of Capital	1993
▪ Law on Incentives for Forestation, Reforestation and Forest Protection	1994
▪ Creation of National Program on Reforestation, Forestation and Environment for Sustainable Development	2000
▪ Law on Income from Foreign Exchange Generated by Exports	1990
▪ Law on Export Development	1983
▪ Copyright Law	1993
▪ Regulation on Zoning, Urbanization and Construction	1992
▪ Special Law on Agricultural Investment and Generation of Rural Employment	1999
▪ Law on Representatives, Distributors and Agents of National and Foreign Enterprises	1977
▪ Law on Development of Production	1996
▪ Law on Financial Recovery for the Agricultural Sector	2000
▪ Law on Maritime Space in Honduras	1999
▪ Law on Income Tax	1963
▪ Law on Concessions for the Promotion of Airport Services	1996
▪ Law on Insurance Institutions	1965
▪ Law on Exchange Houses	1992
▪ Pension Fund Law	in Congress
▪ Stock Exchange Law	in Congress
▪ Law on Creation of National commission for Micro and SMEs	under revision
▪ Law on Private Financial Development Organizations	under revision

Note: Excludes amendments or revisions made to laws.
Source: Ministry of Trade and Industry.

region.

Minimum fines for IP infringement have also been set equal to one month minimum salary, and the General Department of Intellectual Property of the MIT has initiated a public awareness program through the Chambers of Commerce, recording artist associations, universities and television channels. The Ministry is also planning to establish a national patent database in 2001, and has established treaties with the Central Banks of Mexico and Spain for access to data banks of IP treaties in the Spanish language.

(ii) Bilateral Investment Treaties – Honduras has also entered into bilateral investment treaties with Chile and the United States. The treaties provide for a high level of treatment for investors from those countries, including access to international arbitration when problems arise.

(iii) Regional Agreements Supporting Trade and Investment –

- *Central American Agreement on Safeguards* follows the General Agreement on Tariffs and Trade (GATT) Article XIX yet is applied to imports originating from countries outside the Common Market.
- *Central American Agreement on Unfair Trade Practices* addresses cases dealing with dumping and subsidies brought about by countries outside the region and also between countries within the

- *Central American Agreement on Origin for Merchandise* sets out procedures for certifying and verifying and rules of origin for merchandise trade.
- *Agreement on International Customs Transit* intends to facilitate, harmonize and simplify customs procedures for land shipments and is applied to merchandise originating or coming from signatory or third party countries, as long as the transit shipment is initiated in a signatory country.
- *Central American Agreement on Standardization* sets out regulations and procedures on measurement to avoid unnecessary obstacles to intra-regional trade.
- *Central American Agreement on Sanitary and Phytosanitary Measures* supports the similar WTO agreement and has as its objective the regulation of measures that could constitute unnecessary barriers to trade; it also lays out legal measures to gradually harmonize phytosanitary and sanitary measure in intra-regional trade with third party countries.

(iv) Other Important Legislation -- The *Consumer Protection Law of 1992* is currently being revised by the Honduran Congress and is expected to be approved in 2001, as is the new *Competitiveness Law*. A new *Law on Income Tax* ('Ley de la Renta') was recently introduced to Congress with the objective of removing discretion in applying income tax regulations and introducing transparency into the tax system. Specifically, the legislation would lay out new provisions to reduce the costs of production, such as accelerated depreciation and reinvestment of public utilities in certain sectors.

A *duty drawback scheme* exists but has not been used due to its lengthy administrative procedures. Instead, most exporters use the temporary import regime that is more dependable and has a short transaction time. In 1998 Congress also passed several pieces of legislation reforming the Mining Code, allowing concessional operation of airports and seaports, providing incentives for renewable energy projects, and allowing foreign tourism development in coastal areas. Congress earlier passed a law authorizing the sale of fifty percent of the state-owned telephone company to a foreign partner and the auctioning of Band B cellular service. The government of Honduras also pledged to accelerate the privatization of the electric company's distribution system.

Legislation also exists that governs the contractual and purchasing relations of Honduran state agencies. The *Government Procurement Law*, Decree No. 148.5, provides national treatment to foreign firms for public bids, although they are required to act through a local agent. Due to numerous complaints made by US firms concerning mismanagement and lack of transparency of government bid processes, Honduras is considering becoming a member of the Agreement on Transparency that is being sponsored by the United States. Unlike the WTO Agreement on Government Procurement, which requires MFN treatment in government bids and to which Honduras and many countries did not adhere, this agreement on transparency allows some discrimination as long as transparency is ensured.

C. Trade and Investment Policy Objectives

1. Trade and Investment Policy

The current development plan, which covers the period 2000-2005 lays out a master plan for the reconstruction of Honduras following hurricane Mitch (Government of Honduras, 1999). As such, it is oriented towards four broad thematic areas: (i) poverty reduction and human resource development, (ii) economic reactivation with a focus on employment generation through the development of the country's productive sectors and infrastructure improvements, (iii) sustainable protection of natural resources, and (iv) strengthening democratic participation. To date, the MIT has not prepared a trade and investment strategy and appears to have no time-line to do so.

While the development plan has no direct links to international trade and investment policy, it lays out strategies to revitalize the agricultural and agroindustrial sectors and improve infrastructure and macroeconomic conditions, all of which impact on international trade. In the agricultural sector, the Government will focus on supporting small and medium-size producers through implementing technical assistance programs related to improving production, improving the legal and regulatory framework for investment, and establishing a national program for upgrading the health and sanitary inspection process for agricultural products. These programs should mainly benefit producers of coffee, basic grains and African palm, each of which accounted for 7 percent of total losses in agricultural production as a result of Hurricane Mitch. Sugar cane and milk producers will also benefit, each of those two sub-sectors having sustained 6 percent total production losses (GOH, 2000).[7]

In the agro-industrial sector, the Government has laid out strategic guidelines that include penetrating international markets under the Free Trade Agreement of the Americans (FTAA) trade scheme and maintaining trade preferences under existing arrangements, defending the country's interests in international trade negotiations as well as those of the agro-industrial sub-sector against illegal trade practices. At the same time, the Government pledged to accelerate the process of Central American economic integration. These strategies are to be carried out by promoting investment in market niches and specific industry clusters, improving the legal support framework for investment, and revising fiscal incentives.

Government plans related to improving infrastructure include rehabilitating and paving of the primary road network, reconstructing bridges damaged by flooding, and improving secondary roads and bridges in the coffee-producing zones of the country. Improvements will also be made to the runways of international airports in Tegucigalpa and San Pedro Sula and the new Law on Civil Aviation will be proposed. Public utility services, such as water and energy, will also be repaired and upgraded, and in the case of energy, the distribution systems will be transferred to private companies. Improvements to communications will also be made through the adoption of a more competitive and efficient legal framework (e.g., Law on Telecommunications and Regulation on Tariffs and Costs of Services of Telecommunications).

[7] Banana producers sustained 50 percent of total production losses in the agricultural sector.

The development plan also defines broad macroeconomic objectives, such as the stabilization and improvement of overall economic conditions within a comprehensive economic reform program supported by the IMF. Restructuring of the country's external debt is hoped to provide for prioritized programs of reconstruction, and the Central American economic integration process is expected to significantly improve during the period of the development plan by expanding the country's exports to neighboring countries. Specifically, the Government sets out a goal to reduce inflation to 8 percent in 2001, one-half its prevailing level in 1998, and intends to maintain a flexible exchange rate system, and gradually eliminate the coffee retention scheme. At the regional level specific goals include meeting scheduled tariff reductions within the CACM framework, preparing feasibility studies and projects with the assistance of international donors and continuing with sub-regional negotiations, especially with the pending Northern Triangle and Mexico Agreement. Tariffs within the framework of international, regional and other trade arrangements will be addressed in Part III of this report.

2. Agricultural Trade Policy

In the months of 1998 before Hurricane Mitch, the Ministry of Agriculture and Livestock prepared a policy document defining objectives for an agricultural policy in Honduras (MAG, 1998). The document was then updated in March 1999 (MAG, 1999) and defined a reconstruction plan for the period 1999-2010. The overall objective of the plan is to improve the income of agricultural producers and generate employment by expanding trade with partners outside of Honduras. The strategy laid out is to take advantage of domestic climatic conditions to supply external markets that are geographically close to Honduras.

Four product areas have been defined as part of the strategy to expand international trade: (i) products having a short production cycle that would enter North American markets during an open 'window' (e.g., melon, watermelon); (ii) products having a permanent cultivation that would take advantage of the weather in Honduras and develop agro-industry in the country (e.g., mango); (iii) small livestock, such as poultry, so that the entire livestock process would be more integrated than at the present; and (iv) aquiculture (e.g., shrimp and fresh tilapia). Dairy products are also a focus of the plan, and according to interviews conducted with officials at the Ministry of Government and Livestock, the Government hopes to insert these products into North American markets either directly or via El Salvador, which would then re-export the products to the United States or Canada. The Government is currently negotiating with the Food and Drug Administration of the US Department of Agriculture (USDA) so that dairy product exports would be permitted to enter the US market. At the present time, the USDA has 13 on-going activities with the Honduran agriculture sector that deal with trade, phytosanitary conditions, promotion of agri-business and a hydrothermic plant for mangos. At the same time, USAID is financing 9 million lempira project to promote investment in the sector.

Also in 1998 the Regional Unit for Technical Assistance (RUTA) at the request of the GOH and Honduran Federation of Producers and Exporters of Non-Traditional Agricultural Products (FPX) undertook an 8-month exercise with funding of the Canadian Government to develop a strategy for the agricultural sector. Three sets of goals were established for 2002, 2007 and 2020 that set out projections for the growth of export volume in order to exploit a wider range of geographical and product markets, increased value-added through processing and packaging and

expanded direct links to buyers in importing countries (RUTA, undated and RUTA, 1998). Priority actions were defined, which include: (i) establishing mechanisms for access to financing; (ii) developing a strategic information system for the sector; (iii) implementing pre-certification, phytosanitary and quality control programs; (iii) strengthening sectoral institutions for lobbying purposes; (iv) strengthening negotiation capabilities to positively influence the country's position in international trade; and (v) establishing alliances with private sector groups. RUTA estimated that the cost of a five-year project would not exceed US$5 million.

Part III: Import Policies

A. Tariff Measures

1. Honduras' Tariff Structure

In 1986 Honduras adopted the Uniform Tariff Nomenclature for Central America (NAUCA II) in an effort to improve the regional balance of payments and strengthen trade through the Common Market. NAUCA II was based on the Customs Co-operation Council Nomenclature/CCCN, and was replaced in February 1994 by the Central American Tariff System (SAC). The SAC extends the six-digit product classification under the Harmonized System (HS) to eight digits; the 1992 HS version is currently in use although the Government is moving towards the implementation of the 1996 HS version.

The SAC contains three separate sections of import tariffs that Honduras applies according to the origin of the imported good and the product. Part I contains the common tariff applied by Honduras and its CACM members to products originating from outside the Common Market. Part II contains approximately 50 tariff lines that were incorporated into Part I in 1998 (*viz*., these tariffs were harmonized). Part III contains exceptions to the other two lists, and therefore includes tariffs that can be altered by each country without prior approval from Common Market Members.

Box 3.1: Characteristics of Honduras' Tariff Structure

- Current version in use: SAC 1992
- Number of tariff lines: 5,918
- Number of tariff lines with imports a/: 5,124
- Number of official rates b/: 13
- Unweighted average: 7.5%
- Weighted average a/: 8.3%
- Maximum tariff: 55%
- Minimum tariff: 1%
- Dispersion: 7.6 b/
- Tariff peaks
- Tariff escalation
- Anti-export bias c/

a/ Based on 1999 import (CIF) data provided Ministry of Industry and Trade.
b/ Measured by the standard deviation.
c/ Discussed in Part IV of this report.

With the adoption of the SAC, a tariff range of 5 to 20 percent went into effect. Products traded within the CACM receive zero tariff treatment with exceptions for sensitive products such as fuels, vehicles and their parts and certain electronic equipment. In 1995 Honduras and other CACM members agreed to work toward the full implementation of a common external tariff ranging between zero and 15 percent for most products, but allowed each country to determine the timing of the changes. In 1997 the Government introduced a gradual tariff reduction plan and scheduled its completion for December 2000, when the maximum tariff for consumer-ready goods, which most recently was set at 17 percent, was to 15 percent. Despite the harmonization of external tariffs and the liberalization program for internal tariffs, which legally sets most tariffs to zero with exceptions noted above, the system has recently experienced problems that have negatively affected the regional trading system. The most recent case is that between Honduras and Nicaragua, whereby in November 1999 Nicaragua unilaterally (and in violation of treaty obligations) imposed a 35

percent tariff on imports from Honduras. The action followed Honduran ratification of a maritime terrritorial rights treaty with Colombia, which the Nicaraguan Government viewed as impinging on Nicaraguan sovereignty.

1.1 Nominal Rate of Protection

Honduras' SAC tariff structure largely reflects the reforms that have been made in recent years (for summary characteristics of the current tariff structure, see Box 3.1). The 7.5 percent unweighted average of the 5,918 tariff lines that make up the schedule is fairly low, and a slight improvement from its 1999 average of 7.8 percent. As Ebrill *et al.* (1999) point out, this unweighted average does not necessarily gauge the importance of tariffs since tariff schedules that contain very few high rates applied to a small volume of trade, can introduce an upward bias to the average. The trade-weighted average of tariff rates helps to remove this bias. The drawback to this approach, however, is that imports facing high tariffs are likely to be demanded in reduced quantity, which thereby introducing a downward bias to the calculation. Our calculated 1999 trade-weighted average for the 2000 tariff schedule is 8.3 percent.

Another useful summary measure is the dispersion of the nominal tariff rates as measured by the standard deviation. Including the relatively high tariffs of between 25 and 55 percent, which are applied to certain types of orange juice concentrate, sugar, shoes, poultry, vehicles, rice and cigarettes, the standard deviation equals 7.6 for the 2000 tariff scheduled, compared with 8.0 one year earlier. Excluding those tariffs, it falls to 7.3, which is considered reasonable yet indicates that some dispersion exists. The dispersion also suggests the possible existence of differences in protection across industries, and consequently the preference afforded to some industries over others. All import tariffs are ad valorem tariffs and are calculated on the cif (cost, insurance and freight) value of imports at delivery, which is converted to US dollars at the exchange rate published by the Central Bank on the date of declaration. A more indicative measure of the degree of protection than the nominal rate of protection (NRP) is the effective rate of protection (ERP), which takes into account the degree of protection that affects the price paid for inputs into the production process. The ERPs estimates for selected industries are reported in Part IV.

The Statistical Appendix contains useful information on Honduras' complete tariff structure according to HS Section, as well as the tariff structure for agricultural products. Arms and munitions (Section 19) are subject to an import tariff of 18 percent, followed by arts and antiques (Section 21) that are subject to an import tariff of 16 percent. Footwear (Section 12) and textiles (Section 11) are both subject to an import tariff of 15 percent. For agricultural products, meat imports (Chapter 2) are taxed at the highest rate, followed by beverages (Chapter 22) that are taxed at 18 percent. The import tariffs applied to meat also exhibit a high standard deviation (10.9), although not as high as cereals, which are taxed at 14 percent and whose standard deviation is 15.1.

1.2 Tariff Bands and Tariff Peaks

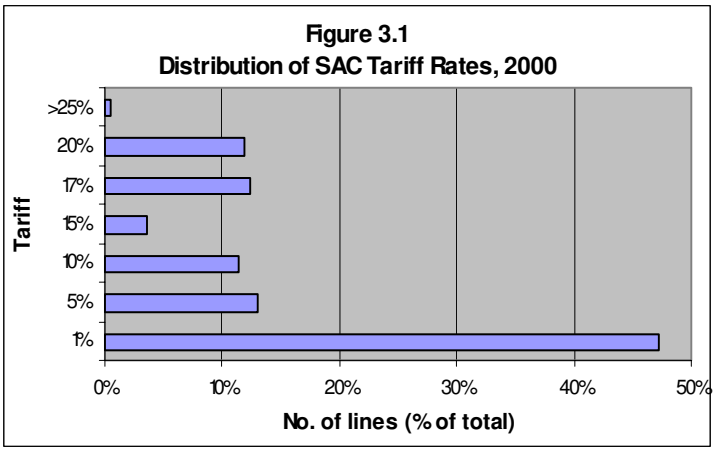


Figure 3.1 shows that most lines in the current tariff schedule fall within five bands although there are currently a total of 13 bands. The most common tariff range is 1 percent, which is applied to 47 percent of tariff lines. There are four rates that are applied to near-equal amounts of tariff lines: a 5 percent tariff is applied to 13 percent of all tariff lines, 17 and 20 percent tariffs are each applied to 12 percent of all tariff lines, and a 10 percent tariff is applied to 11 percent of all tariff lines. The 15 percent tariff is applied to less than 4 percent of all lines, and the remaining 7 tariff rates are applied to less than 0.5 percent of all lines.

Table 3.1
Import Value and Hypothetical Revenue by Tariff Band, 1999

	Total Value		Total Revenue a/		
Band	$US mill.	%	$US mill.	%	
17%	334.0	12.7	56.8	25.5	Most revenue
15%	312.4	11.8	46.9	21.1	
20%	190.6	7.2	38.1	17.2	
10%	313.6	11.9	31.4	14.1	
5%	265.2	10.1	13.3	6.0	Less revenue
1%	1,154.1	43.8	11.5	5.2	
30%	23.8	0.9	7.1	3.2	
35%	19.3	0.7	6.8	3.0	
45%	11.5	0.4	5.2	2.3	
40%	11.1	0.4	4.5	2.0	
55%	1.0	0.0	0.6	0.3	Insignifi-cant revenue
50%	0.4	0.0	0.2	0.1	
25%	0.0	0.0	0.0	0.0	
Total	**2,637.0**	**100.0**	**222.2**	**100.0**	

a/ Hypothetical revenue based only on ad valorem tariffs in effect during 2000.
Source: Ministry of Trade and Industry.

The distribution of tariffs indicates that the schedule could be further simplified while following the established CACM guidelines. For example, the four tariff bands above 35 percent (*viz.*, 40, 45, 50 and 55 percent) that are only applied to nine products (sugar cane, three types of rice, four different types of fresh and frozen poultry parts and cigarettes, respectively) could be collapsed into the 20 percent category. Likewise, the 25 and 30 percent tariffs could be eliminated, thereby incorporating the 6 products (two types of juices, one type of shoe and three types of vehicles) that are currently taxed at those rates into the 20 or 17 percent tariff categories. The high tariffs can also be interpreted as tariff peaks, which typically are limited to tariff lines where the local industry can supply certain agricultural or finished products. This situation holds for Honduras: in the poultry section of the tariff schedule, tariffs for certain chicken and turkey cuts are up to five or seven times the average rate for Honduras, and in the motor vehicles section certain vehicles are up to five times the average rate.

The distribution of the value of imports and estimated revenue by tariff band also argues for continued simplification of the tariff structure (see Table 3.1). Even though trade taxes are not considered an optimal instrument to achieve a revenue objective since they distort production and consumption choices (Tarr, 1998), the simple exercise of estimating revenue according to tariff band shows the tariff peaks provide no useful purpose from the point of view of revenue generation. In 1999, most of Honduras' estimated revenue (79 percent) from import taxes was generated from imports with four different applied tariff rates (17, 15, 20 and 10 percent). Less revenue (22 percent) was generated from imports with six applied tariff rates (5, 1, 30, 35, 45, 40 percent); and an insignificant amount (0.4 percent) of revenue was generated from imports taxed at the remaining three rates. These data confirm that it would be useful for Honduras to consider collapsing all tariffs above 25 percent into the 20 percent range, and reducing the 20 percent rate according to the Common Market schedule.

The suggested revisions to the current tariff structure have important implications. From a practical point of view, they would make the tariff schedule more logical, and would likely lower the trade-weighted average and standard deviation. The elimination of the high tariff bands also requires political will on the part of the Government, since it is apparent that lobbying efforts have been made to provide high protection to a limited number of products. Most importantly, a revised tariff schedule would better reflect the country's shift away from protecting infant industries by forcing them to compete on more equal grounds than at the present time and would be more in line with the overall move to trade liberalization.

1.3 Tariff Escalation

There is escalation in Honduras' tariff structure, with considerably lower tariffs applied to inputs than to intermediate and final goods. In 2000 tariffs were generally structured in the following manner: (a) 1 percent tariff applied to inputs (raw materials and capital goods) imported from outside the Common Market, (b) 5 percent tariff applied to products that are produced by any one member of the Common Market, (c) 10 percent tariff applied to all intermediate products, and (d) 15 percent tariff applied to all final products. The SIECA classification is used to define products on the basis of their end-use.

Calculations by the World Bank show an inverse escalation for Honduras, with primary commodities having a higher average tariff than those of manufacturing products (see Table 3.2). Of the five CACM countries, the spread between the trade-weighted average tariff for primary and manufactured products, measured in terms of percentage point differences, was the highest for Honduras (5.5 percentage points), followed by Costa Rica (4.1 percentage points). The spread that is the lowest for the European Union (EU) has 0.1 percentage points, and that for the United States has 0.7 percentage points. Disaggregated import data classified by end-use were not available at the time this study was conducted, and it would be useful to verify the World Bank findings under the current tariff regime.

Table 3.2
Comparison of Tariff Rates among CACM Countries and their Major Trading Partners (percent)

		All products			Primary Products			Manufactured Products		
	Year	Mean Tariff	Standard Deviation	Weighted Mean Tariff	Mean Tariff	Standard Deviation	Weighted Mean Tariff	Mean Tariff	Standard Deviation	Weighted Mean Tariff
Honduras	1999	7.8	8.0	5.7	9.3	8.5	10.2	7.3	7.6	4.7
Costa Rica	1999	7.2	13.8	4.3	12.2	24.8	7.6	5.7	7.3	3.5
El Salvador	1998	5.7	7.9	4.3	10.0	8.4	6.5	4.4	7.3	3.8
Guatemala	1998	8.4	9.5	5.7	8.6	7.3	8.3	8.3	10.1	5.1
Nicaragua	1999	10.9	7.5	8.5	13.6	10.3	11.3	10.1	6.1	7.8
Canada	1999	7.2	25.7	3.6	15.6	54.1	6.4	4.9	6.0	2.9
EU	1999	5.6	5.9	3.2	9.8	8.1	3.3	4.1	3.9	3.2
USA	1999	4.8	11.6	2.5	6.1	24.7	3.1	4.5	5.5	2.4

Source: World Bank, *World Development Indicators 2000*.

2. Tariff Preferences

Membership in commercial agreements other than with the Common Market has remained the focal point of Honduras' negotiating activities. Most of these agreements have important implications for the market access of Honduran products. At the bilateral level, Honduras currently has agreements with ten countries (see Box 3.2); agreements with Canada, Taiwan and the Dominican Republic are currently being negotiated.

Box 3.2
Honduras' Bilateral Agreements

Honduras ----------	USA
	Mexico
	European Union
	Panama
	Chile
	Colombia
	Venezuela
	Canada
	Taiwan
	Dominican Republic

Source: Ministry of Industry and Trade.

3. WTO Tariff Obligations

Like other WTO members, Honduras negotiated a set of tariffs with ceiling bindings. The currently applied rates reflect those adopted under the Common Market Scheme, and fall below those stipulated by WTO commitments. Three exceptions exist, however. The tariffs applied to chicken (50 percent), cigarettes (60 percent) and sugar (40 percent) are outside the Common Market scheme, yet they are within the WTO ceiling bindings. (For an informative analysis on interests and options for Latin American countries in the WTO 2000 negotiations, with a special emphasis on tariffs applied to agricultural products, see Paz Cafferata and Valdés, 1999).

4. Other Tariff-Related Issues

The 1992 Law on the Modernization of the Agricultural Sector sets out the legal framework for the establishment of a *price band system* with the objective of smoothing out wide fluctuations in international prices. All CACM members, with the exception of Costa Rica, adopted the price band system. At the same time these countries liberalized regional trade in basic grains by formally eliminating non-tariff measures and price controls and reducing state intervention in the direct marketing of many agricultural products (Paz Cafferata, 1993). The price band mechanism

works in the following manner: first, floor and ceiling prices are established for maize, rice and sorghum each year before the first main sowing season; next, when international import prices fall below the floor price, additional import tariffs are applied (on an ad valorem basis to the cif import value), and likewise, when international import prices exceed the price ceiling fixed by the band, discounts are applied also to the cif import value. The price band system therefore effectively acts as system of a variable tariffs; the variations in international prices are used as criteria for modifying the level of the tariff applied to the product within the system. According to the World Bank (1994), over a period of several years the net average change in tariffs arising from this system was zero, and thus did not affect the level of protection. Under the price bands, tariffs on rice rose from their new base value of 25 percent (including surcharge) to 45 (maximum allowable tariff) percent in late 1992, and on corn they rose from 25 percent to 34 percent in the same period, as a response to unusually low international prices. They then decreased as international prices began to rise again.

Paz Cafferata (1993) discusses the issue of GATT-compatibility of the price band mechanism and concludes that it is indeed compatible with regulations set out by the Uruguay Round as long as the tariffs do no exceed the bound tariffs agreed upon in tariff negotiations. He also discusses the complementary relationship between the price band system and the special agricultural safeguard permitted under the GATT: while the price band system allows for the variation of tariffs below the level of a country's tariff bindings, the special safeguard allows the raising of tariffs above the tariff bindings under certain conditions. However, given the strict criteria for the application of the safeguard mechanism, its use is unlikely.

Closely tied to tariff rates and their structure are the issues of nomenclature and valuation. Honduras customs *nomenclature* follows the international system, since it contains the General Rules for Interpreting the Harmonized System, the necessary sections and chapters, legal notes, the four-digit headings, and the six-digit sub-headings. Moreover, Honduras has expanded the six-digit sub-headings to eight digits for duty purposes, and it uses the authorized Spanish version.

The *valuation* of imports is also an issue related to tariff reform because tariffs are applied to the value of the import shipment, which is validated by customs officials. Until joining the WTO, Honduras, like many countries, based its valuation system on the Brussels Definition of Value (BDV), which was the world standard before the GATT Valuation Agreement and which is still used by some countries. The BDV is based on a notional value, *viz.*, the price that goods would fetch in the open market. The BDV therefore has considerable flexibility since values can easily be adjusted upwards and more revenue can be collected under different valuation methods. In contrast to this procedure, the GATT Valuation Agreement approach uses the transaction value (price paid or payable) of goods. If the transaction value is unavailable, alternative methods exist to value the shipment and those methods must be applied in a strict order defined by the Agreement. The key feature of the GATT Valuation Agreement is therefore its lack of flexibility in interpretation, which makes it transparent and predictable. Many developing countries fear a loss of revenue and loss of control under the new system, since shipment values are unable to be increased for duty purposes. Honduras, like many developing countries, chose to delay the implementation of the Valuation Agreement by five years when it joined the WTO. The deadline has come to an end and the Government has taken steps for its implementation, and has outlined a plan for the remaining steps to be taken.

Despite important progress made in implementing the Valuation Agreement, work still remains in its application. Most notably, it appears that reference price lists, especially for agricultural products, remain in use by the Customs Department. Not only is the use of reference price lists a violation of the Agreement, but it has caused considerable confusion within the Customs Department by border officials who, having received some training by the WTO, are unsure of action to be taken when given a price list by their superiors. Additionally, the attitude of government officials in the Customs Department towards valuation does not reflect the spirit of the Valuation Agreement: invoices are continually questioned and border officials are not sent to training courses offered at the Central American level due to lack of interest or commitment by superiors.

B. Para-Tariff Measures

Honduras applies four different surcharges in addition to ad valorem tariffs. The first tax is a customs administration fee of 0.05 percent that is applied to 28 percent of the tariff lines; the criteria for the selection of products to be taxed by this fee are not clear. The second tax is a 'specific consumption tax' of 20 percent, which is applied to certain agricultural products (pears, apples, green tea), perfumes, alcoholic beverages and vehicles, among others; these products make up only 1.5 percent of total tariff lines. A third 'selective consumption tax' of either 15 percent or a specific tax is applied to products like alcohol and cigarettes; these taxes are only applied to 88 products that make up less than one percent (0.4) of the total number of tariff lines. Finally, a sales tax of 12 percent is applied to most products and 15 percent to liquor and tobacco. Goods exempted from this tax include staple foods, fuels, medicines, agrochemical, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, tractors, cranes, and computers (United States Department of State, 2000). These external taxes, whether in the form of a consumption, sales or value added tax, are considered import restrictions only when the tax discriminates between the national product (actually produced or with potential to be produced) and the imported product.

C. Import Bans

According to the United States Department of State (2000), the Government of Honduras prohibits the import of certain items that compete with certain domestic industries. The protected industries vary over time, but in July 2000 included cement, sugar and rice from southeastern Asia, as well as beef from South America.

D. Other Trade Control Measures

Honduras has made significant improvements in non-tariff trade control measures in recent years, especially by eliminating import quotas and import licensing requirements. Nonetheless, other more difficult-to-measure obstacles remain. Beginning in 1998 UNCTAD initiated a database that would gather and classify trade control measures (TCMs) into the three broad

categories: tariff measures (TMs), para-tariff measures (PTMs) and non-tariff measures (NTMs). The NTM category was further divided into price control measures, finance measures, automatic licensing measures, quantity control measures, monopolistic measures and technical measures. The coding system has resulted in more than 100 TCMs, a listing of which is included in Annex B and that will assist in the preparation of Honduras' WTO Trade Policy Review. The complete database of TCMs lists supporting legislation, a description of the measure and the products that are affected by the measure.

While the compilation of such an extensive list of NTMs with accompanying background information is beyond the scope of this study, we examined the application of those same types of barriers in Honduras based on field interviews conducted with businessmen in Tegucigalpa and San Pedro Sula. The interviews revealed that Honduras still retains a large number of import barriers in the form of administrative obstacles. We then compared our findings with those of a study involving import barriers in 25 other countries, shown in Box 3.3, and found that Honduras ties with Pakistan in being the fifth highest-ranking country applying administrative obstacles to imports. The Honduran authorities currently use 11 of the 22 possible types of obstacles identified in the study. This relatively high incidence compares with 7.6 types of barriers used on average by all countries.

Of particular importance to exporters in foreign countries attempting to penetrate the local market are health and sanitary regulations and labeling requirements. Sanitary regulations have been applied to imports of poultry, which is considered a barrier by many United States exporters. Labeling and registration of processed foods have also been considered a detriment to trade. Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Health, which has been reported by both suppliers to the domestic market and to local manufacturers as problematic due to the lengthy approval process.

Local businessmen have also cited phytosanitary measures as a detriment to new product development and hindering new export possibilities. In particular, the Ministry of Health was cited as delaying the approval of certification of food and other products, resulting in loss of time and interest in the launching of a new product. Such administrative obstacles act as a disincentive to export development.

Box 3.3
Import Barriers in Honduras and Other Selected Developing Countries

	ARG	BRA	CHL	COL	EGY	HON	IDA	IDO	MAL	MAR	MOR	PAK	PHI	PRC	ROC	ROK	ROM	RUS	SRI	THA	UKR	URU	VNM
Creating difficult customs procedures	x	x			x		x	x				x		x		x		x			x		
Allowing or tolerating corruption	x	x		x	x	x	x	x		x	x	x	x	x			x	x		x	x	x	x
Intellectual property rights infringement	x	x		x	x	x	x	x				x		x	x	x	x	x		x	x	x	x
Lowering tariffs but adding new taxes	x	x			x	x	x	x			x	x				x			x				x
Keeping tariffs prohibitively high	x	x			x	x	x	x			x	x		x			x			x	x		x
Difficult marking rules	x				x	x	x									x		x					
Avoiding VAT on domestic goods	x						x	x				x		x							x		
Lower tariffs but imposing (specific) duties	x		x		x		x				x			x			x	x	x	x	x		x
Subsidizing domestic industries	x	x	x	x	x	x	x	x	x	x		x		x	x				x	x			
Changing customs rules without notification	x	x		x						x		x		x				x		x			
Changing applied rates frequently	x	x			x									x			x	x			x		x
Not binding tariffs	x	x		x	x		x	x			x	x		x		x	x			x			
Restricting imports for unusual reasons					x	x	x					x								x			x
Making letters of credit unacceptable,		x														x							
Valuing imports by ad hoc means		x		x	x	x	x	x	x			x		x		x				x			
Faking "automatic" licensing systems		x		x	x																		
Pre-inspection of imports for high fees	x			x										x									
Adhering to strange rules of origin	x			x	x	x																	
Imposing arcane technical standards					x	x								x		x		x			x		
Keeping distribution system difficult					x									x									
Forming domestic cartels						x		x	x					x		x							
Buy-domestic policies by government														x									
Average = 7.8	14	12	2	9	16	11	12	10	3	3	5	11	1	16	2	9	6	8	3	9	8	2	7

ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; EGY = Egypt; HON = Honduras; IDA = India; IDO = Indonesia; MAL = Malaysia; MAR = Mauritius; MOR = Morocco; PAK = Pakistan; PHI = Philippines; PRC = China; ROC = Taiwan; ROK = South Korea; ROM = Romania; RUS = Russia; SRI = Sri Lanka; THA = Thailand; UKR = Ukraine; URU = Uruguay; VNM = Vietnam.

Part IV: Measures Affecting Exports

A. Export Policy Instruments

Over time Honduras has reduced interventions aimed at controlling or taxing exports. Export taxes on seafood, sugar and live cattle were eliminated in 1998, while export taxes on bananas were reduced to four cents a box in 2000. Export controls currently apply to sugar exports, where exporters must demonstrate that enough supplies exist to meet domestic needs prior to receiving permission to export. Except in these cases, therefore, export policy measures of Honduras are more closely linked to its policies on imports than to direct export measures. Graduated tariffs that provide for low tariffs on raw material imports used as inputs in domestic industries and higher tariffs on imports of finished goods that compete with domestic industries directly affect domestic production and indirectly affect exports of other industries that have had resources drawn from them by import-substituting policies. The impact of these policies on exports is examined in the following sections.

A more pervasive instrument used by Honduras to offset the impact of import control measures is the use of export processing measures aimed at export promotion.[8] Export processing industries operate under the Free Zone Law enacted in the early 1970s, the RIT of 1984, and the Export Processing Zone Law of 1987.[9] Under the Free Zone Law, geographical areas are established where firms receive exceptions from import duties for equipment and raw materials, streamlined import procedures, income and other tax exemptions, and freedom to manage foreign exchange. As long as the manufacturing firms export at least 95 percent of their annual production, they receive income tax exemptions. In contrast, RIT firms can import intermediate inputs, equipment, machinery and their parts free of duties, but must post a bond with authorities, do not receive income tax exemptions, and must follow normal procedures when importing and exporting inputs and products. The Export Processing Zone Law established more traditional forms of EPZs in Honduras, and firms operating under this regime receive the same types of benefits as those under the Free Zone Law, but receive some additional benefits in the form of duty free inputs and tax exemptions for 20 years.

[8] These measures for export processing industries are not product specific, but rather are available for broad categories of non-traditional or manufacturing exports. Since the incentives are not product specific, the WTO in its Trade Policy Reviews (TPR) has in the past not undertaken an analysis of these measures at the tariff line or product group level, but rather has only noted the presence or absence of a particular kind of the program and its main characteristics (Michalopoulos, 2000).

[9] The material in this section is drawn from the comprehensive survey of EPZs in Central America prepared by Jenkins, Esquivel, and Larraín (1998).

B. Effective Rates of Protection

Apart from their important contribution to government revenue, tariffs continue to be used to protect the local market for domestic industries. Tariff escalation by stages of production in Honduras reinforces import-substitution policies and favors the least beneficial kinds of production that have little value added for the economy. Tariff escalation promotes the production of final goods in place of intermediate and capital goods, other material inputs, and non-traded commodities, which is typical of the now-disfavored import-substitution policy, and imposes a heavy cost on consumers and some producers for the benefit of others.

The extent of this type of protection can be measured by the effective rate of protection (ERP). In contrast to the nominal rate of protection (NRP) that measures the extent of protection by the difference between the border price of foreign-made products and the price of domestic import-substitutes made by local producers, the ERP measures the increase in value-added of the protected industry over value added of that same industry measured in terms of border prices. For an industry or firm, the value added is the difference between the total value of output and the cost of the intermediate inputs used in the production of the final product. Since the value added measures the return to capital and labor used in the industry or firm, the larger the proportion of low-tariff imports used in the production of the product the higher the ERP, and therefore the more attractive the industry is for investment. Similarly, the magnitude of ERP rises steeply as the amount of value-added components becomes smaller relative to inputs. For this reason, low value-added production that simply mixes imported materials, packages or assembles products are high ERP industries.

Calculation of the ERP is based on the measurement of the difference between the observed value added with the existing tariff structure and that estimated for the industry under free trade. The value added under free trade is calculated by deducting from the observed value added the revenue equivalent of the tariff on the industry's output and the cost equivalent of the tariffs affecting intermediate inputs used in production. Specifically, the ERP for a product is the percentage excess of domestic value added, *V*, over the international market value added, *W*, that value added that would have been realized in the absence of the existing tariff structure. The difference between *V* and *W*, expressed as a percentage of *W* is the ERP, i.e. ERP = (V - W) / W.

As refined by Balassa (1965) and Corden (1966), the ERP brings out both the effect of an escalating tariff structure and an industry's value added in determining the effect of protection. Non-uniform tariffs affect the decisions of investment and production, the allocation of resources, and the distribution of income-earning capacity. Differences in tariff rates may increase or decrease the amount of value-added in certain lines of production, depending upon the structure of the tariff differences. Thus, while nominal tariffs determine trade levels through their relation to product prices, the ERP determines profit, resource allocation, and the productive structure of the economy through its relation to value added of production. Consider, for example, production of maize in Honduras using only one tradable input, fertilizer, where

US$100 worth of maize requires US$55 worth of fertilizer without the tariff distortions.[10] Under free trade, the value added would be US$45. We can appreciate the effect of a graduated tax structure and the significance of the value added of the industry from the following:

- *Tariff of 17% on final products and 1% on inputs:* If a tariff of 17 percent is applied only to the final product, then maize could now sell for US$117 in the domestic market. However, using the ERP formula, we would find the value-added available for profits and non-tradable inputs to be much higher at 38 percent (the 17 percent tariff divided by the 45 percent domestic value added). Naturally, this profit would be eroded if the tradable input were also subject to a tariff. For input tariffs of 1, 10, and 17 percent the ERP would successively fall to 37, 26 and 17 percent. Thus the ERP shows the extent to which an industry is afforded a relative advantage because of a graduated tariffs structure over one that is uniform.

- *Domestic value-added of 45%:* Making the same assumptions cited above, we could contrast the degree of protection as the amount of value-added components becomes smaller relative to inputs. For US$100 worth of maize whose domestic value added fell from $45 to $25 and $10, the corresponding ERP would successively rise from 37 percent to 65 percent and 160 percent. Thus a graduated tariff structure on a simply processed good with a low value added component yields a high ERP.

The analysis of ERPs across industries can show how the present tariff structure influences the production and the distribution of benefits and costs among the Honduran industries and consumers, and it can show the extent to which further tariff policy reforms could shift the existing tariff-induced bias away from import substitution to export expansion and investment in the production of non-tradables. The analysis, however, requires the application of technical coefficients of production derived from input-output tables to the total value of the tradable material inputs. Since an input-output table for Honduras does not exist, we have limited the present analysis to selected agricultural products in UPEG (1997) for which technical coefficients of production can be constructed. Future work of this type of analysis for Honduras could easily be extended to much wider industry coverage by undertaking selective interviews with businesses in the leading industries and benchmarking the results with other input-output tables, for example, those of the United States (United States Department of Commerce, 1997) and the European Union (EUSTAT, 1995).

Table 4.1 summarizes the ERP estimates for 15 agricultural products for which data were available. It is important to emphasize that these estimates are derived from fairly aggregated cost of production data and value added data (see Vousden, 1990, for a discussion of these and other assumptions underlying ERP calculations). Despite these limitations, the estimates provide general guidelines on the direction of protection under the present graduated tariff structure. For purpose of comparison, ERPs have also been calculated for a uniform tariff of 8 percent, which would be neutral for trade tax revenue under the current tariff regime.

[10] In practice, the observed technical coefficients in Honduras include the effects of tariff distortions. We can recover the technical coefficients that would exist without the tariff distortions by eliminating those distortions from the domestic price of the product and its inputs. See Annex D for the formula and its derivation.

The ERPs almost always exceed the corresponding NRPs of each product, suggesting that producers are more protected relative to others than is revealed by looking at output tariff protection alone. The products with the highest ERPs are rice and sugar. Mechanized rice has a higher ERP than traditionally produced rice because of its lower value added. The high rate for sugar is associated with the high rate of nominal protection on the product. At the low end of the ERP distribution is cotton, whose nominal output tariff is only 1 percent, and African palm with a nominal output tariff of 5 percent. Those products with the higher ERPs are the ones that are most protected, and resources will generally have been drawn more into the production of these products compared with their resource draw under free trade. There is therefore considerable economic inefficiency because resources have been diverted to less productive activities that are protected from otherwise low international prices, and away from the activities in which Honduras has a natural comparative advantage. This level of protection may help to explain why Honduras does not export more than it does.

Table 4.1
Honduras: Effective Rates of Protection for Selected Products (%)

	Production Value (mill. Lempira)	Existing Regime		ERP under Uniform 8% Tariff
		NRP	ERP	
Bananas	5,189.3	17%	27%	8%
Coffee	3,267.5	17%	20%	8%
Maize, traditional	1,258.4	20%	20%	8%
Maize, mechanized		20%	26%	8%
Sugar	881.0	40%	75%	8%
Pineapple	819.4	17%	33%	8%
Beans, traditional	789.5	17%	18%	8%
Beans, mechanized		17%	23%	8%
African Palm	712.8	5%	7%	8%
Sorghum	291.5	20%	23%	8%
Melon	186.6	17%	21%	8%
Rice, traditional	46.3	45%	57%	8%
Rice, mechanized		45%	127%	8%
Watermelon	31.2	17%	18%	8%
Cotton	11.6	1%	1%	8%

NRP – Nominal rate of protection.
ERP – Effective rate of protection.
Source: For NRP and ERP estimates, see Appendix Table A.9; 1999 production value obtained from UPEG of the Ministry of Agriculture and Livestock.

A widely advocated tariff structure is the uniform tariff rate for all traded goods. If all tariffs were to be set at the revenue neutral rate of 8 percent, all border prices would be perturbed by the same percentage. The results of the ERP calculations shown in the final column of Table 4.1 confirm that the ERPs would equal the corresponding NRPs of 8 percent.[11] Any movement towards neutral incentives through a uniform tariff, however, should not discriminate against input producing industries with tariff escalation. One way to avoid such discrimination would be to generally apply a concertina strategy that lowered the highest tariffs to the next lowest level with no change in the lower tariffs, followed by successive rounds until the prevailing high tariffs were lowered to a uniform tariff at the end.[12]

The considerable decrease in output protection would divert more production to the export market than at present, although it is difficult to predict what industries would be favored without the use of an economy-wide modeling structure. Both theory and practice suggest that the neutral

[11] The equality holds when all goods are exportable and the NRP is not prohibitive.

[12] A true concertina strategy would lower all tariffs to the next lower level.

incentive structure of a uniform tariff would encourage a combination of industries in which Honduras presently has a natural comparative advantage and the development of downstream industries from increased technology transfers associated with larger investment activity.

C. Tariff-Induced Biases on Exports

The greater profitability of protection that the domestic market offers over the export market makes producers in Honduras favor that market over the international one. Having promoted import-substituting industries in the past, Honduras continues to protect its manufacturing industries producing for the domestic market. In contrast, apart from the temporary import law there are few measures directly provided for exports to increase their competitiveness. Duty drawbacks are available, but few producers take advantage of the mechanisms because of cumbersome administrative procedures. Export financing is limited, especially for small and medium size enterprises (for details on export financing, see the complementary report on export financing currently being prepared by the PEP project). The current structure of tariffs gives more protection to finished goods than to raw materials, capital goods, and other inputs. While this graduated tariff structure aims to foster manufacturing through import-substitution, it creates an anti-export bias that is inconsistent with the Government's stated objective of promoting a globalization strategy.

Table 4.2
Honduras: Anti-Export Bias

	Anti-Export bias
Rice, traditional	44.7%
Rice, mechanized	44.1%
Sugar	39.3%
Maize, traditional	20.0%
Maize, mechanized	19.8%
Beans, traditional	16.9%
Watermelon	16.9%
Bananas	16.8%
Coffee	16.8%
Melon	16.8%
Beans, mechanized	16.7%
Pineapple	16.4%
Sorghum	6.2%
African Palm	4.7%
Cotton	0.6%
Average	**19.8%**
Standard Deviation	**13.2%**

Source: Statistical Appendix Table A.10.

The extent of this bias against exports, denoted *B*, can be estimated for products *j* using the following formula: $B_j = (1 + t_j)/(1 + \Sigma t_i a_i) - 1$, where t_j denotes the product tariff, t_i the input tariffs, and a_i the technical coefficients. The results, presented in Table 4.2, show the extent of the bias across the major agricultural products. Above-average biases exist for rice, sugar and maize. Those products having the highest product tariffs and lowest input tariffs divert production and investment from export-oriented activities and into the other sectors of the economy. Generally those other sectors tend to be newly emerging export-oriented activities that have to compete in the international economy under highly competitive conditions.

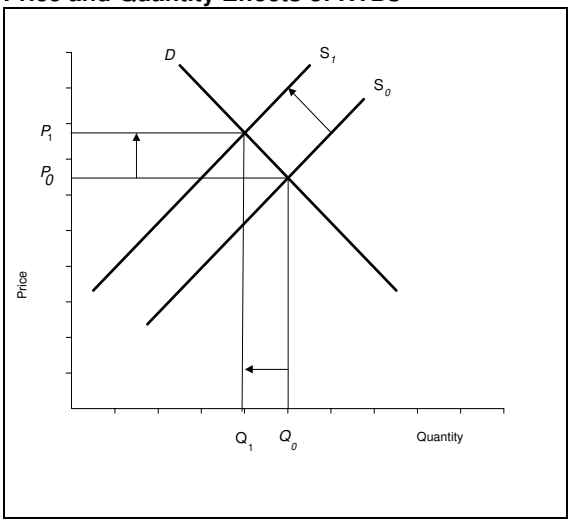
D. Other Trade Control Measures

Beyond the implied export tax that an import tariff can produce, negative protectionism affecting exporters is further magnified by the NTBs discussed in the previous chapter. In addition to their direct effects on the industries being protected, these NTBs have general equilibrium effects from the impact that barriers in one sector have on others, and the effects that all barriers taken together have on the exchange rate.

Because of their potential sectoral and economy-wide effects, it is important to examine the magnitude and tariff-equivalence of the non-tariff barriers. Unfortunately, while the direct approach to NTB classification and measurement is useful for policy purposes, it is often difficult to calculate their individual magnitudes and associated impacts. Among the various general methods that have been used to measure NTBs is the *price-comparison measure,* which calculates NTBs in terms of tariff equivalents or price relatives. This approach focuses on the price wedge arising from various trade control measures.[13]

Figure 4.1 illustrates the effects of NTBs on the price and quantity of a traded good. It also demonstrates the effect of a wedge between the price received by foreign producers for the import they supply to Honduras and the price charged by domestic producers for those imports. Schedule *D* is the import demand curve of Honduras and schedule S_0 depicts the import supply of foreign producers without any NTBs being applied. As shown by Baldwin (1991), a discriminatory technical barrier raises the cost to foreign producers and shifts the supply curve up to S_1. The same effect can occur from any number of bureaucratic and administrative procedures to imports that for foreign producers effectively raise the cost of doing business in Honduras. In addition to tariff-equivalent effects from red-tape costs, the application of the general sales tax (on a duty-inclusive basis) also raises the price paid that Honduran consumers must pay for the good. If imports and the domestically produced goods are perfect substitutes, then both the import price and the price of the domestically produced good rise by the same proportion. The price rise reduces domestic consumption but expands the amount supplied from domestic sources.

Figure 4.1
Price and Quantity Effects of NTBs



To calculate the price wedge, we begin by invoking the Law of One Price, which holds that because of competition among sellers and arbitrage in goods markets, prices of identical products sold in different countries will be the same after adjustments are made for transactions costs such as transportation and trade control measures. Algebraically, this relationship can be expressed as follows:

$$P_j^d = r^e (1+t_j) P_j^m$$

where P_j^d and P_j^m are the domestic producer price and world market price, respectively; r^e is the equilibrium exchange rate, and t_j is a broad measure of tariffs, other trade control measures, transportation, and other transactions costs. If transactions costs are negligible for homogeneous

[13] For applications of the price-comparison approach, see Bhagwati and Srinivasan (1975), Baldwin (1975), Eurostat (1988), and Sazanami, Urata and Kawai (1995). For a general discussion of efforts made to calculate ad valorem equivalents, see Laird (1996).

products and the law of one price holds for all goods, then the difference between domestic and world market prices will be dominated by the effect of tariffs and NTBs to trade on the domestic price of the product *j*.

Homogeneous primary commodities dominate exports of Honduras, so that the Law of One Price should hold after allowance is made for transactions costs and trade control measures. Under these conditions, we can calculate t_j as the tariff-equivalent ad valorem rate that would create the same wedge between the domestic and import price as the tariffs plus NTBs. Specifically,

$$t_j = (P_j^d - e^e P_j^m) / e^e P_j^m$$

is the tariff-equivalent measure of the price wedge.

The equilibrium exchange rate in our calculation is that which would prevail in a non-distorted environment to adjust domestic producer prices in lempira to US dollar equivalents. Using 1995 as the base year because the trade deficit was at its lowest since 1992, we estimated the equilibrium exchange rate as $e^e_t = e^n_{90} P^f_t/P^n_t$, where e^n_{90} is the nominal exchange rate in 1990, P^f_t is the consumer price index (CPI) of the United States and P^n_t is the consumer price index (CPI) of Honduras.

We estimated the price wedge from the observed cif import prices of selected agricultural products and the corresponding domestic producer prices. The results are presented in Appendix Table A.13 and are summarized in Table 4.3. The price wedge caused by non-tariff distorting policies is greatest for sugar. Between 1997 and 1999 the implicit tariff rate from both the customs tariffs and non-tariff barriers rose from 43 to 137 percent, and in 1999 the *ad valorem* tariff equivalent of the non-tariff distorting policies rose to 97 percent. Both sorghum and rice have similar rates of non-tariff distorting policies, although those of sorghum remained nearly unchanged between 1997 and 1999, while those of rice increased during the period. Maize barriers have been primarily in the form of customs tariffs. In contrast, coffee, African Palm, bananas and beans have all had negative rates of protection since measured prices at the boarder exceeded domestic prices. Essentially, this measured difference represents a subsidy to producers and domestic consumers. These price distortions are difficult to measure from simple calculations of tariff price equivalents, and a better approach would be to measure the *output subsidy equivalent* (OSE), which is the direct subsidy to production that would have the same effect on output as the actual subsidy.

Table 4.3
Honduras: Price-Comparison Measure of Trade Control Measures, 1999

	Price Wedge (A)	Tariff (B)	(A) - (B)
Sugar	137%	40%	97%
Sorghum	36%	20%	16%
Rice	60%	45%	15%
Maize	18%	20%	-2%
Coffee	-12%	0%	-12%
African Palm	-21%	0%	-21%
Bananas	-26%	-3%	-22%
Beans	-10%	17%	-27%

Source: Appendix Table A.13.

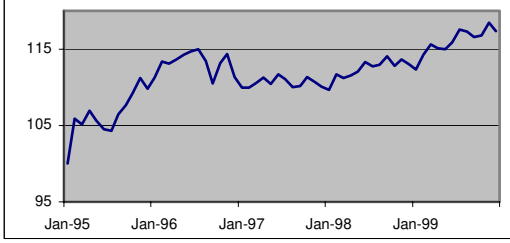
Despite data and interpretation problems related to comparison of the prices of the imported and domestic products, and the interpretation of the transportation and transactions costs of the product, the price-comparison method provides a straightforward method of estimating the magnitude of non-tariff distorting policies, especially for homogeneous products. Since

transport and quality differences between the foreign and domestic goods do not vary greatly over time, time-series measurement is more indicative of the magnitude and direction of NTBs than is cross-sectional measurement.

E. Effective Exchange Rate

According to widespread consensus, the lempira has appreciated in real terms against the US dollar and the currency of its other major trading partners (see, for example, IMF, 2000b; and IDB, 2000). In large part, the appreciation in the post-Mitch reconstruction effort reflects the large inflows of capital from donors associated with an increase in the prices of the nontradables sector (see Figure 4.2). Figure 4.2 shows the movements of the relative price of non-tradables to tradables since 1995. A relative price rise reflects an increase in the domestic cost of producing tradable goods. It makes production of tradables less profitable and induces resources to move to the nontradables sector. If relative prices in other Central American countries and the rest of the world have remained unchanged, then the relative price rise in Honduras represents a deterioration of degree of international competitiveness of the economy. With the continued appreciation of the lempira in 2000 and beyond, the competitiveness of the tradables sector of the economy could be greatly undermined.

Figure 4.2
Relative Price of Non-Tradables to Tradeables (Jan 1995 = 100)



For the pre-Mitch reconstruction period, Martínez (1999) found that movements in the real exchange rate were primarily explained by interest rate differentials, changes in terms of trade, and technological progress. In the more recent period, the exchange rate band dampened what would otherwise have been a sharp appreciation in the lempira. This system combines a central exchange rate target, or parity, that is changed in frequent small increments with a band around the parity within which the exchange rate for the lempira is allowed to fluctuate (for applications elsewhere, see Williamson, 1996). Despite the modest appreciation of the lempira following this exchange rate rule, it aggravated the increasingly overvalued lempira since 1994. On the whole, the lempira appreciated by nearly 24 percent between 1994 and 1999 because of the slow adjustment of the nominal exchange rate to relative price changes between Honduras and its trading partners. The currencies of other Central American countries also appreciated in real terms during that period, but the appreciations in those countries were considerably smaller than in Honduras. As a result, exports of Honduras are now substantially less competitiveness with competing neighboring countries than in the mid-1990s.

Table 4.4
Real Effective Exchange Rates of Central American Countries, 1990-99
(1994 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Honduras	118.9	118.7	119.1	109.3	100.0	111.0	108.4	115.1	122.7	123.5
Costa Rica	111.8	102.0	104.0	102.4	100.0	104.6	101.2	101.6	104.5	106.2
El Salvador	83.2	85.5	86.4	95.1	100.0	107.6	114.4	116.7	119.7	109.8
Guatemala	75.8	89.2	94.2	95.6	100.0	98.4	103.0	114.7	117.9	107.7
Nicaragua	118.1	113.0	110.2	107.2	100.0	101.0	102.8	102.7	106.4	105.4

Note: An increase in the index reflects an appreciation; a fall reflects a depreciation.
Source: For Honduras, own calculations (see Statistical Appendix and Annex D for details); for others, data from IDB.

Although the United States is the dominant market for Honduras, the loss of export competitiveness has occurred mainly with respect to its other markets. Between 1994 and 1999 Honduras experienced the greatest loss in competitiveness with Asia and the European Union, since most of the currencies of those two regions devalued relative to the US dollar. Whether or not exports of Honduras would benefit from devaluation remains an empirical question. Primary commodity exports like coffee and bananas may or may not have price-elastic demand schedules, which suggest that larger volumes of exports due to a devaluation may or may not result in larger foreign exchange earnings (for empirical evidence, see Lord, 1992).

Table 4.5
Honduras: International Competitiveness Indices, Total and Regional, 1990-99
(1994 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	84.1	84.3	84.0	91.5	100.0	90.1	92.2	86.9	81.5	81.0
North America	87.7	86.2	85.1	92.4	100.0	87.1	90.2	86.1	81.4	82.4
CACM	67.9	74.2	75.1	86.7	100.0	94.4	100.6	98.8	93.6	88.5
Other LA Countries	87.2	87.8	85.9	94.5	100.0	91.6	90.3	88.8	85.6	79.9
European Union	95.9	91.5	94.8	91.3	100.0	97.8	97.6	81.4	75.8	72.6
Other Countries	88.7	84.5	81.7	85.8	100.0	100.9	101.1	84.1	73.0	70.7
Middle East	77.6	78.2	79.6	88.4	100.0	95.2	100.8	97.1	91.5	90.3
Asia	75.6	76.0	77.4	89.9	100.0	95.2	88.0	76.0	63.6	70.3

Note: An increase in the index reflects an improvement in the competitiveness; a fall reflects a loss of competitiveness.
Source: Calculated from the inverse of the real effective exchange rates for each region in Appendix Table A.7.

In addition to the loss of export competitiveness, the appreciation of the lempira is likely to have stimulated imports, and undermined a recovery in domestic production, employment and fiscal revenue because of the loss of domestic profitability of production. Eventually, an unsustainable trade deficit will lead to devaluation, and consumers who anticipate such devaluation are likely to purchase more foreign goods in anticipation of higher prices for those goods at a later time, while speculators shift to dollars and other currencies in anticipation of the devaluation. At issue is whether Honduras can use the exchange rate as an equilibrating instrument for the current account and one that can be used to replace trade restrictions as an instrument with which to achieve a sustainable medium-term internal and external balance. Internal balance in this context refers to the condition needed to achieve equilibrium in the non-tradable goods market, while external balance refers to the condition need to achieve equilibrium in the current account, a condition that implies compatibility with sustainable long-term capital inflows.

Part V: Recommendations

A. Overview

Since 1990 the Government of Honduras' liberalization measures have moved the economy from the earlier import-substitution policies and deep recession of the 1980s to those that can lead to sustainable economic growth. Box 5.1 summarizes the progress made on major policy areas and the extent of their coverage under the National Reconstruction Plan, known as 'La Nueva Agenda'. Many of these initiatives, however, reflect so-called first generation reforms that have sought to enable the operation of market signals so that resources can be efficiently allocated in the economy. 'Second-generation' reforms that address regulatory, infrastructure and macroeconomic obstacles to doing business in Honduras have received much less attention. Yet our review of the country's recent trade performance suggests that it is these factors that have created an environment inhibiting the competitive structure of the economy.

Box 5.1
Honduras: Recommended Trade Policies and Supporting Macroeconomic and Structural Adjustment Policies

Policy	Implemented	Included in *'La Nueva Agenda'*
Tariff liberalization	Undertaken as part of IMF and World Bank-supported stabilization and structural adjustment programs.	Generally yes
Elimination of non-tariff barriers to trade	Yes in terms of policy, but not in terms of bureaucratic and administrative obstacles	Limited
Unified and competitive exchange rates	Yes under an auction system to regulate the allocation of foreign exchange	Generally yes
Investment liberalization	Yes but there remains inconsistency in the legal applications for investors, bureaucratic red tape, and inadequate financial supervision	Generally yes
Fiscal discipline	Yes, although deficit has increased during post-Mitch reconstruction	Yes
Redirection of public expenditure priorities towards health, education and infrastructure	General movement towards goal but opposition to privatization remains an obstacle to the state's modernization	Yes
Tax reform, including broadening the tax base and cutting marginal tax rates	Generally yes with changes to the income tax, business assets tax, sales tax and others.	Yes
Financial liberalization	Limited since there is still a need to reduce interest rates and maintain financial stability through coordinated monetary and fiscal policy	Yes
Secure property rights	Limited since laws and regulations on property titles are unclear and even contradictory	Generally yes
Privatization	Generally yes, but a large number of public enterprises remains	Yes

The major factors that currently inhibit the establishment of a conducive economic and institutional environment for private sector business activity are the lack of a government strategy on trade and investment to guide public policy and support a private-sector led export growth, the excessive number of tariff bands under the present tariff regime, multiple non-tariff

obstacles to trade and investment, and the erosion of international competitiveness of Honduran products due to the appreciating currency.

Trade policy reform in this study is viewed within the broad context of policies affecting trade and investment. Essentially, these initiatives are separated into structural reform policies aimed at liberalizing trade, investment and price distortions and reducing state intervention, on the one hand, and macroeconomic policies aimed at economic stability through specific fiscal, monetary, and exchange rate policies, on the other. As a mechanism for facilitating this process and for improving the coordination of the broad range of issues on trade-related policies and practices, the present report has addressed the economic policies and regulatory issues within the following four inter-related areas:

(i) trade liberalization policies aimed at reducing and simplifying the tariff structure;

(ii) reduction or elimination of non-tariff distorting barriers to trade;

(iii) macroeconomic sustainability and predictability of monetary, fiscal and exchange rate policies; and

(iv) improvement in the regulatory environment and procedural issues affecting trade and investment activity.

B. Summary of Policy Recommendations

The proposed policy reforms summarized in Box 5.2 aim to support the aforementioned strategy for trade and investment. In the identification of policy reforms, particular attention has been given to their consistency with the national plans, and the support that the identified initiatives could offer. In addition, there are a large number of programs and projects already underway within Honduras. Recent efforts by international agencies to accelerate the recovery process have led to what have sometimes been contradictory plans. Moreover, the likely effects of these projects are often not adequately considered within the scope of new proposals impacting on the trade and investment. The present trade and investment strategy therefore seeks to build on existing initiatives to ensure that they generate results that are consistent with other programs affecting the country.

As part of these initiatives, it is important to note that the analysis supporting policy-making decisions requires fairly detailed information that is not currently available. Trade, investment and production data are not readily available in MIT, nor does the capability exist to quickly process the databases that are available. Production data for industry sub-sector or segments are available from the Central Bank, but data on their material inputs are not. Moreover, data reliability for industry segments, as well as those at the industry level, remains questionable, and large discrepancies exist between the information provided by different sources of data, notwithstanding the use of the same nomenclatures. Improved access to data, greater data reliability, and database processing and analysis capability therefore remain important priorities for the country.

Other issues of importance to trade and investment in Honduras are those related to institution building and programs that would support policies that have already been adopted or that could be implemented. These issues are presented in Box 5.3, yet are excluded from the detailed description of the policy recommendations that follow given the focus of the PEP project on economic policy. For example, to strengthen institutions international donors could provide assistance to establish an integrated information system that would include upgraded computer facilities, updated information on trade control measures, and a system on the implementation of trade agreements. To disseminate a new trade policy, an action that is recommended in the current report, training could be provided on the preparation of recurrent trade development reports. Training could also be provided to support future trade negotiations, such as impact analysis of joining a particular agreement, and English-language training. Finally, assistance in the implementation and monitoring of trade agreements could be provided, especially in the areas of trade settlement dispute and illegal commercial practices.

Box 5.2
Proposed Trade and Investment Policies

Existing Constraint	Proposed Initiative		Expected Impact / Benefits
	No. / Title	Project Description	
Lack of cohesive trade and investment strategies to guide policy formulation prevents the GOH from developing internally consistent policies and negotiating positions.	**[P1] Design and Implement a National Trade and Investment Strategy**	Create a working group with representatives from key private sector organizations (FIDE, COHEP) and the GOH (Ministry of Industry and Trade) to lay out priorities, recommend solutions and develop an integrated strategy consistent with national and regional development plans. The strategy would also contain an action plan that allocates responsibilities to both the private and public sector. Create an institutional base to adjust the strategy as needed and maintain dialogue between private and public sectors.	The strategies will help determine the priorities for negotiations and determine a joint position for the Central American countries to be presented at the numerous negotiations where these countries are presented as a group, while at the same time ensuring the involvement of private sector representatives.
Tariff-Related Policies			
Prohibitively high tariffs are applied to few products that do not generate significant trade tax revenue; other high import tariffs limit potential of FDI and technology transfer.	**[P2] Reduce Number of Tariff Bands**	Eliminate tariff bands above 25 percent (*viz.*, 25,30, 40, 45, 50 and 55 percent) that are only applied to 29 products.	A simplified tariff structure would allow importers to take full advantage of the improved market access conditions that would result from trade liberalization.
The effective rate of protection (ERP) for agricultural products is high, and has led to consumer welfare loss and misallocation of resources.	**[P3] Move Tariff Regime to a Neutral Incentive System**	Gradually move to a uniform tariff by beginning to adopt a generalized *concertina* strategy that lowers the highest tariffs to a given level with no change in the lower tariffs, followed by successive rounds until the prevailing high tariffs are lowered to a uniform tariff at the end of the transition period.	A uniform tariff would encourage the development of industries that have a natural comparative advantage, and would promote downstream industries from increased technology transfers. Moreover, its neutral incentive structure would reduce political lobbying, eliminate smuggling, introduce administrative transparency and improve customs clearance.

Box 5.2 (Continued)
Proposed Trade and Investment Policies

Non-Tariff Related Import Policies			
To date, little attention has been given to 'second-generation' reforms that address the way that non-tariff distortions restrict trade and create obstacles to doing business. Existing non-tariff constraints include use of improper technical regulations (difficult market and labeling rules, arcane technical standards), unclear rules of origin, and ad-hoc valuation.	**[P4]** **Implement Second-Generation Policy Reforms of Trade Control Measures**	The proposal is based on a sequential approach to the design and implementation of policies to redress existing distortions to trade that will be used in the upcoming WTO Trade Policy Review: (a) prepare an inventory of trade control measures using the TRAINS classification system, (b) use the results of (a) to quantify trade control measures, (c) measure effects of trade control measures, and (d) adopt policies to eliminate non-tariff distortions to trade.	Since there has been relatively little undertaken in the way of measurement, evaluation and remedies to non-tariff distortions in Honduras, the initiative will address significantly high potential tariff-equivalent measures and lay the groundwork for their elimination.
Information on the complete set and rankings of the remaining bureaucratic and admin-strative factors influence-ing the business environment is inade-quate and outdated.	**[P5]** **Monitor and Streamline Administrative Import/Export Procedures**	Review, streamline and publish a short list of export and import regulations and procedures on ongoing basis. Ensure that 'one-stop shops' are operating effectively and efficiently and that document-ation is required for statistical purposes only.	This initiative will allow MIT to adopt a more active role than in the recent past to identify and eliminate the bureaucratic and administrative obstacles to doing business in Honduras.
Despite adherence to the WTO Agreement on Technical Barriers to Trade and the adoption of consumer protection legislation, concrete reforms in the design and application of sanitary and phytosanitary regulations and labeling requirements remain an important impediment to doing business in Honduras.	**[P6]** **Remove Technical Barriers to Trade**	Review sanitary and phytosanitary regulations and practices and labeling requirements and remove unnecessary regulations.	The first step would establish a technical commission made up of public and private sector representatives to document the regulations currently in practice. The second step would adopt, on a time-phased schedule, policies and regulations to remove these barriers to trade.
Export-Related Policies			
Honduras' international competitiveness has declined since the mid-1990s based on the real exchange rate of the lempira.	**[P7]** **Exchange Rate Policy Impact on Balance of Payments and International Competitiveness**	Examine the conditions needed to determine the fundamental equilibrium exchange rate (FEER) for the balance of payments with guidelines for the optimal real effective exchange rate (and associated nominal exchange rate) needed to achieve overall equilibrium in the balance of payments.	It is likely that Honduras could significantly affect the demand for its exports in the global market, as well as particular export markets such as the United States and the European Union, by improving its international competitiveness based on the real exchange rate of the lempira.

Box 5.2 (Continued)
Proposed Trade and Investment Policies

Adverse transitory terms-of-trade movements decrease income, reduce aggregate savings and worsen the current account.	**[P8]** **National Stabilization Fund**	Establish buffer stock schemes or those that operate a buffer fund to reduce the effects of volatile world commodity prices on export returns.	Until Honduras diversifies its exports sufficiently to ameliorate external shocks, the benefits to stabilizing national income from a buffer stock fund are likely to outweigh the opportunity cost of holding a large amount of reserves.
Export processing zones (EPZ) remain highly concentrated in the textile industry and have few backward linkages to locally produced raw materials.	**[P9]** **EPZ Industry Diversification and Backward Linkages**	Make outward-oriented economic policies central to the EPZ industry diversification program with backward linkages through the liberalization of investment code and regulation, elimination of discretionary trade barriers, and promotion of foreign technology inflows.	The integration of the outward-oriented export policies to support an EPZ diversification and backward linkages program will also encourage foreign direct investment into diversified industries, facilitate foreign technology inflows, thereby developing entrepreneurial capability, and fostering the pace of private sector expansion in supporting industries.
Although many firms operate in more than one Central American country, the RIT does not extend benefits to intermediate inputs originating from other Central American countries, thereby restricting potential scale economies.	**[P10]** **Extend RIT Coverage to All Central American Producers**	Extend RIT benefits to potential suppliers of export-oriented firms in all Central American countries to allow firms to qualify as being of local origin even if they sell their intermediate inputs to a firm in a different Central American country.	Extension of the RIT benefits would support the development of region-wide scale economies in the production of intermediate goods, and provide a mechanism for distribution of those intermediate products to firms operating in more than one Central American country.
Tariff reform is narrowly viewed in the context of market access. Rather, it would be beneficial from a policy viewpoint to consider tariff liberalization as part of a broader program of tax reform that supports the transition from a large dependence on trade taxes for fiscal revenue to a broad tax revenue base that ensures revenue growth and stability. At the same time, tax reform program would strive to increase productivity at the firm level from the more efficient use of existing resources under freer trade.	**[P11]** **Integrate Tariff Reforms into Overall Tax Reform Program**	Coordinate trade and macroeconomic policies within the Ministry of Industry and Trade, Ministry of Finance and Central Bank through the design and implementation of macro-modeling capabilities.	While trade liberalization by itself is likely to improve the efficiency of the economy and therefore impact on output and employment, it may also aggravate the current account imbalance. Policy reforms will also be able to consider complementary exchange rate adjustments that would help to produce a sustainable balance of payments and move the economy closer to overall equilibrium.

Box 5.3
Proposed Institutional Strengthening Activities

Complementary Policy Recommendation	Proposed Activity	Description
[P1]: Design and Implement a National Trade and Investment Strategy	**Information System on Export Promotion**	Develop a comprehensive information system on export promotion in the MIT that would serve as a focal point for both government officials and current and potential exporters. In addition to installing a link to TCM information system, this system will focus on export opportunities and new market analysis using Web-based technology to the greatest extent possible.
	Information System on Implementation of Trade Agreements	To date, Honduras has entered into numerous trade agreements without having established follow-up mechanisms for implementation and monitoring. This information system would be liked to the TCM and export promotion systems and would provide detailed material on trade obligations and future negotiations. Case studies from other countries on dispute settlement would also be included.
	Training on the Preparation of Recurrent Trade Development Reports	This assistance intends to establish a framework for the publication and dissemination of recurrent trade reports on a quarterly or annual basis, including the impact of joining trade agreements. Each issue would contain standard trade concepts with a special issue on trade that is of concern to Honduras. Training would be provided on how to design and prepare the report. Assistance would be given to implement a mechanism for on-going dissemination through the information systems established above.
	Establishment of Trade Point for Honduras	In collaboration with COHEP and FIDE, establish and maintain Trade Point site on the Internet by MIT.
	Support of Future Trade Negotiations	Provide support in future trade negotiations, specifically with Canada and China by providing training in negotiation techniques for specific subject. Training would also be provided in area of impact analysis of negotiations, as would English-language training.
	Creation of Anti-Dumping Legislation Executing Authority	Establish authority to execute anti-dumping legislation and provide training on implementation and monitoring of current and upcoming commitments.
	Dispute Settlement	Technical assistance would be provided to: (i) prepare manual on procedures; (ii) prepare informative programs on issues related to illegal trade practices according to country's production or specific product lines; (iii) develop an automated data base in area of dumping and subsidies; (iv) train personnel in the application of Government commitments to WTO and CACM Agreements; and (v) enable disputes to be conducted using or understanding the English languages through English-language technical training.

Box 5.3 (Continued)
Proposed Institutional Strengthening Activities

Complementary Policy Recommendation	Proposed Activity	Description
[P4]: Implement Second-Generation Policy Reforms of Trade Control Measures	**Monitor Administrative Procedures Governing Trade**	Establish a permanent unit within the MIT to monitor administrative steps required to the importation and exportation of goods and services.
	Monitor Administrative Procedures for Foreign Investment	In collaboration with COHEP and FIDE, establish a working group to monitor all administrative steps required for entry, operation and exit of foreign enterprises in the country.
	Information System on Trade/Trade Control Measures	To ensure consistent and detailed information on trade statistics and trade control measures (TCMs), this activity will centralize trade data to provide an easily accessible system for widespread information dissemination, and will develop a comprehensive and consistent information system covering tariffs and other trade control measures under the TRAINS classification scheme.
	Simplify Customs Procedures	Further simplification of customs procedures with special emphasis on procedures outside free trade zones and industrial parks, and on phytosanitary and sanitary approvals.
	Streamline Foreign Direct Investment Procedures	Simplification of investment approval and post-approval procedures.
[P7]: Exchange Rate Policy Impact on Balance of Payments and International Competitiveness	**Enhance Capabilities to Analyze Balance of Payments**	Provide training to the Ministry of Industry, Trade and Ministry of Finance, and Central Bank on the elasticities-absorption approach to the balance of payments using a partial equilibrium model to address the effects of changes in the tariff and exchange rate regimes on the current and capital accounts.
	Develop Macroeconomic Modeling Capabilities	Support design and coordination of trade and macroeconomic policies with development of macro-modeling capabilities in the Ministry of Industry, Trade and Ministry of Finance, and Central Bank based on Mundell-Fleming model to examine the effects of trade liberalization and exchange rate changes in the open macro-economy of Honduras, using the familiar IS-LM framework that includes the determination of the trade and capital accounts of the balance of payments.

C. Designing National Trade and Investment Strategies

P1. National Trade and Investment Strategy

Background – The overall strategy for trade and investment in Honduras is necessarily rooted in the development plan of the country and the close relationship between the growth of trade and investment and the development of the real and financial sectors of the economy. While trade will undoubtedly be motivated by the comparative advantage of the country, it is equally clear that because of the relatively small size of Honduras, trade will be driven by the desire of

producers to exploit scale and variety gains from specialization in production at the national, regional and global levels.

Against this background, the proposed strategy is based on a market-driven trade and investment expansion that is supported by public sector policies and practices and infrastructure development, and that is integrated and consistent with national and regional development plans. For trade, this strategy implies the reduction or elimination of barriers to trade, including administrative and bureaucratic obstacles, with the objective of expanding trade and augmenting the country's international competitiveness. For investment, the strategy implies an increased specialization in production at the national, regional and global levels, with the aim of expanding domestic and foreign direct investment well beyond the historical growth rates. Viewed in this framework, the trade strategy takes into account the close interlinkages that exist between trade and investment and other productive and facilitating sectors such as finance.

Proposed Solution and Recommendation – The main elements of the Government's trade and investment strategy would be as follows:

(1) *Strengthen private sector initiatives and capabilities*. The economic growth and development of Honduras is market driven and, as such, the improvement of the trade and investment environment aims to strengthen private sector initiatives and capabilities. By helping producers to achieve economies of scale, exploit regional and global complementarities in production, and broaden markets, the GOH will help to expand private domestic and foreign investment for the production of domestic and exportable goods. The reliance on these market forces for pricing and investment decisions requires a more liberal and open economic environment in the country that supports the entry, operation, and exit of firms.

(2) *Ensure public sector support at institutional, policy and infrastructure levels.* The public sectors will need to provide three types of initiatives: (a) an enabling environment for the private sector, (b) public sector coordination of economic policies, and (c) supportive infrastructure for the development of production and trade-oriented activities. An enabling environment implies that restrictive regulations, as well as bureaucratic and administrative obstacles to trade and investment practices, will need to be identified and eliminated. Economic policy coordination suggests a need to examine trade policies in a broader context of the Government's sector programs and macroeconomic policies. And infrastructure development aims to support trade and investment activities through institutional enhancement and policies affecting credit, taxes, labor mobility, and entry, operation and exit of local and foreign firms. At the same time, the removal of industrial infrastructure deficiencies and transport and communications constraints brought about by Hurricane Mitch needs to be given urgent attention to support the productive activities of the private sector. These deficiencies and constraints now pose a major challenge to the growth and development of trade-oriented activities. Although these limitations are being addressed under the current recovery program, new demands posed by the anticipated growth of industrial activity in the country will put additional pressures on transportation, communications, and utilities.

The proposed strategy to promote trade and enhance its competitive framework is based on a broad-based, market-driven expansion of trade and investment that is supported by public sector policies and practices and infrastructure development, and that is integrated and consistent with national development plan of the GOH. It also takes into account the linkages that exist among broad-based policies that facilitate trade and investment in the economy.

The guiding principals for these policy initiatives are as follows:

- For *public policy*, the development of a national strategy that emphasizes the public sector's 'facilitating' role through policy and procedural reforms to assist the private sector in overcoming existing constraints will aim to promote product specialization and high value-added production activities directed towards the domestic and international markets.

- For *trade*, the reduction or elimination of barriers to trade, including administrative and bureaucratic obstacles, and the improvement of incentives promoting trade will aim to bring about dynamic changes in the country's comparative advantages to reduce production costs by exploiting economies of scale and diversifying trade, thereby augmenting the international competitiveness of high value-added production activities.

- For *investment*, the globalization of production processes through the mobilization of domestic and foreign direct investment aims to bring in much-needed financial resources and encourages the transfer of technology to the machinery industry and high value-added production activities in the agricultural and mining sectors.

- For *financial services*, the mobilization of financial resources and the expansion of banking and insurance activities strive to provide the much-needed capital for private sector investment and export-oriented activities.

- For *transportation, communications, and other infrastructural development*, the enhancement of facilities to support the movement of raw materials to production processing facilities and their products to domestic and foreign markets will aim to provide a favorable infrastructure environment to attract investment and facilitate the specialization of production in high value-added production activities.

- For *fiscal, property tax, and tax administration policies*, the maintenance of a sound fiscal stance, coupled with the implementation of property tax reforms and improved tax administration will aim to improve investor confidence in economic management.

- For *private sector development*, the focus on the procedural issues inhibiting business activity will aim to reduce administrative constraints and create the institutional framework needed to support successful private sector activities.

The private sector, through COHEP, recently proposed key elements for a foreign trade strategy of Honduras (Mejía, 1999). The strategy is outlined within the context of globalization, the increasing tendency for technological change and the growing inter-dependence among countries. Within this framework, which complements the one described above, the general

objective is laid out: the achievement of a deeper insertion for Honduras into world trade, thereby stimulating local production, goods and services while at the same time promoting efficiency, diversification and competitiveness.

The short, medium and long-term strategic objectives that COHEP proposes that relate to *trade and investment policy* are as follows. In the short term, the first objective is to determine the priorities for negotiations, the top five which include: (i) perfection of the Central American Integration process; (ii) the adoption of a Free Trade and Investment Agreement with Mexico, the Dominican Republic, Chile, Panama, Andean Group and other countries; (iii) improvement of tariff preferences under the CBI; (iv) the revision and evaluation of WTO commitments; and (v) the inclusion of products in the GSP of the European Community. A second objective is to determine a joint position for the Central American countries to be presented at the numerous negotiations where these countries are presented as a group, while at the same time ensuring the involvement of private sector representatives.

A third objective is to strengthen the MIT and advance with the program of modernization of the government by designing a more complete trade strategy than that proposed by the private sector, by determining negotiating strategies, and analyzing the impact on exports of macroeconomic policies, among others. A fourth objective is to create a formal and systematic mechanism to design, execute evaluate foreign trade policy with the participation of both the public and private sectors. Other short-term objectives include the restructuring of the MIT to better respond to information, planning and execution needs of trade policy, the establishment of an integrated information system and the design of a training program with a focus on international trade policy instruments and treaty administration.

Medium-term objectives focus on the design of a macroeconomic policy oriented at improving exportable production, the improvement in coordination of sectoral policies, revision of export incentives, and simplification of the judicial framework as it relates to international trade. In the long run, the objectives set out by COHEP focus on improving and consolidating a select group of products and services destined for export markets, implementing trade agreements, diversifying export markets, improving the competitiveness of national industries, perfecting mechanisms for coordination between the public and private sectors, and finally the implementation of the country's own commercial agenda in function of exportable production, international economic processes and the objectives of a trade policy.

The action plan set out by COHEP takes into account the reality that no clear and cohesive trade policy currently exists in Honduras, yet recognizes that the Government is obliged to formulate its trade policy within legal commitments at several distinct levels. Those legal commitments must incorporate *multilateral* obligations under the WTO, *regional* commitments through the Central American Common Market, *bilateral* commitments between Honduras and other countries and finally, *national* commitments under the laws of Honduras. Both the public and private sectors are aware of these legal obligations, which are reflected in the emphasis placed by both sectors on negotiations of trade agreements. In fact, negotiations have dominated the international trade theme in Honduras for many years and, as stated above, were included as a top priority in the private sector's proposed strategy. Yet involvement in negotiations *per se* do not form a valid part of a trade policy; rather, they are a means of achieving a goal within a

defined framework. Therefore, given that no formal trade policy currently exists in Honduras, the design and implementation of one should be given top priority.

Second, it would be more beneficial to Honduras if both the Government and COHEP considered shifting the focus of the country's involvement in negotiations away from signing numerous agreements to studying and understanding the impact of entering a trade partnership. Once the impact of the agreement is clear, both the public and private sectors should decide whether or not the agreement will help carry out the trade strategy. Third, the improvement of the country's macroeconomic framework should be given priority in the short run, rather than in the medium term. Sound macroeconomic policy will provide the basis for a new trade policy, especially as it relates to exchange rate and fiscal policy. All other strategic objectives proposed by COHEP appear reasonable, especially those relating to increased involvement by the private sector.

Finally, the ability to formulate policies in support of the aforementioned strategy depends on a permanent institutional facility for (a) maintaining and managing a good database, (b) analyzing the results of computations, (c) using the results of analysis for national economic management, and (d) formulating conclusions and recommendations for policy. At the present time there is no unit with this type of capacity in the Government of Honduras.

D. Deepening Tariff Reforms

Much of the Government's recent trade initiatives can be summarized in the multilateral and regional tariff agreements that have been negotiated in an effort to expand market access. Yet there is little, if any, analysis of the consequences of these agreements on the productive sectors of the economy, the level of employment and the distribution of gains to different industries. Quantifying those consequences would provide valuable insights to policymakers and improved policy guidelines on free trade areas, especially in light of a recent review of studies evaluating regional integration arrangements. That review finds that the impact of regionalism depends critically on the circumstances surrounding each arrangement, especially for small trading countries like Honduras that are unable to influence international terms of trade (DeRosa, 1998).

The recommendations that emerge from this study include a proposal to immediately reduce the number of tariff bands and a proposal to consider the unification of tariffs to ensure that there are neutral incentives for the production of final goods, intermediate and capital goods, other material inputs, and non-traded commodities.

P2. Reduce Number of Tariff Bands

Background – The distribution of Honduras' tariff schedule according to number of tariff lines and estimated revenue generation indicates that the schedule is unnecessarily complicated and provides so-called targeted protection through tariff peaks. Currently, 13 tariff bands make up the tariff schedule although most lines fall within five bands between 1 and 20 percent. For example, the bands of 25 and 30 percent are applied to 6 products (out of a total of 5,918

possible products) and the 35, 40, 45, 40 and 55 percent bands are applied to 23 products. These excessively high tariffs, or tariff peaks, are generally limited to tariff lines where the local industry can supply certain agricultural or finished products. Specifically, these high tariffs protect the local poultry, orange juice and rice industries, and certain types of motor vehicles. The tariff bands above 20 percent are also in question in terms of revenue. Most of Honduras' estimated revenue from import taxes in 1999 (79 percent) was generated from imports with four different applied tariff rates (17, 15, 20 and 10 percent). Less revenue (22 percent) was generated from imports with six applied tariff rates (5, 1, 30, 35, 45, 40 percent); and an insignificant amount (0.4 percent) of revenue was generated from imports taxed at the remaining three rates (25, 50 and 55 percent).

Proposed Solution and Recommendation – Both the distribution of tariffs by tariff line and estimated revenue generation suggest that there is little, if any, economic justification for tariffs above 20 percent. The four tariff bands above 35 percent (*viz.*, 40, 45, 50 and 55 percent) are only applied to nine products (sugar cane, three types of rice, four different types of fresh and frozen poultry parts and cigarettes, respectively) and could be collapsed into the 20 percent tariff category. Likewise, the 25 and 30 percent tariffs could also be eliminated, thereby incorporating the 6 products (two types of juices, one type of shoe and three types of vehicles) that are currently taxed at those rates into the 20 or 17 percent tariff categories. These revisions would make the tariff schedule more logical, and would likely lower the trade-weighted average and standard deviation. The elimination of the high tariff bands also requires political will on the part of the Government, since it is apparent that lobbying efforts have been made to provide high protection to a limited number of products. Most importantly, a revised tariff schedule would better reflect the country's shift away from protecting infant industries by forcing them to compete on more equal grounds than at the present time and would more in line with the overall move to trade liberalization. Analysis also suggests that the next step for tariff reform would be to shift the tariff schedule to a uniform rate, as discussed in recommendation P.3 below.

P3. Move Tariff Regime towards a More Neutral Incentive System

Background – The effective rate of protection (ERP) for agricultural products in Honduras is high. The trade-weighted average ERP is 26 percent for the 15 products examined, compared with a nominal rate of protection (NRP) of 18 percent for the same products. The effect of high import tariffs on these products has been to lower overall imports considerably below what they would otherwise have been with growing consumer demand in Honduras. In addition to the loss in consumer welfare, feedback effects between the external and domestic sectors are likely to have occurred: protection has produced changes in the prices of factors of production and the final products themselves, and affected the allocation of domestic resources in Honduras. These import-substitution policies make production for the domestic market more profitable than production for export markets since the domestic price exceeds the potential price from foreign markets. As a result, these import-substitution policies discriminate against exports and give rise to an ant-export bias. For the selected 15 agricultural products, our calculations indicate that the anti-export bias on average equals 20 percent, which is high compared with other countries.

Proposed Solution and Recommendation – A widely advocated tariff structure is the uniform tariff rate for all traded goods. The fact that the rate is a single tariff dramatically reduces the incentive for lobbying for protection of certain industries. Less lobbying implies reduced government corruption, an improved signal to the private sector that formerly protected industries must compete on equal grounds with others and if necessary switch to other more profitable ones, and a saving of resources. The smuggling of goods is also reduced under a uniform tariff because goods are no longer subject to prohibitive tariffs and the incentive for illegal trade is removed. Lastly, a uniform tariff conveys many administrative advantages: it is transparent, there is no error in misclassification of goods, and corruption is reduced in customs clearing (Tarr, 1998). Our analysis of effective rates of protection (ERPs) for a select group of agricultural products indicates that if all tariffs were to be set at the revenue neutral rate of 8 percent, the ERPs would equal the corresponding nominal rate of protection of 8 percent.

Any movement towards neutral incentives through a uniform tariff, however, should not discriminate against input-producing industries with tariff escalation. One way to avoid such discrimination would be to adopt a generalized *concertina* strategy that lowered the highest tariffs to a given level with no change of the lower tariffs, followed by successive rounds until the prevailing high tariffs were lowered to a uniform tariff at the end of the transition period. The considerable decrease in output protection would divert more production to the export market than at present, although it is difficult to predict what industries would be favored without the use of an economy-wide model. Both theory and practice suggest that the neutral incentive structure of a uniform tariff would encourage the growth of industries in which Honduras presently has a natural comparative advantage and the development of downstream industries from increased technology transfers associated with larger foreign investment activity.

E. Remaining Agenda for Trade Control Measures

The aforementioned changes in the tariff structure aim to (a) simplify and improve the transparency of tariffs and (b) reduce tariff escalation that reinforces import-substitution policies and favors the least beneficial kinds of production that have little value added for the economy. In the present set of recommendations, we address 'second generation' reforms that aim to eliminate or reduce trade control measures that undermine the international competitiveness of exports. These policy recommendations are based on the selection, prioritization and sequencing of mostly second-generation policy measures designed to overcome the most important obstacles that continue to inhibit competitive business practices in Honduras. Examples of these types of obstacles include use of improper technical regulations (difficult market and labeling rules, arcane technical standards), unclear rules of origin, and ad-hoc valuation.

P4. Implement Second-Generation Policy Reforms for Trade Control Measures

Background – To date, many of the initiatives undertaken by the GOH reflect first generation reforms that seek to enable the operation of market signals so that resources can be efficiently allocated in the economy. Second-generation reforms that address the way that non-tariff distortions restrict trade and create obstacles to doing business in Honduras have received much

less attention. Calculation of non-tariff distortions is complex, and requires a great deal of information that is currently not available in Honduras.

Proposed Solution and Recommendation – Since there has been relatively little undertaken in the way of measurement, evaluation and remedies to non-tariff distortions in Honduras, the present proposal is based on a sequential approach to the design and implementation of policies to redress existing distortions to trade:

Step 1 – Inventory of Trade Control Measures: Prepare disaggregated information system of trade control measures by type and sector, following the TRAINS classification system summarized in Annex B of this report.

Step 2 – Quantifying Trade Control Measures: Using the results of the inventory of trade control measures, quantify the presence and size of trade control measures using frequency-type measures, price-comparison measures, and NTB-specific measures.

Step 3 – Measure Effects of Trade Control Measures: Using the results of the inventory of trade control measures, quantify the effects of existing measures based on such procedures as the trade restrictiveness index (TRI), anti-export bias (AEB) index, and effective rates of assistance (ERA). If warranted, the project could include impact analyses based on applied general equilibrium (AGE) model measures for the Global Trade Analysis Project (GTAP).

Step 4 – Adopt Policies to Eliminate Non-Tariff Distortions to Trade: Based on the results of the measurement and evaluation of non-tariff distortions, adopt policies that would remove the obstacles to trade in Honduras.

P5. Monitor and Streamline Administrative Procedures for Imports and Exports

Background - To date, there is inadequate on-going information on the complete set and rankings of the remaining bureaucratic and administrative factors influencing the business environment. Moreover, while a one-stop shop for exporters has recently been established, at the present time there is little activity in this unit due to lack of services offered and hence interest on behalf of the private sector.

Proposed Solution and Recommendation – To redress this situation, a private sector assessment should be undertaken of the obstacles to doing business in Honduras. The assessment should review the time and effort required to undertake import and export procedures, including fees; assess the impact of making improvements to the system, and implement recommendations to improve system. Once completed, a comprehensive list of procedural and qualification requirements should be adopted for the all activities requiring licensing and other administrative approvals. These requirements should be clearly articulated and made available to the public through easily accessible documentation.

In an effort to resolve the remaining procedural issues, MIT should adopt a more active role than in the recent past to identify and eliminate the bureaucratic and administrative obstacles to doing

business in Honduras. While some efforts have been made to identify these obstacles by COHEP, there have not been any ongoing surveys of businesses to monitor the remaining constraints on trade and investment activity. Such surveys should be made part of the ongoing functions of MIT if it is to succeed in streamlining the rules and procedures that implement the laws, and the results put into practice through the one-stop shop for exporters.

As part of the revitalization efforts for the one-stop shop, specific activities include: (i) providing technical assistance through experts in international trade who would assist in defining the unit's vision, tasks and work methods and who would design the data base on export promotion; (ii) training of personnel in techniques on evaluation of new export opportunities and development of market studies; (iii) developing an advisory program oriented towards assisting exporters, especially of non-traditional products; (iv) funding overseas field visits to gain exposure to similar programs in other countries; and (v) establishing reference materials such as international statistics available on electronic media, bibliographical sources of information and other information sources, many of which can be accessed from the Internet., such as international statistics available on electronic media, bibliographical sources of information and other information sources.

Following the private sector assessment, it would be useful to undertake a comparative analysis on the regulatory reforms that have been undertaken by other developing countries that have successfully attracted export-oriented investments into their countries. The sample of countries should comprise those with relatively similar levels of development and they should include lessons from the South East Asian countries. The study would help to guide policymakers in the remaining regulatory reforms that Honduras needs to complete to attract export-oriented activities into diversified industries.

P6. Remove Technical Barriers to Trade

Background – Despite Honduras' adherence to the WTO Agreement on Technical Barriers to Trade and the adoption of consumer protection legislation, concrete reforms in the design and application of sanitary and phytosanitary regulations and labeling requirements remain an important issue in doing business in Honduras. Sanitary regulations have been applied to imports of poultry imports, which is considered a non-tariff measure by many United States exporters. Labeling and registration of processed foods have also been considered a detriment to trade. Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Health, which has been reported by both suppliers to the domestic market and to local manufacturers as problematic due to the lengthy approval process. Local businessmen have also cited phytosanitary measures as a detriment to new product development and hindering new export possibilities. In particular, the Ministry of Health was cited as delaying the approval of certification of food and other products, resulting in loss of time and often interest in pursuing the launching of a new product. Such administrative obstacles act as a disincentive to export development.

Proposed Solution and Recommendation – An immediate first step that could be taken to resolve the problem of technical barriers to trade would be to establish a commission comprised of government officials, private business representatives and qualified scientists to conduct a

comprehensive review of sanitary and phytosanitary standards and labeling requirements to ensure that only essential requirements are applied. Particular attention should be afforded to procedures undertaken by the Ministry of Health in certifying food and other products. The second step would be to adopt new policies and regulations based on the commission's recommendations on a time-phased schedule, including procedures to ensure correct application and follow-up.

F. Enhancing Export Stability, Diversification and Competitiveness

It is now widely accepted that growth prospects for developing countries are greatly enhanced through an outward-oriented trade regime and fairly uniform incentives (primarily through the exchange rate) for production across exporting and import competing goods (see, for example, Krueger, 1997). The reforms in this section are directed at enhancing exports through specific export arrangements and improvements in their international competitiveness.

P7. Exchange Rate Impact on Balance of Payments and International Competitiveness

Background – The demand for Honduran exports is being increasingly affected by the country's declining international competitiveness based on the real exchange rate of the lempira. The decline since 1991 has been more significant in the EU market than in other markets such as that of the United States. As a result, Honduran producers face a relatively unfavorable position in the US market and a more unfavorable position in the emerging EU market, where producers have been attempting to increase their market shares. It is likely that Honduras could significantly affect the demand for its exports in the global market, as well as particular export markets such as the United States and the European Union by improving its international competitiveness based on the real exchange rate of the lempira.

Proposed Solution and Recommendation – Following Dornbusch's (1976) theory of overshooting, an undervalued exchange rate provides a way of protecting domestic industries by raising the cost of competing imports and stimulating exports of domestic industries. Alternatively, an overvalued exchange rate undermines efforts to promote exports. Using a combination of tariff and exchange rate policies, the GOH can achieve equilibrium in the current account or overall balance of payments, and it should therefore examine the conditions needed to determine the fundamental equilibrium exchange rate (FEER) for the balance of payments of Honduras. Using the elasticities approach to the balance of payments, the analysis should examine the effects of changes in the exchange rate on the current and capital accounts.

We recognize, however, that by focusing on the direct linkages between exchange rates and the balance of payments, the elasticities approach to the balance of payments disregards the effect of the exchange rate adjustment process on the GOH's simultaneous pursuit of internal and external balances in the economy. Nevertheless, the analysis would provide guidelines for the optimal real effective exchange rate (and associated nominal exchange rate) needed to achieve overall equilibrium in the balance of payments. Under Project Proposal P11, the analysis is extended to exchange rate adjustments that produce a sustainable balance of payments and move the Honduran economy closer to overall equilibrium.

P8. National Stabilization Fund

Background – The dependence of Honduras on a few primary commodity exports for the bulk of its foreign exchange earnings continues to make it susceptible to large and frequent terms-of-trade shocks. As discussed in Part 1, the most recent downturn in world market prices for bananas and coffee in 1998-99 aggravated the already low export earnings of Honduras from the hurricane damaged crops. Such adverse transitory movements in the terms-of-trade decrease the level of income, reduce aggregate savings and worsen the current account (Cashin and McDermott, 1998). Given the susceptibility of most Latin American countries to these types of shocks (Haussman and Gavin, 1996), nationally based schemes have been examined extensively for their usefulness and applicability to different types of primary commodity exports (see, for example, Engel and Meller, 1993).

Proposed Solution and Recommendation – Short-term terms-of-trade shocks can be ameliorated through national stabilization schemes to dampen the effects of price shocks. These schemes typically take the form of either buffer stock mechanisms or those that operate a buffer fund to reduce the effects of volatile world commodity prices on export returns. Because the major exports of Honduras are composed of both non-perishable and perishable types of products, a buffer fund would be a more appropriate instrument. The fund would require either a large amount of foreign reserves or the capacity to borrow large amounts of capital. Since the rate of return from investment in Honduras is likely to exceed the return on foreign reserve holdings, there is a large opportunity cost of holding these reserves. Moreover, there may be practical difficulties of holding reserves during periods of boom, and funds of this type are susceptible to being used for other purposes during this time (Deaton, 1992). Nevertheless, the severity and recurrence of terms-of-trade shocks in Honduras warrant consideration of such as schemes until export diversification reaches a level where compensatory movements in exports would ameliorate external terms-of-trade shocks to the current account.

P9. Diversify EPZ Activities and Expand Backward Linkages

Background – Notwithstanding their employment-generating benefits, export processing zones (EPZs) remain highly concentrated in the textile industry and provide few backward linkages to domestically produced raw materials. About 95 percent of companies produce textiles and garments, while the remaining 5 percent are involved in plastics, machinery and metal production, and electronics. EPZs are viewed as mechanisms to create employment and generate foreign exchange, rather than as an engine for export-led growth. Consequently, the creation of linkages has not been a priority in the policy agenda of Honduras. As a indication of the degree of backward linkages of these firms, Jenkins, Esquivel and Larraín (1998) have estimated that between 25 and 33 percent of total output is derived from domestic expenditures on wages, rent, raw materials and services, and that this share has been growing over time. Most of these expenditures, however, are on wages; consequently, the amount spent on domestically produced raw materials is small.

Proposed Solution and Recommendation – Given its proximity to the US market, Honduras should establish a program of diversification aimed at those industries in which US companies tend to outsource an increasing share of their products: footwear, toys, data processing, home furnishings and lighting, semiconductor fabrication, food processing, automotive parts, brewing, enterprise networking, and pharmaceuticals (Sturgeon, 1997). Based on its comparative advantage in unskilled and semi-skilled labor, Honduras should focus on low-end assembly and simple components manufacturing, with a view to eventually competing for the volume production facilities in mid-level and some higher-end products. Since US firms tend to compete on the bases of cost, quality and time-to-market, Honduras will need to actively identify, target and promote specific industries, as Costa Rica, the Dominican Republic, Jamaica and India have done with the electronics and data processing industries.

While the overall legislative framework has been set up for EPZs, Honduras needs to develop promotional guidelines for foreign investments from new industries, transparent and streamlined approval procedures, and institutional support for industrial information, technology and backward linkages. From a policy perspective, an EPZ industry diversification program that promotes backward linkages needs to be supported by outward-oriented economic policies that contain the following elements: (a) the liberalization of investment code and regulations relating to promotion of new private sector investments, particularly foreign direct investment, and inflow of foreign technology; (b) complete divestment of government holdings in state owned enterprises (SOEs); (c) removal of NTBs to trade and bureaucratic and administrative obstacles to entry, operation and exit of firms; (d) promotional measures for required inflows of foreign technology under reasonable terms and conditions, and (e) equal treatment for new investments by both foreign and domestic investors.

P10. Extend RIT Coverage to All Central American Producers

Background – The temporary import duty scheme (*Regimen de Importación Temporal* or RIT) established in 1984 allows firms to import intermediate inputs, equipment, machinery and their parts free of duties, although they must post a bond with authorities and follow normal procedures when importing and exporting inputs and products. Sales in the domestic market are not permitted without paying taxes. Although many firms operate in more than one Central American country, the RIT does not extend benefits to intermediate inputs originating from other Central American countries, thereby restricting economies of scale that could be derived from regional suppliers of those inputs.

Proposed Solution and Recommendation – The present proposal is based on the recommendation derived from the study by Jenkins, Esquivel, Larraín (1998) on export processing zones in Central America. The recommendation for Honduras, as well as other Central American countries, extends the benefits of the RIT to potential suppliers of export-oriented firms in all Central American countries. These firms would qualify as being of local origin even if they sell their intermediate inputs to a firm in a different Central American country, and they would be allowed to sell their products in the Central American region free of duties as long as those products were incorporated into exports directed at markets outside the region. Jenkins, Esquivel, Larraín (1998) further propose that RIT firms be allowed to sell their

products in the domestic market without any restriction to the payment of the corresponding import duties.

This proposal supports that made in P9 to promote backward linkages in EPZs by giving potential suppliers of export-oriented firms access to inputs at competitive prices. The recommendations support the development of region-wide scale economies in the production of intermediate goods, and provide a mechanism for distribution of those intermediate products to firms operating in more than one Central American country.

P11. Integrate Tariff Reforms into Overall Tax Reform Program

Background – Honduras remains dependent on trade tax revenue for a significant portion of its total tax revenue. The fiscal impact of trade liberalization in Honduras suggests that tax reform needs to be an integral part of tariff reforms. As Mitra (1992) has suggested, tariff reform should be viewed as part of a broader program of tax reform that supports the transition from a large dependence on trade taxes for fiscal revenue to a broad tax revenue base that ensures revenue growth and stability and increases productivity at the firm level from the more efficient use of existing resources under freer trade. Moreover, the experience of other countries suggests that these fiscal deficit effects need to be corrected early in the trade and exchange rate reform processes (Hood, 1998). For this reason, concomitant fiscal adjustments in Honduras are needed to make trade policy reform sustainable, and the efficiency gains from further trade liberalization have to be weighed against the Government's strategy for achieving internal balance, largely through fiscal austerity and the maintenance of fiscal revenues.

Proposed Solution and Recommendation – The GOH should design macro-modeling capabilities to coordinate trade and macroeconomic policies within the MIT, the Ministry of Finance and the Central Bank. The development of this much-needed modeling capability would extends the earlier elasticities-absorption approach to the balance of payments (Project P7 above) to the analysis of the consequences of tariff reforms on the Honduran macro-economy, particularly as it relates to the fiscal revenue and balance of payments implications. From an analytical perspective, a Mundell-Fleming type model should be used to examine the effects of trade liberalization and exchange rate changes in the open macro-economy of Honduras. This type of open economy model uses the familiar IS-LM framework that includes the determination of the trade and capital accounts of the balance of payments. Since capital movements and the extent of their mobility play a critical role in the analysis of economic policies, it allows policymakers the opportunity to consider alternative assumptions about policies impacting on their mobility. These extensions would allow the GOH to move from a partial equilibrium perspective in the aforementioned Project P7 to one that examines trade and exchange rate policies in the context of Honduras' macroeconomic fundamentals. Furthermore, while trade liberalization by itself is likely to improve the efficiency of the economy and therefore impact on output and employment, it may also aggravate the current account imbalance. The analysis should therefore consider complementary exchange rate adjustments that would help to produce a sustainable balance of payments and move the economy closer to overall equilibrium.

G. Implementation Arrangements

The level of effort, or time horizon, varies considerably for the implementation of different policies. In general, immediate short-term initiatives are unrelated to the operational system of the government, and they usually involve stroke-of-pen reforms of tariff structures, the removal of trade control measures, the elimination of discriminatory investment regimes, and the adoption of investment incentives. The more challenging measures often involve a strong institutional base for their successful implementation. Initiatives that could be implemented in 2001 would usually require institutional support in the form of hardware or training, or the establishment of new entities or institutions. Initiatives to be implemented in 2002 the implementation of new functions in government institutions.

The prioritization and phasing of the recommended projects are based on an assessment of the impact that such initiatives would have on the following areas: (1) the growth of the economy, (2) the promotion of private sector, market-driven development of the country, (3) the support of small and medium size enterprises, and (4) the effect on cross-cutting issues such as poverty alleviation.

The recommendations presented in this study are based on complementarities structural adjustment and macroeconomic policies in the overall design of trade policy reforms. This approach is motivated by the empirical findings of Aziz and Wescott (1997) and others indicating that individual policy initiatives are less effective in promoting economic growth that are a combination of policies that are mutually reinforcing to one another. Sequencing of economic reforms in Honduras may therefore not be as effective as creating complementary policies that from the onset create an environment conducive to investment and growth.

Box 5.4
Sequencing of Proposed Trade Policy Reforms

Sequence of Implementation	Policy Reforms		
	Import Tariffs	**NTBs on Imports**	**Export Enhancements**
Immediate	♦ Design and Implement a National Trade and Investment Strategy [P1]		
	♦ Reduce Number of Tariff Bands [P2]	♦ Implement Second-Generation Policy Reforms of Trade Control Measures [P4] ♦ Remove Technical Barriers to Trade [P6]	♦ Review Exchange Rate Policy Impact on Balance of Payments and International Competitiveness [P7] ♦ Integrate Tariff Reforms into Overall Tax Reform Program [P11]
2001	♦ Streamline Customs Procedures [P3]	♦ Monitor and Streamline Administrative Import/Export Procedures [P5]	♦ Diversify EPZ Industries and Promote Backward Linkages [P9] ♦ Extend RIT Coverage to All Central American Producers [P10]
2002	♦ Move Tariff Regime to a Neutral Incentive System [P3]	♦ Create Anti-Dumping Legislation Executing Authority [P7]	♦ Establish National Stabilization Fund [P8]

Annex A: Organizational Charts

Figure A1
Government of Honduras

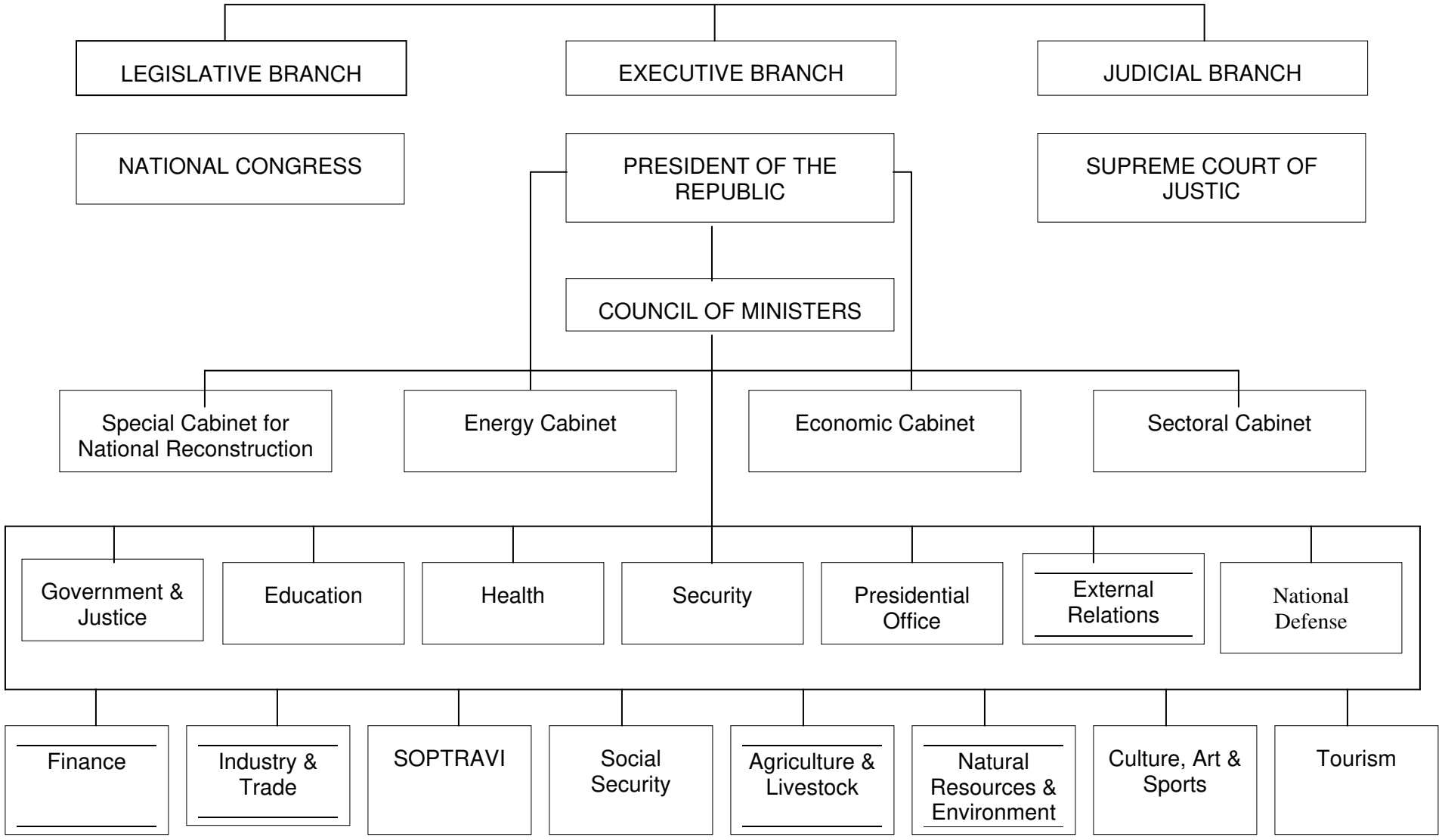


Figure A2
Ministry of Industry and Trade

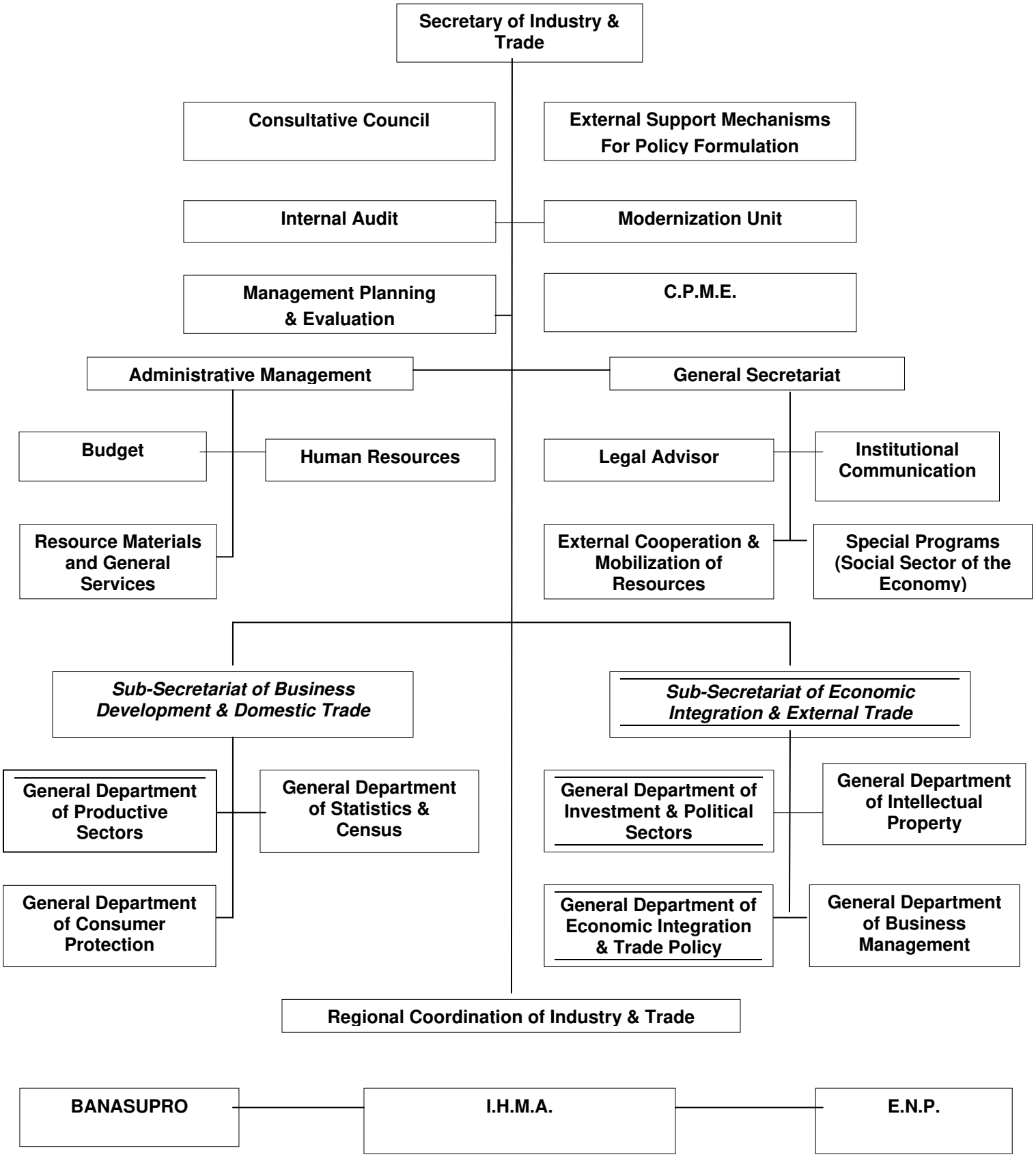


Figure A3
General Department of Economic Integration and Trade Policy

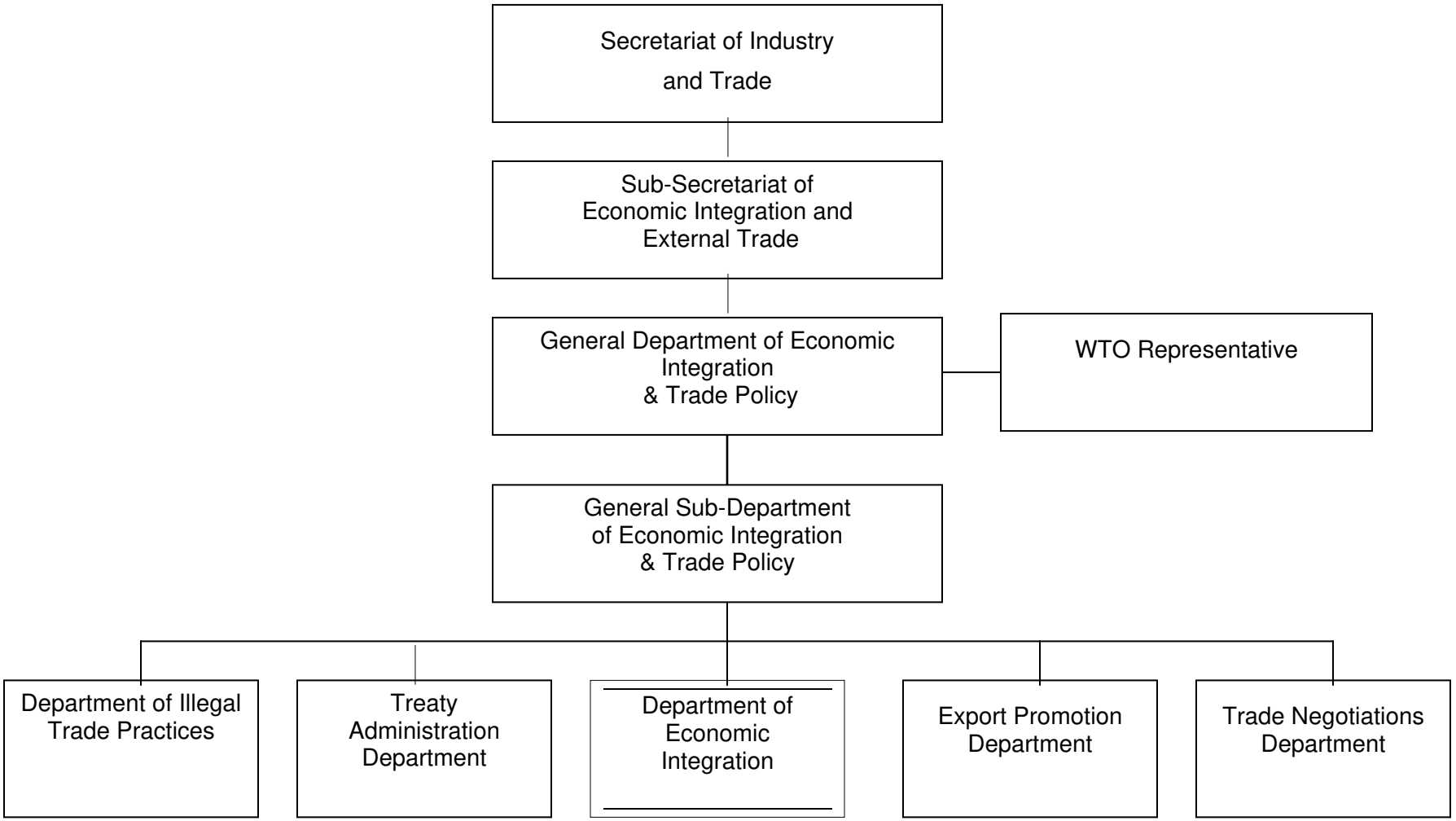


Figure A4
General Department of Investment and Sectoral Policies

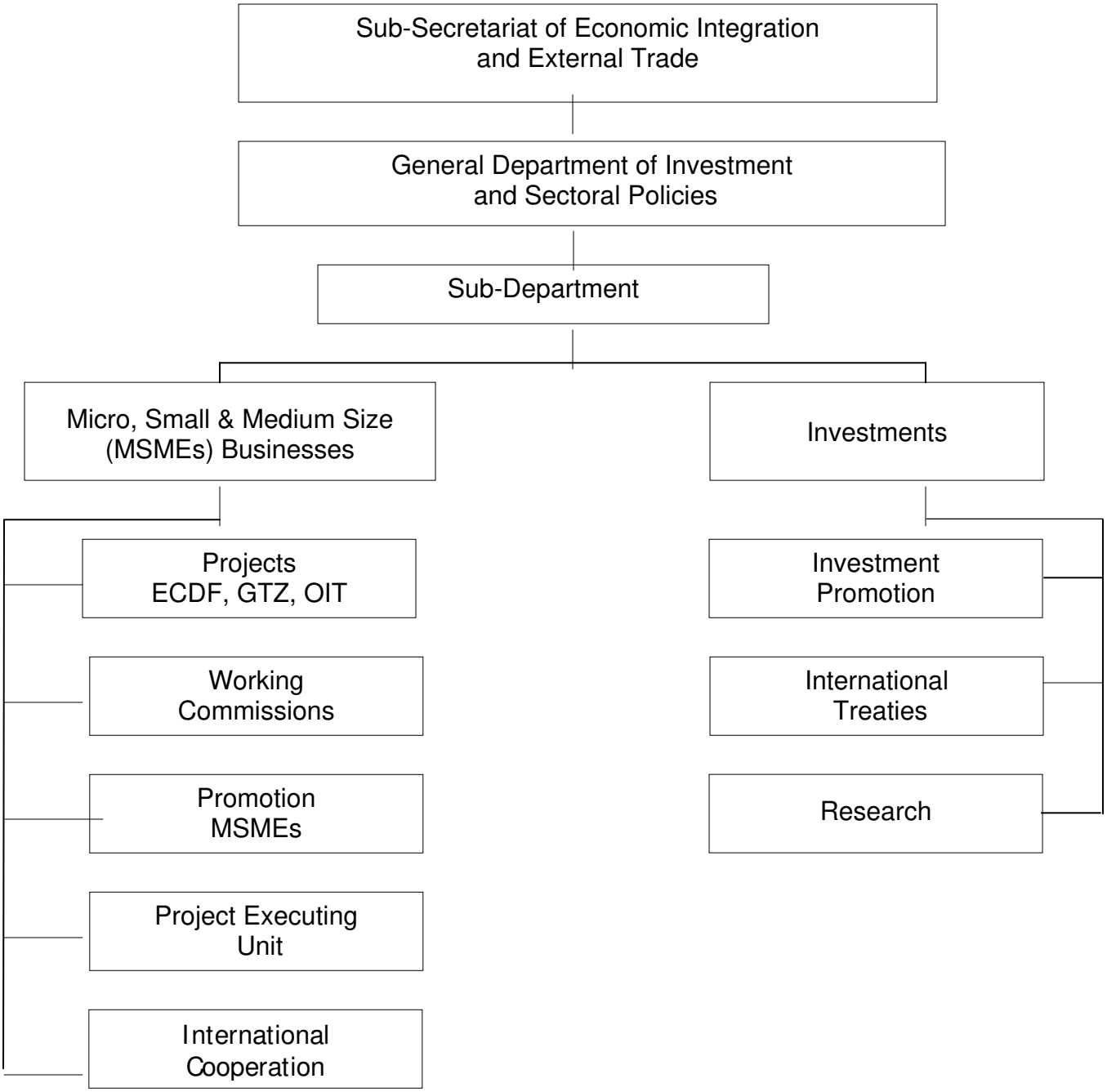
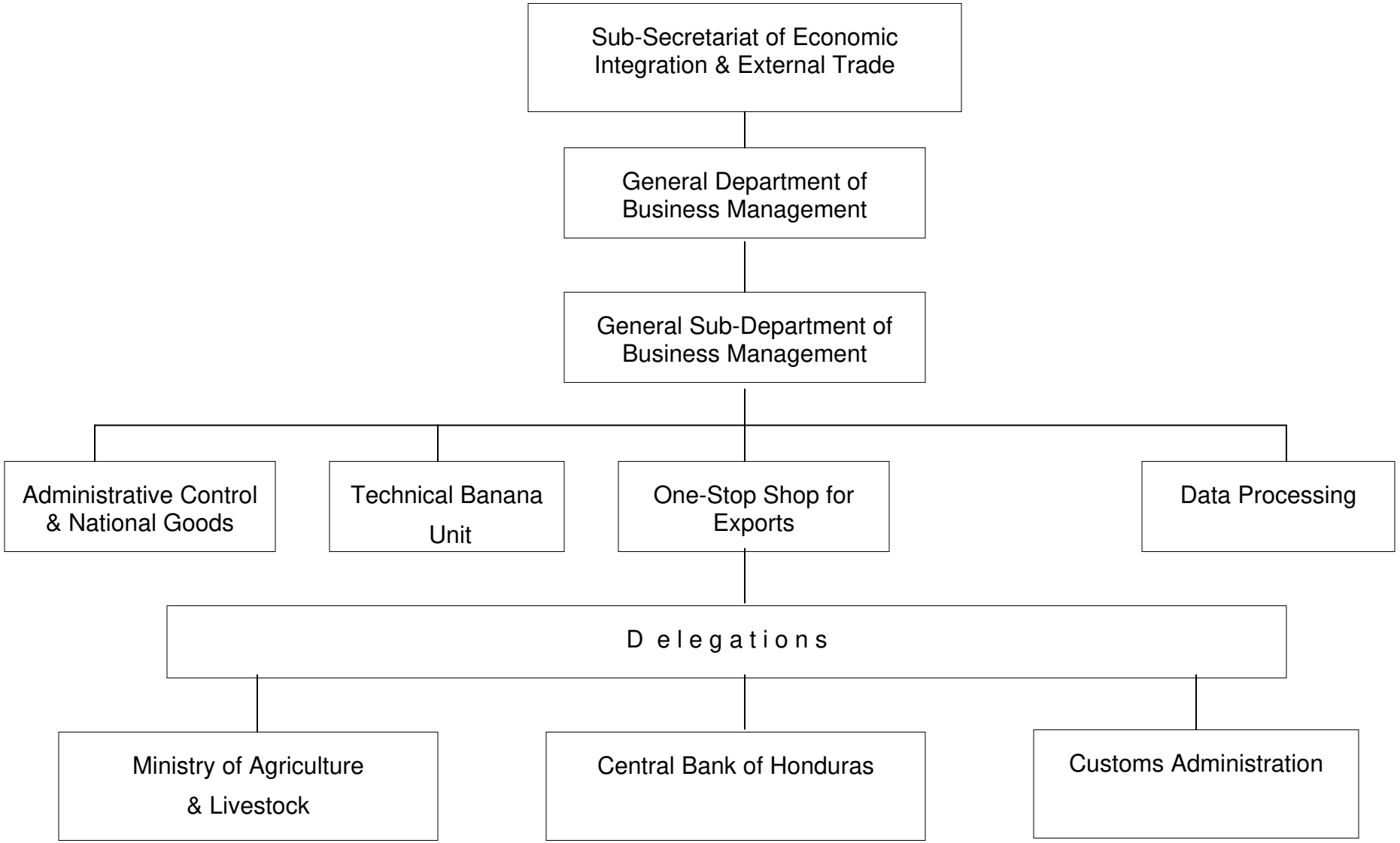


Figure A5
General Department of Business Management



Annex B: Trade Control Measures Classification Scheme and Working Definitions

A. Classification Scheme

1000	TARIFF MEASURES
1100	Statutory Customs Duties
1200	MFN Duties
1300	GATT Ceiling Duties
1400	Tariff Quota Duties
1410	Low duties
1420	High duties
1500	Seasonal Duties
1510	Low duties
1520	High duties
1600	Temporary Reduced Duties
1700	Temporary Increased Duties
1710	Retaliatory duties
1720	Urgency and safeguard duties
1800	Preferential Duties under Trade Agreements
1810	Customs Union
1820	Free Trade Agreement
1830	GSP
1831	GSP to developing countries
1832	GPS to LDCs
1840	Other specific preferential agreements
1841	From developed to developed countries
1842	From developed to developing countries
1843	From developed to LDCs
1844	From developing to developed countries
1845	From developing to developing countries
1846	From developing to LDCs
1890	Preferential agreements n.e.s.
1900	Tariff Measures N.E.S.
2000	PARA-TARIFF MEASURES
2100	Customs Surcharges
2200	Additional Charges
2210	Tax on foreign exchange transactions
2220	Stamp tax
2230	Import license fee
2240	Consular invoice fee
2250	Statistical tax
2260	Tax on transport facilities
2270	Charges for sensitive product categories
2290	Additional charges n.e.s.
2300	Internal Taxes and Charges Levied on Imports

2310	General sales taxes
2320	Excise taxes
2370	Charges for sensitive product categories
2390	Internal taxes and charges levied on imports n.e.s.
2400	Decreed Customs Valuation
2900	Para-Tariff Measures N.E.S.
3000	PRICE CONTROL MEASURES
3100	Administrative Pricing
3110	Minimum import prices
3190	Administrative pricing n.e.s.
3200	Voluntary Export Price Restraint
3300	Variable Charges
3310	Variable levies
3320	Variable components
3330	Compensatory elements
3340	Flexible import fees
3390	Variable charges n.e.s.
3400	Antidumping Measures
3410	Antidumping investigations
3420	Antidumping duties
3430	Price undertakings
3500	Countervailing Measures
3900	Price Control Measures N.E.S.
4000	FINANCE MEASURES
4100	Advance Payment Requirements
4110	Advance import deposit
4120	Cash margin requirement
4130	Advance payment of customs duties
4170	Refundable deposits for sensitive product categories
4190	Advance payment requirements n.e.s.
4200	Multiple Exchange Rates
4300	Restrictive Official Foreign Exchange Allocation
4310	Prohibition of foreign exchange allocation
4220	Bank authorization
4390	Restrictive official foreign exchange allocation n.e.s.
4500	Regulations Concerning Terms of Payment for Imports
4600	Transfer Delays, Queuing
4900	Finance Measures N.E.S.
5000	AUTOMATIC LICENSING MEASURES
5100	Automatic License
5200	Import Monitoring
5210	Retrospective surveillance
5220	Prior surveillance
5270	Prior surveillance for sensitive product categories
5700	Surrender Requirement
5900	Automatic Licensing Measures N.E.S.
6000	QUALITY CONTROL MEASURES
6100	Non-Automatic Licensing
6110	License with no specific *ex-ante* criteria
6120	License for selected purchasers
6130	License for specified use

6131	Linked with export trade
6132	For purposes other than exports
6140	License linked with local production
6141	Purchase of local goods
6142	Local content requirement
6143	Barter or counter trade
6150	License linked with non-official foreign exchange
6151	External foreign exchange
6152	Importers' foreign exchange
6160	License combined with or replaced by special import authorization
6170	Prior authorization for sensitive product categories
6180	License for political reasons
6190	Non-automatic licensing n.e.s.
6200	Quotas
6210	Global Quotas
6211	Unallocated
6212	Unallocated to exporting countries
6220	Bilateral quotas
6230	Seasonal quotas
6240	Quotas linked with export performance
6250	Quotas linked with purchase of local goods
6270	Quotas for sensitive product categories
6280	Quotas for political reasons
6290	Quotas n.e.s.
6300	Prohibitions
6310	Total prohibitions
6320	Suspension of issuance of license
6330	Seasonal prohibition
6340	Temporary prohibition
6350	Import diversification
6360	Prohibition on the basis of origin (embargo)
6370	Prohibition for sensitive product categories
6390	Prohibitions n.e.s.
6600	Export Restraint Arrangements
6610	Voluntary export restraint arrangements
6620	Orderly marketing arrangements
6630	Multifibre arrangement (MFA)
6631	Quota agreement
6632	Consultation agreement
6633	Administrative co-operation agreement
6640	Export restraint arrangements on textiles outside MFA
6641	Quota agreement
6642	Consultation agreement
6643	Administrative co-operation agreement
6690	Export restraint arrangements n.e.s.
6700	Enterprise-Specific Restrictions
6710	Selective approval of importers
6720	Enterprise-specific quota
6790	Enterprise-specific restrictions n.e.s.
6900	Quantity Control Measures N.E.S.
7000	MONOPOLISTIC MEASURES

7100	Single Channel for Imports
7110	State trading administration
7120	Sole importing agency
7170	Single channel for imports for sensitive product categories
7200	Compulsory National Services
7210	Compulsory national insurance
7220	Compulsory national transport
7900	Monopolistic Measures N.E.S.
8000	TECHNICAL MEASURES
8100	Technical Regulations
8110	Product characteristics requirements
8120	Marking requirements
8130	Labeling requirements
8140	Packaging requirements
8150	Testing, inspection and quarantine requirements
8160	Information requirements
8190	Technical regulations n.e.s.
8200	Pre-Shipment Inspection
8300	Special Customs Formalities
8400	Obligation to Return Used Products
8500	Obligation on Recycling or Reuse
8900	Technical Measures N.E.S.
9000	MISCELLANEOUS MEASURES
9100	Marketable Permits for Sensitive Product Categories
9200	Public Procurement for Sensitive Product Categories
9300	Voluntary Instruments for Sensitive Product Categories
9310	Products standards
9311	Eco-labeling
9320	Voluntary agreement or covenants
9400	Product Liability for Sensitive Product Categories
9500	Subsidies for Sensitive Product Categories

B. Working Definitions for Trade Control Measures

1. TARIFF MEASURES

Tariff measures serve either to raise fiscal revenue or to protect domestic industry from foreign competition and are applied when a product crosses the boundary of a customs area. These measures increase the import price by a fixed percentage or by a fixed amount, calculated respectively on the basis of the value (*Ad Valorem tariffs*) and the physical quantity (specific tariffs).

1100 Statutory customs duties
Basic duties as laid down in the provisions of the customs tariff law, often defined also as general duties. Almost all countries apply in practice the MFN duties also as general duties, while few countries apply duties higher than MFN duties.

1200 MFN duties
Defining the General Most-Favored-Nation Treatment, GATT (Article I) states that “any advantage, favor, privilege or immunity granted by any contracting party to any product

originating in or destined for any other country shall be accorded immediately and unconditionally to the like products originating in or destined for the territories of all other contracting parties". In practice, the MFN treatment is no longer limited to GATT contracting parties but applicable to other trading partners.

1300 GATT ceiling duties
Maximum duties that may be applied by a GATT contracting party to other parties, which have been bound against concessions as a result of GATT negotiations.

1400 Tariff quota duties
Rates applicable to a quota of imports under a given tariff heading, whereas higher rates are charged on imports which exceed the quota amount; quota may be defined in terms of quantity or value.

1500 Seasonal tariffs
Duties applicable according to the time of the year, usually to agricultural products.

1600 Temporary decreased duties
Duties intended to stimulate local consumption or production. These duties may be applied to all imports under a given tariff heading or only to industrial inputs, investment goods, etc. for specific purposes.

1700 Temporary increased duties
Rates on specific articles to retaliate against actions by trading partners or to provide import relief (safeguard actions).

1800 Preferential duties under trade agreements
Preferential duties applicable in trade under multilateral (e.g. customs unions, having a common external tariff and free trade agreements implying zero tariffs among members but not having a common external tariff) or under bilateral trade agreements extended without reciprocity by one group of countries to another group of countries (e.g. the Generalized System of Preferences). The preferential duties may be applied with no limitation of quantity or may be linked to preferential tariff quotas.

2. PARA-TARIFF MEASURES

Other measures that increase the cost of imports in a manner similar to tariff measures, i.e. by a fixed percentage or by a fixed amount, calculated respectively on the basis of the value and the quantity, are known as para-tariff measures. Four groups are distinguished; customs surcharges; additional charges, internal taxes and charges levied on imports; and decreed customs valuation.

2100 Customs surcharges
The customs surcharge, also called surtax or additional duty, is an *ad hoc* trade policy instrument to raise fiscal revenue to protect domestic industry.

2200 Additional charges
Additional charges, which are levied on imported goods in addition to customs duties and surcharges and which have no internal equivalent, comprise various taxes and fees. The category of additional charges includes the tax on foreign exchange transactions, stamp tax, import license fee, consular invoice fee, statistical tax, tax on transport

facilities and charges for sensitive product categories. Various other taxes, such as the export promotion fund tax, taxes for the special funds, the municipal tax, registration fee on imported motor vehicles, customs formality tax, etc. are classified as additional charges, n.e.s. It should be noted that Article VIII of GATT states that fees and charges other than customs duties and internal taxes "shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes".

2300 Internal taxes and charges levied on imports

GATT Article III permits the application of internal taxes to imports; however, these taxes should not be applied so as to afford protection to domestic production. The general sales tax levied on imports is the equivalent of those internal taxes that are applied to all or most products. Three types of internal taxes can be distinguished: first, the one commonly known as sales tax, which is an *ad valorem* tax based on the gross receipts of sales of goods, collected at regular intervals from traders; secondly, the turnover tax or multiple sales tax, which is a tax imposed at more than one level of production and distribution and is based on gross receipts, resulting in accumulation of taxes; thirdly, the value-added tax which is a modified turnover tax based on the net value added instead of on the gross receipts, avoiding accumulation of taxes and not affecting the price structure and the allocation of resources. The excise tax levied on imports is the equivalent of the excise tax on domestic products, which is an internal tax imposed on selected types of commodities, usually of a luxurious or non-essential nature, such as alcoholic beverages and tobacco. This tax is levied either *ad valoren* or on a specific basis, separate from, and in addition to, the general sales taxes. Sumptuary taxes, luxury taxes, commodity or consumption taxes all have the same nature as the excise tax. Therefore, for database purposes, all such taxes are coded as excise taxes. In some countries, the consumption tax is similar to a sales tax, being applicable to all products, while in other countries generally applied taxes are sometimes called excise taxes, in both of which cases these are classified under code 2310. Charges for sensitive product categories include emission charges, product taxes and administrative charges. These latter charges are meant to recover the costs of administrative control systems. These various charges normally have an internal equivalent. Certain internal taxes which cannot be clearly identified as sales taxes, for instance the equalization tax on industrial inputs, the business tax based on a fixed profit rate, etc. are classified for pragmatic reasons as internal taxes and charges levied on imports, n.e.s.

3. PRICE CONTROL MEASURES

Measures intended to control the prices of imported articles for the following reasons: (i) to sustain domestic prices of certain products when the import price is inferior to the sustained price; (ii) to establish the domestic price of certain products because of price fluctuation in the domestic market or price instability in the foreign market; and (iii) to counteract the damage caused by the application of unfair practices of foreign trade.

Most of these measures affect the cost of imports in a variable amount calculated on the basis of the existing difference between two prices of the same product, compared for control purposes. The measures initially adopted can be administrative fixing of prices and voluntary restriction of the minimum price level of exports or investigation of prices, o subsequently arrive at one of the following adjustment mechanisms: suspension of import licenses; application of variable charges, antidumping measures or countervailing duties.

3100 Administrative price fixing

By administrative price fixing, the authorities of the importing country take into account the domestic prices of the producer or consumer, establish floor and ceiling price limits; or revert to determined international market values. Various terms are used, depending on the country or sector, to denominate the different administrative price fixing methods, such as official prices, minimum import prices or basic import prices.

3200 Voluntary export price restraint

A restrain arrangement in which the exporter agrees to keep the price of his goods above a certain level.

3300 Variable charges

Variable charges bring the market prices of imported agricultural and food products close to those of corresponding domestic products, in advance, for a given period of time, and for a pre-established price. These prices are known as reference prices, threshold prices or trigger prices. Primary commodities may be charged per total weight, while charges on processed foodstuffs can be levied in proportion to the primary product contents in the final product. In the case of the European Union, the charges applied to primary products as such are called variable levies and those as part of a processed product, variable components.

3400 Antidumping measures

Antidumping measures may be taken after an investigation by the investigation authority of the importing country has led to a determination of dumping and material injury resulting there from. It is considered that dumping takes place when a product is introduced into the commerce of an importing country at less than its normal value, i.e. if the export price of the product exported is less than the comparable price, in the ordinary cause of trade for the like product when destined for consumption in the exporting country. Antidumping measures may take the form of antidumping duties or of price undertakings.

3410 Antidumping investigations

Antidumping investigations into dumping and injury are conducted by the investigating authority of the importing country in accordance with the provisions of Article VI of the GATT Antidumping Code. During the period of investigations, provisional antidumping measures may be applied.

3420 Anti-dumping duties

Duties levied on certain goods origination from (a) specific trading partner(s) to offset the dumping margin. Duty rates are generally enterprise-specific.

3430 Antidumping price undertakings

Undertaking may be offered by exporters to avoid the imposition of antidumping duties. They may be accepted by the investigating authority of the importing country if the exporter is prepared to revise his prices of ceases to export at dumped prices so that the injurious effect of the dumping is eliminated.

3500 Countervailing measures

Countervailing measures may be taken after an investigation by the investigation authority of the importing country has led to a determination that the imported goods are benefiting from subsidies, and that they result in injury. Countervaling measures may take the form of countervailing duties or undertaking by the exporting firms or by the authorities of the subsidizing country.

3510 Countervailing investigations

Countervailing investigation on subsidization and injury are conducted by the investigation authority of the importing country in accordance with the provisions of Article VI of GATT and the GATT Subsidies Code.

3520 Countervailing duties

Duties levied on certain goods origination from (a) specific trading partners(s) to offset the amount of subsidization granted on the production or export of these goods.

3530 Countervailing undertakings

Undertaking may be offered by exporters or by the authorities of the exporting country to avoid the imposition of countervailing duties. Undertaking by the exporters may be accepted by the investigation authority of the importing country if the exporter is prepared to revise his prices or renounces the benefit of the subsidies so that the injurious effect of the subsidies is eliminated. Undertaking by the authorities of the exporting subsidizing country may be accepted by the investigating authority if the subsidizing country is prepared to eliminate or modify its subsidy practices so as to eliminate their injurious effect, or otherwise act to eliminate such injurious effect.

4. FINANCE MEASURES

Measures that regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase the import cost in a fashion similar to tariff measures.

4100 Advance payment requirements

Advance payment of the value of the import transaction and/or related import taxes, which is required at the moment of the application for, or the issuance of, the import license.

4110 Advance import deposits

Obligation to deposit a percentage of the value of the import transaction for a given time period in advance of the imports, with no allowance for interest to be accrued on the deposit.

4120 Cash margin requirement

Obligation to deposit the total amount corresponding to the transaction value, or a specified part of it, in a commercial bank, before the opening of a letter of credit; payment may be required in foreign currency.

4130 Advance payment of customs duties

Advance payment of the totality or a part of customs duties, with no allowance for interest to be accrued.

4170 Refundable deposits for sensitive product categories

The deposit refunds are charges, which are refunded when the used products or its containers are returned to a collection system.

4200 Multiple exchange rates

Varying exchange rates for imports, depending on the product category. Usually, the official rate is served for essential commodities while the other goods must be paid at commercial rates or occasionally by buying foreign exchange through auctions.

4300 Restrictive official foreign exchange allocation

Restrictive allocation of foreign exchange intended to control import flows, usually executed by the central bank in the form of permits, visas, authorizations, etc. Sometimes takes the form of prohibition of foreign exchange allocation.

4500 Regulations concerning terms of payment for imports

Special regulations regarding the terms of payment of imports and the obtaining and use of credit (foreign or domestic) to finance imports.

4600 Transfer delays, queuing

Minimum permitted delays between the date of delivery of goods and that of final settlement of the import transaction (usually 90, 180, or 360 days for consumer goods and industrial inputs and two to five years for capital goods). Queuing takes place when the prescribed delays cannot be observed because of foreign exchange shortage, and transactions are settled successively after a longer waiting period.

5. AUTOMATIC LICENSING MEASURES

Measures of a formal character only, which do not involve a restriction.

5100 Automatic license

Freely granted approval of the application for imports. Sometimes also referred to as the open general or liberal license.

5200 Import monitoring

Monitoring of the import trends of specified products, sometimes through inscription in a register. It may be applied with the purpose of signaling concern over import surges and to persuade trading partners to reduce export growth. It may also be applied for environment purposes. Sometime it is a precursor to import restraints.

Measures intended to restrain the quantity of imports of any particular good, from all sources or from specified sources of supply, either through restrictive licensing, fixing of a predetermined quota or through prohibitions.

6100 Non-automatic licensing

The practice to require, as a prior condition to importation, an import license, which is not granted automatically. The license may either be issued on a discretionary basis or may depend on specific criteria.

6110 License with no specific ex-ante criteria

License depending on the judgment of the issuing authority, sometimes also referred to as a discretionary license.

6120 License for selected purchasers

License issued on certain goods only to specific categories of importers, e.g. manufacturers, service industry, governmental departments, etc. The purpose is to limit imports by restraining direct consumption while providing the local processing industry with the necessary inputs.

6130 License for specific use

License limited to operations generating anticipated benefit in important domains of the economy, such as export production, investment projects, etc.

6140 License linked with local production

Compulsory linkage of imports with local market outputs.

6141 Purchase of local goods

License granted under the condition of the purchase of a share of locally produced goods, which are similar to the imported goods.

6142 Local content requirement

License granted under the condition that a certain product would include a specific percentage of local inputs.

6143 Barter or counter trade

Swap of goods in kind.

6150 License linked with non-official foreign exchange

License granted if official foreign exchange is not required. This case included imports under technical assistance projects and other sources of external foreign exchange, as well as imports paid from the importer's own foreign exchange holdings.

6160 License combined with or replaced by special import authorization

In addition to or instead of a license issued by the main licensing body (usually the ministry of trade) according to the above specified criteria (see 66ll0-6150) a special import authorization or an inscription in a register is required by a specialized authority which is coordinating a sector of the domestic economy (ministry of industry, ministry of agriculture, etc.).

6170 Prior authorization for sensitive product categories

Authorization or registered inscription required as a condition for undertaking imports of goods subject to health and safety regulations, provisions of international treaties on environmental and wildlife protection, etc.

6180 License for political reasons

Non-automatic license required as a result of political reasons, such as a UN economic sanction against a country.

6200 Quotas

Restriction of imports of specified products by setting a maximum quantity or value of goods authorized for import.

6210 Global quotas

Quotas of imports of specific products set as a total quantity or value. The quotas can be either unallocated, i.e. goods may be imported from all origins; or allocated by individual exporting countries. The global quotas may either be distributed among individual importers on a first-come, first-served basis or be allocated in advance to determined importers, often in proportion to their former performance.

6220 Bilateral quotas

Quotas of imports reserved for a specific country.

6230 Seasonal quotas

Quotas of imports for a given period of the year usually set for certain agricultural goods.

6240 Quotas linked with export performance

Quotas of imports defined as a percentage of the value of exported goods.

6250 Quotas linked with the purchase of local goods

Quotas defined as a percentage of the value of locally purchased goods similar to the imported articles.

6270 Quotas for sensitive product categories

Quotas determined for reasons of protection of human health, animal health and life or plant health, the environment, wildlife and to ensure human safety and to control drug abuse.

628C Quotas for political reasons

Quotas against imports from a particular country because of political reasons.

6300 Prohibitions

Unconditional interdiction to import. The so-called "prohibition with exceptions" is incorporated in the category of licensing which is relevant to the nature of the exception (see 6100).

6310 Total prohibition

Prohibition without further qualifications. This measure may be applied in order to utilize scarce foreign exchange resources exclusively for imports of essential goods or to protect domestic industry completely from foreign competition.

6320 Suspension of issuance of licenses

A form of de facto prohibition, usually applied for balance-of-payments problems, which are expected to be of a short-term character.

6330 Seasonal prohibition

Prohibition of imports for a given period of the year, usually applied to certain agricultural products.

6340 Temporary prohibition

Prohibition with decreed limited duration.

6350 Import diversification

Prohibition of imports of certain goods from countries with which the importing country remains in a significant trade deficit.

6360 Prohibition on the basis of origin (embargo)

Prohibition of imports from a country or group of countries, applied for political reasons.

6370 Prohibition for sensitive product categories

Product or country-oriented prohibition for reasons of protecting human health, animal health and life or plant health, the environment and wildlife, to control drug abuse or ensure human safety.

6600 Export restraint arrangements

By virtue of an export restraint arrangement between an importer an exporter, the latter agrees to limit exports in order to avoid imposition of mandatory restrictions by the importing country. The arrangement may be concluded at either government or industry level. These arrangements are known as voluntary export restraint arrangements (VERs). Orderly marketing arrangements, etc. They are generally concluded on goods such as iron and steel, machine tools, automobiles, road transport equipment, electronics, footwear, textiles and clothing as well as agricultural and food products. In addition to bilateral arrangement, there is also the Multilateral Multifibre Arrangement (MFA), officially known as "Arrangement Regarding International Trade in Textiles or Multifibre Arrangement", which was negotiated as a temporary exception to GATT, so as to regulate trade in textile products. Since its adoption in 1973, the MFA has been reviewed at intervals. The MFA provides the framework and rules for negotiating bilateral restraint agreements. An MFA quota agreement establishes an export quota with a growth rate. Quotas may be administered by either the importing or exporting country. Under an MFA consultation agreement, quotas are not set at the moment of signature but the agreement includes provisions for calls for consultation with a view to introducing restrictions in certain circumstances. An MFA administrative cooperation agreement includes previsions for administrative cooperation with a view to avoiding disruptions in bilateral trade.

6700 Enterprise-specific restrictions

These restrictions may replace the quantitative restrictions of a general character or may be applied parallel to them. They include such restrictions as selective approval of importers, limitations at the enterprise level resulting from the national import programme, value or quantity quotas for individual enterprises, etc.

7. MONOPOLISTIC MEASURES

Measures which create a monopolistic situation, by giving exclusive right to one or a limited group of economic operators, for either social, fiscal or economic reasons.

7100 Single channel for imports

All imports or imports of selected commodities have to be channeled through state-owned agencies or state-controlled enterprises. Sometimes the private sector may also be granted exclusive import rights.

7200 Compulsory national services

Government-sanctioned exclusive right of national insurance and shipping companies on all or a specified share of imports.

Measures referring to product characteristics such as quality, safety or dimensions including the applicable administrative provisions, terminology, symbols, testing and test methods, packaging, marking and labeling requirement as they apply to a product. The implementation of these measures by sensitive product categories can result in the application of one of the measures listed under codes ending in 71 to 79 (see previous footnote).

8100 Technical regulations

Regulations that provide technical requirements, either directly or by referring to or incorporating the content of a standard, technical specification or code of practice, in order to protect human life or health or to protect animal life or health (sanitary regulation); to protect wildlife; to ensure human safety; to ensure national security; to prevent deceptive practices.

The regulation may be supplemented by technical guidance that outlines some means of compliance with the requirements of the regulation, including administrative provisions for customs clearance, such as prior registration of the services in the country of origin of the goods. In certain cases, a prior recognition of the exporter or certificate issuing service by the importing country is also required.

8110 Product characteristics requirement

Technical specifications prescribing technical requirement to be fulfilled by a product.

8120 Marking requirements

Measures defining the information for transport and customs, that the packaging of goods should carry (country of origin, weight, special symbols for dangerous substances, etc.).

8130 Labeling requirements

Measures regulating the kind and size of printing on packages and labels and defining the information that may or should be provided to the consumer.

8140 Packaging requirements

Measures regulating the mode n which goods must be or cannot be packed, in conformity with the importing country handling equipment or for other reasons, and defining the packaging materials to be used.

8150 Testing, inspection and quarantine requirements

Compulsory testing of product samples by a designated laboratory in the importing country, inspection of goods by health authorities prior to release from customs or a quarantine requirement in respect of live animals and plants.

8160 Information requirements

Obligation to provide information relevant to environmental protection to a relevant body.

8200 Pre-shipment inspection

Compulsory quality, quantity and price control of goods prior to shipment form the exporting country, effected by an inspecting agency mandated by the authorities of the importing country. Price control is intended to avoid under invoicing and over invoicing, so that customs duties are not evaded or foreign exchange is not being drained.

8300 Special customs formalities

Formalities which are not clearly related to the administration of any measure applied by the given importing country such as the obligation to submit more detailed product information than normally required on the basis of a customs declaration, the requirement to use specific points of entry, etc.

8400 Obligation to return used products

Obligation of importer to take back a product after its use.

8500 Obligation of recycling or reuse

Measure prescribing a minimum percentage for the re-use or recycling of certain waste products or material.

9. MISCELLANEOUS MEASURES

Various measures for sensitive product categories not covered by the previous 8 specific measures.

9100 Marketable permits

Quantitative restrictions (e.g. quotas, import licenses, etc.) that is transferable between importers.

9200 Public procurement

Use of public procurement procedures to influence markets for sensitive product categories.

9300 Voluntary instruments

Instruments that attempt to obtain specific objectives with respect to a product through various ways of persuasion.

9310 Technical standards

Standards that provide technical regulations. These standards are the equivalent of the technical regulations (see 8100, above), but are not obligatory.

9311 Eco-labeling

Voluntary labeling informing the public that certain products are judged by a third party to be environmentally friendlier than others.

9320 Voluntary agreements or covenants

Agreements concluded between the government and an economic sector, whereby the later commits itself to achieve a specified policy objective regarding a sensitive product.

9400 Product liability

Principle that the producer importer or user of a product is liable for the damage the product might cause.

9500 Subsidies

Financial support by the government to producers with the purpose that the product meets certain pre-defined standards.

Annex C: Technical Notes

A. Nominal and Effective Rates of Protection

1. The Concept of Effective Rate of Protection

Countries such as Honduras apply tariffs to generate fiscal revenue and to protect industries from foreign competition. The measure of that protection is given by the nominal rate of protection (NRP), which measures the extent to which output prices can be raised by domestic firms relative to border prices under protection from foreign competition. In addition to the resource pull into protected sectors, there may be offsetting effects from tariffs on tradable inputs that artificially raise the input prices and the associated costs to firms in the protected sectors. The measure of the net effect of the resource pull and higher costs associated with a tariff schedule is given by the effective rate of protection (ERP), which measures the effect of a tariff schedule on the incentives to producers in an industry to expand or contract their activities relative to a situation of free trade. In contrast to the NRP, therefore, the ERP measures the effect on value-added of both the benefit from protection to an industry and the cost to it from the tariffs applied to its inputs.

2. Measuring the Effective Rate of Protection

The ERP for a product j is the percentage excess of domestic value added, *V*, over the international market value added, *W*, i.e., that value added that would have been realized in the absence of the existing tariff structure: $ERP_j = (V_j - W_j) / W_j$.. This measure is intuitively appealing insofar as it allows us to express the ERP in terms of border and domestic price equivalents for specific industries in Honduras.

Alternatively, we can measure the ERP as the difference between the tariff on the final product and the weighted sum of tariffs on inputs to the product. Formally, we denote the output tariff for industry j by t_j, the input tariff for tradable input i by t_i, and the amount of input i in a unit of product j by a_{ij}. The NRP is given by t_j (or in percentage, t_j x 100), while the ERP is given by $(t_j - \Sigma_i t_i a_{ij})/(1 - \Sigma_i a_{ij})$, where Σ_i denotes "summation" over i and the a_{ij} in the numerator corresponds to the tariff situation and in the denominator to free trade situation.

Ideally, the input-output coefficients would be measured with and without the current tariff distortions. As a practical matter, of course, free trade is not observable and so some adjustments must be made. This is done by recognizing that the observed unit-value input-output coefficient a_{ij}' – where " ' " denotes the tariff distorted situation – reflects the border price of input i inflated by a factor of $(1 + t_i)$ in the numerator and the border price of output j inflated by a factor of $(1 + t_j)$ in the denominator. Thus, the free

trade value of a_{ij} is recovered by multiplying the observable coefficient a_{ij}' by the adjustment factor $(1 + t_j)/(1 + t_i)$.

Using this alternative methodology, we can calculate the ERP in the following manner:

$$\text{Let} \quad W_j = P_j(1 - \Sigma_i a_{ij}')$$
$$V_j = P_j[(1+t_j) - \Sigma_i a_{ij}' (1+t_i)]$$

where:

a_{ij} = technical coefficient of input in activity *j*, i.e., the value of input *i* per unit value of output in activity *j*;
t_j = nominal rate of protection of production of *j*;
t_i = nominal rate of protection of input *i*.

Then we can express the level of effective protection as follows:

$$ERP_j = \{P_j[(1+t_j) - \Sigma_i a_{ij}' (1+t_i)] / P_j(1 - \Sigma_i a_{ij}')\} - 1$$

Rearranging terms yields the formula used to estimate the level of effective protection:

$$ERP_j = (t_j - \Sigma i a_{ij}' ti) / (1 - \Sigma_i a_{ij}')$$

$$= \{(1 - \Sigma a_{ij}')/([1/(1 + t_j)] - [\Sigma[a_{ij}'/(1 + t_i)]]\} - 1$$

The ERP can exceed, equal, or fall short of the NRP depending on whether input tariffs are lower or higher relative to the output tariff. A negative ERP suggests that an industry is being taxed more heavily on its inputs than its product.

B. Non-Tariff Measures

Non-tariff measures (NTMs) encompass a wide range of policies and instruments that are unrelated to tariffs and that affect the quantities and prices of both imports and exports. UNCTAD uses a coding system to classify over 100 NTMs, and omits measures applied to production or exports. Laird and Guzman (in Lord, 1998) classify NTMs into five broad categories according to the intended motives of the measures: (1) Import volume controls, (2) Import price controls, (3) Monitoring measures, (4) Production and export measures, and (5) Technical barriers. These categories are useful for the classification of NTMs currently in effect in Honduras.

The trade coverage ratio and frequency index are two types of measures that indicate the frequency or occurrence of NTMs. The *trade coverage ratio* measures the percentage of trade subject to NTMs for an industry *j* at a desired level of product aggregation: $C_{ij} = [\Sigma (D_{it}V_{iT})/(\Sigma V_{iT})] * 100$, where, if an NTM is applied to the tariff line item *i*, the dummy variable D_i takes the value of one and zero otherwise; V_i is the value of imports in item *i*;

t is the year of measurement of the NTM; and *T* is the year of the import weights.

The *frequency index* shows the percentage of import transactions covered by a selected group of NTMs for an industry, and is calculated as $Fjt = [\Sigma (D_{it}M_{it})/(\Sigma M_{it})] * 100$, where D_i reflects the presence of an NTM on the tariff line item, M_i indicates whether there are imports in industry *j* of good *i* and *t* is the year of measurement of the NTM.

The results of calculations of these types of measures over a period of time will likely show trends in whether or not the use of NTMs has increased or decreased, or whether their incidence is more concentrated in certain products or groups of products in an industry. However, there are a number of drawbacks associated with these measures (Deardorff and Stern, 1997): (a) shortcomings could arise from how NTMs are defined due their inconsistency in reporting and the level of aggregation used; (b) effects that might deter price and quantity decisions of importers are not taken into account; (c) NTMs are mainly border measures and therefore ignore the effects of internal governmental measures such as administrative procedures and monitoring measures; and (d) the ratios do not take into account the possible economic impact of NTMs on prices, production, consumption and international trade. Nevertheless, these frequency indices provide a useful approximation of the use of NTMs over time.

C. Anti-Export Bias

A tariff protects producers from foreign competition in the domestic market but not in the export market, where producers must sell their product at unprotected world market prices. In the ERP calculation, the tariff on a product (t_j) therefore becomes irrelevant. Producers must still, however, pay the higher tariff-inclusive input prices of the tradable inputs. The producers' costs are therefore driven up by the tariff structure, but with no offsetting increase in their output price in the foreign market. Under these conditions, the ERP is negative and export activity is discouraged in favor of the domestic market.

This so-called anti-export bias can be measured from the tariff-excluded price of the exported products and the tariff-inclusive price of inputs. The extent of tariff-induced bias against exports (denoted B_x) is calculated from the estimated use of the duty drawback system, which provides tariff refunds on imported inputs used in the production of exported products. The formula used to calculate the anti-export bias is $Bx_j = [(1 + t_j)/(1 + s_j) - 1] * 100$, where t_j is import tariff rate on the final product, and s_j is the export subsidy rate, or duty drawback per US dollar of export, calculated as ($NRP_i * m_{ij}$) where NRP_i is the nominal tariff rate on input *i*, m_{ij} is the technical coefficient of imported commodity *i* per US dollar worth of product *j*.

D. Real Effective Exchange Rate and Competitiveness

In general, the international competitiveness of exports from Honduras is reflected in its real exchange rate, which takes into account both the relative prices of domestic and foreign goods, and the nominal exchange rate. The real exchange rate is defined as:

$$e^r_t = (1/e^n)_t \, P^n_t/P^f_t$$

where e^n is the nominal exchange rate, P^f is the foreign currency price of goods purchased abroad, and P is the domestic price level. A rise in e^r represents a real *revaluation* in a fixed exchange rate system, and an *appreciation* in a flexible exchange rate system, which can be brought about by either a fall in the nominal exchange rate e^n, or a rise in the relative price of domestic goods (equivalent to a relative rise in the price of foreign goods). Conversely, a fall in e^r represents a real *devaluation* under a fixed exchange rate system, and an *depreciation* under a flexible exchange rate system. The fall is associated with either a rise in the nominal exchange rate e^n or a rise in relative prices of foreign goods (equivalent to a fall in relative prices of domestic goods). The inverse of the real exchange rate therefore measures export competitiveness, since variations in e^r influence the quantity of goods demanded in the foreign markets relative to competing foreign and domestic suppliers to those markets.

Annex D: Meetings Conducted

Mr. Oswaldo Kafati, Minister	Ministry of Industry and Trade
Mr. Reinaldo Osario, General Director	Sub-Secretariat of Economic Integration and Trade Policy, Ministry of Industry and Trade
Ms. Gerónomia Orbina, Deputy Director	Sub-Secretariat of Economic Integration and Trade Policy, Ministry of Industry and Trade
Ms. Siomara Majon, Deputy Director	Sub-Secretariat of Economic Integration and Trade Policy, Department of Investment and Sectoral Policies, Ministry of Industry and Trade
Ms. Gladys Cobar Escobar, Technician	Sub-Secretariat of Economic Integration and Trade Policy, Treaty Administration Department, Dispute Settlement Area, Ministry of Industry and Trade
Ms. Suyapa Andino, Coordinator	Sub-Secretariat of Economic Integration and Trade Policy, Department of Trade Negotiations, Ministry of Industry and Trade
Ms. Marta Daisy Alvarado, Coordinator	Sub-Secretariat of Economic Integration and Trade Policy, Department of Trade Practices, Ministry of Industry and Trade
Mr. Marlo Ramírez, Assistant to the Director	Sub-Secretariat of Economic Integration and Trade Policy, Department of Economic Integration, Ministry of Industry and Trade
Mr. Camilo Bendeck, General Director	Sub-Secretariat of Economic Integration and Trade Policy, General Department of Intellectual Property, Ministry of Industry and Trade
Ms. Concepción Mejía, General Director	Sub-Secretariat of Economic Integration and Trade Policy, General Department of Business Management, Ministry of Industry and Trade
Mr. Jaime Navarro, Director	Sub-Secretariat of Business Development and International Trade, General Department of Productive Sectors, Ministry of Industry and Trade
Mr. Rufo Paredes, President	Sub-Secretariat of Business Development and International Trade, Inter-Institutional Commission on Standardization, Ministry of Industry and Trade
Mr. Jose Ramírez Ms. Castillo	Sub-Secretariat of Business Development and International Trade, General Department of Consumer Protection, Ministry of Industry and Trade
Mr. Jaime Salinas, Director	Management Planning and Evaluation Unit (UPPEG), Ministry of Agriculture and Livestock
Ms. Carmen Cordoba, Ms. Lucia Hernández Mr. Henri Espinal	Customs Operations, Customs Administration Director, Valuation, Customs Administration
Mr. Feliciano Herrera, Director Mr. Mario Martínez, Market Access Specialist	Ministry of Finance, Management Planning and Evaluation Unit

Ms. Norma Samra, General Director	External Promotion and International Management, Ministry of Foreign Affairs
Mr. David C. Wolfe, Economics Officer	Emabassy of the United States
Ms. Melissa Zellner, Economics Officer	Emabassy of the United States
Mr. José Enrique Mejia Ucles, Consultant	Honduran Private Sector Council (COHEP)
Mr. Sergio Evenor Bonilla, President Mr. José Danilo Romero, Executive Director	Federación de Cámaras de Comercio e Industrias de Honduras (FEDECAMARA)
Mr. Mario Pérdomo, Technical Manager Mr. Enrique Gil-Robles, Co-Director	Chamber of Commerce, San Pedro Sula European Union Program for Chamber of Commerce, San Pedro Sula
Mr. Medardo Galindo, General Manager	Federation of Agro-Exporters of Honduras (FPX)
Mr. Leonel Lacayo, General Manager	UNIMERC
Mr. Jesús Cannahuati, President Mr. Henry Fransen, Executive Director	Honduran Apparel Manufacturers' Association Honduran Apparel Manufacturers' Association
Mr. Anzony Gómez, Operations Manager	Standeze Honduras, SA and trade negotiator for plastics companies
Mrs. Alma Rodas de Fiallos, President	Association of Mango Producers of Honduras

Appendix Tables

Appendix Table A.1
Honduras: Exports by Groups of Products, 1997-99
(Million US dollars)

HS 2-Digit Code	Product	1997	1998	1999
1	Live animals	227,633	955,917	368,611
2	Meat and edible meat offal	5,334,019	3,407,705	1,988,784
3	Fish and crustaceans, molluscs and other invertebrates	55,556,505	39,842,727	26,112,404
4	Dairy produce; birds' eggs; natural honey	1,343,479	2,736,275	3,003,938
5	Products of animal origin, not elsewhere specified or included	119,726	48,513	54,456
6	Live trees and other plants	1,226,916	2,838,018	1,268,352
7	Edible vegetables and certain roots and tubers	4,598,077	8,788,959	10,932,315
8	Edible fruit and nuts	178,421,349	166,778,038	57,753,008
9	Coffee, tea, mate and spices	363,923,137	432,586,023	261,271,022
10	Cereals	197,663	2,568,108	579,731
11	Products of the milling industry	29,026	379,661	347,014
12	Oil seeds and oleaginous fruits	1,539,280	1,700,720	1,685,049
13	Lac; gums, resins and other vegetable saps and extracts	1,048,856	902,664	336,353
14	Vegetable plaiting materials	116	367	7,741
15	Animal or vegetable fats and oils	1,794,420	35,591,082	15,970,031
16	Preparations of meat, of fish or of crustaceans, mollases	.	16,771	21,997
17	Sugars and sugar confectionery	16,072,111	14,086,499	7,432,747
18	Cocoa and cocoa preparations	4,261,917	5,684,765	2,952,172
19	Preparations of cereals, flour, starch or milk	254,099	2,698,541	2,301,815
20	Preparations of vegetables, fruit, nuts or other parts of plants	6,723,491	22,755,351	18,757,599
21	Miscellaneous edible preparations	949,644	9,056,696	4,181,436
22	Beverages, spirits and vinegar	208,579	151,266	283,949
23	Residues and waste from the food industries	264,949	962,674	564,886
24	Tobacco and manufactured tobacco substitutes	10,708,489	17,037,605	20,838,498
25	Salt; sulphur; earths and stone	183,111	1,152,024	1,020,369
26	Ores, slag and ash	29,163,377	13,742,374	4,369,182
27	Mineral fuels, mineral oils and products	867,840	1,871,794	1,447,731
28	Inorganic chemicals	164,056	1,747,766	4,185,264
29	Organic chemicals	274,800	316,911	379,446
30	Pharmaceutical products	1,178,702	2,112,486	2,027,116
31	Fertilizers	365,564	221,418	86,308
32	Tanning or dyeing extracts	346,236	6,402,353	5,756,954
33	Essential oils and resinoids; cosmetic or toilet preparations	113,118	938,105	317,205
34	Soap, organic surface-active agents	5,595,941	30,292,432	12,683,052
35	Albuminoidal substances	8,704	1,314,211	236,337
36	Explosives; pyrotechnic products	541,158	1,752,823	1,098,448
37	Photographic or cinematographic goods	25,168	3,593	11,736
38	Miscellaneous chemical products	3,322,692	2,353,804	3,139,494
39	Plastics and articles thereof	3,341,472	9,121,346	6,446,314
40	Rubber and articles thereof	262,006	881,707	897,368
41	Raw hides and skins and leather	477,398	785,458	812,848
42	Articles of leather	196,564	103,424	40,241
43	Furskins and artificial fur	238,267	2,269	.
44	Wood and articles of wood	34,686,402	39,721,231	52,879,765
45	Cork and articles of cork	.	.	.
46	Manufactures of straw	58,928	469,521	251,176
47	Pulp of wood or of other fibrous cellulosic material	75,112	474,423	627,545
48	Paper and paperboard	6,521,062	17,921,663	6,760,041
49	Printed books, newspapers, pictures and other products of the printing industry	15,750	166,480	212,380
50	Silk	30,520	24,827	.
51	Wool, fine and coarse animal hair	255,519	97,929	302
52	Cotton	1,291,878	1,658,106	450,798
53	Other vegetable textile fibre	5,059	6,867	9,638
54	Man-made filaments	73,005	310,129	322,764

(Continued)

Appendix Table A.1 (Continued)
Honduras: Exports by Groups of Products, 1997-99 (Million US dollars)

HS 2-Digit Code	Product	1997	1998	1999
55	Man-made staple fibres	458,338	1,996,962	428,049
56	Wadding, felt and nonwovens	177,673	381,335	392,823
57	Carpets and other textile floor-coverings	.	2,949	207
58	Special woven fabrics	5,765	50,577	181,330
59	Impregnated, coated, covered or laminated textile fabrics	833,487	1,944,861	1,901,787
60	Knitted or crocheted fabrics	4,360	44,469	17,580
61	Articles of apparel and clothing accessories, knitted or crocheted	2,232,753	3,949,215	4,028,364
62	Articles of apparel and clothing accessories, not knitted or crocheted	636,101	893,775	881,737
63	Other made up textile articles	43,473	1,561,974	764,829
64	Footwear, gaiters and the like	416,228	787,021	744,905
65	Headgear and parts thereof	11,443	65,822	92,935
66	Umbrellas and parts thereof	.	.	375
67	Prepared feathers and down	.	40	.
68	Articles of stone, plaster, cement	730,508	2,489,548	1,389,186
69	Ceramic products	1,322,026	929,236	1,653,108
70	Glass and glassware	127,899	323,032	428,316
71	Natural or cultured pearls, precious stones, precious metals	790,595	108,846	2,631,633
72	Iron and steel	978,621	5,258,402	4,553,757
73	Articles of iron or steel	1,519,749	6,270,290	3,056,786
74	Copper and articles thereof	55,244	106,694	1,386
75	Nickel and articles thereof	.	.	.
76	Aluminum and articles thereof	1,428,195	4,870,731	5,708,828
78	Lead and articles thereof	11,010	170,301	128,876
79	Zinc and articles thereof	13,358	78,983	21,543
80	Tin and articles thereof	.	.	.
81	Other base metals	7,132	1,351	.
82	Tools, implements, cutlery, spoons, forks of base metal	136,624	419,981	193,231
83	Miscellaneous articles of base metal	521,850	462,646	250,193
84	Nuclear reactors, boilers, machinery and mechanical appliances	2,002,102	3,256,571	6,413,197
85	Electrical machinery and equipment	1,976,905	6,030,066	4,305,410
86	Railway or tramway locomotives, rolling-stock and parts thereof	153,622	60,419	95,629
87	Vehicles and parts	1,825,933	2,004,031	890,873
88	Aircraft, spacecraft, and parts thereof	335,273	54,715	45,020
89	Ships, boats and floating structures	3,469	19,201	32,286
90	Optical, photographic instruments, etc.	391,918	60,576	54,753
91	Clocks and watches and parts thereof	.	16,395	53
92	Musical instruments	25	132,959	1,559
93	Arms and ammunition	1,984	3,000	2,327
94	Furniture; bedding and the like	18,453,054	20,797,295	16,060,038
95	Toys, games and sports requisites	108,432	313,112	272,800
96	Miscellaneous manufactured articles	82,340	258,719	116,824
97	Work of art, collectors' pieces and antiques	37,233	8,601	14,624
98	Special Classification Provisions, NES	559	79,705	100
99	Special Import Provisions, NES	364,473	346,888	121,203
TOTAL		**782,682,644**	**974,153,713**	**603,362,190**

Source: Cortes Chamber of Commerce.

Appendix Table A.2
Honduras: Imports by Groups of Products, 1997-99
(Million US dollars)

Code	Product	1997	1998	1999
1	Live animals	4,621,138	3,752,437	3,719,369
2	Meat and edible meat offal	8,025,270	6,010,570	9,113,691
3	Fish and crustaceans, mollusks	4,847,332	9,605,543	8,828,995
4	Dairy produce; birds' eggs; natural honey	36,669,697	36,344,157	48,963,901
5	Products of animal origin, nes	721,035	559,848	294,448
6	Live trees and other plants	372,687	290,774	1,554,620
7	Edible vegetables and certain roots and tubers	4,739,128	5,662,444	6,819,535
8	Edible fruit and nuts	5,538,210	3,144,746	6,733,507
9	Coffee, tea, mate and spices	1,053,365	1,117,669	1,368,844
10	Cereals	108,779,121	35,475,606	72,779,855
11	Products of the milling industry	11,332,255	10,675,428	15,247,025
12	Oil seeds and oleaginous fruits	4,700,092	4,615,411	5,924,705
13	Lac; gums, resins and other vegetable soaps	1,562,169	1,451,888	1,343,013
14	Vegetable plaiting materials	433,787	355,334	350,814
15	Animal or vegetable fats and oils	16,014,002	16,306,645	22,424,515
16	Preparations of meat, of fish	5,234,169	6,223,305	12,648,130
17	Sugars and sugar confectionery	6,613,599	6,719,931	20,362,197
18	Cocoa and cocoa preparations	2,272,899	2,274,784	2,880,138
19	Preparations of cereals, flour, starch or milk	34,739,483	32,539,224	44,587,192
20	Preparations of vegetables, fruit, nuts	17,069,109	13,127,582	22,255,499
21	Miscellaneous edible preparations	61,907,584	53,937,328	77,512,390
22	Beverages, spirits and vinegar	8,787,815	7,442,995	12,999,496
23	Residues and waste from the food industries	41,855,745	20,341,386	34,666,154
24	Tobacco and manufactured tobacco substitutes	55,467,553	39,006,243	13,917,745
25	Salt; sulphur; earths and stone	3,817,348	3,620,771	6,951,710
26	Ores, slag and ash	41,040	35,767	103,882
27	Mineral fuels, mineral oils and products	252,185,003	162,212,281	246,211,635
28	Inorganic chemicals	21,093,637	19,396,201	26,784,767
29	Organic chemicals	24,355,032	18,284,810	19,057,471
30	Pharmaceutical products	71,617,957	75,386,911	109,320,425
31	Fertilizers	43,124,494	24,971,571	39,892,232
32	Tanning or dyeing extracts	19,746,951	18,299,795	21,844,003
33	Essential oils and resinoids; perfumery cosmetic	23,563,028	21,694,703	33,001,622
34	Soap, organic surface-active agents	14,071,057	13,686,896	22,225,868
35	Albuminoidal substances	3,918,348	3,204,162	4,823,209
36	Explosives; pyrotechnic products	1,542,416	1,896,729	1,641,599
37	Photographic or cinematographic goods	5,834,266	3,355,539	5,310,535
38	Miscellaneous chemical products	50,613,640	47,367,567	54,987,713
39	Plastics and articles thereof	101,578,644	85,637,594	111,034,076
40	Rubber and articles thereof	38,083,419	35,742,645	38,196,608
41	Raw hides and skins and leather	1,956,995	1,278,033	878,829
42	Articles of leather	2,922,069	2,574,289	4,987,012
43	Furskins and artificial fur	38,321	7,189	19,701
44	Wood and articles of wood	43,028,046	8,773,466	9,551,011
45	Cork and articles of cork	241,282	156,452	33,348
46	Manufactures of straw	38,557	42,580	115,751
47	Pulp of wood or of other fibrous cellulosic material	1,795,729	1,873,958	957,765
48	Paper and paperboard	105,599,383	93,022,967	104,750,484
49	Printed books, newspapers, pictures	11,117,230	12,179,604	17,271,500
50	Silk	42,351	734	6,557
51	Wool, fine and coarse animal hair	95,490	37,249	38,265
52	Cotton	22,806,198	11,071,186	10,996,071
53	Other vegetable textile fibre	657,521	516,745	996,160
54	Man-made filaments	7,149,575	6,130,720	7,218,144

Appendix Table A.2 (Continued)
Honduras: Imports by Groups of Products, 1997-99
(Million US dollars)

Code	Product	1997	1998	1999
55	Man-made staple fibres	18,347,072	13,659,210	11,430,290
56	Wadding, felt and nonwovens	3,717,513	2,156,427	3,202,741
57	Carpets and other textile floor-coverings	639,945	697,416	1,234,697
58	Special woven fabrics	7,016,035	4,854,971	5,606,131
59	Laminated textile fabrics	3,002,640	2,806,754	2,454,497
60	Knitted or crocheted fabrics	7,916,564	6,283,544	5,984,215
61	Articles of apparel and clothing accessories	50,905,053	28,576,331	28,147,970
62	Articles of apparel and clothing accessories	51,181,264	37,709,272	48,919,232
63	Other made up textile articles	18,623,694	11,656,583	12,859,733
64	Footwear, gaiters and the like	12,773,198	10,424,120	14,841,633
65	Headgear and parts thereof	450,537	305,878	435,662
66	Umbrellas and parts thereof	629,540	371,016	685,670
67	Prepared feathers and down	440,591	402,391	441,402
68	Articles of stone, plaster, cement	7,155,285	5,358,537	10,223,347
69	Ceramic products	12,024,901	10,565,221	13,913,488
70	Glass and glassware	22,217,079	22,957,891	20,435,605
71	Natural or cultured pearls, precious stones	1,654,693	1,568,025	3,519,980
72	Iron and steel	76,098,621	64,457,569	67,840,299
73	Articles of iron or steel	39,875,913	38,127,588	59,056,951
74	Copper and articles thereof	2,599,157	1,902,787	2,139,094
75	Nickel and articles thereof	16,335	28,172	31,147
76	Aluminum and articles thereof	32,008,671	29,459,564	37,577,505
78	Lead and articles thereof	593,018	228,190	253,546
79	Zinc and articles thereof	3,691,079	2,433,082	2,773,316
80	Tin and articles thereof	134,613	66,049	145,928
81	Other base metals	23,154	128,070	22,907
82	Tools, implements, cutlery, spoons base metal	14,369,544	13,380,237	17,019,151
83	Miscellaneous articles of base metal	14,630,248	13,626,409	17,206,085
84	Nuclear reactors, boilers, machinery	276,264,632	256,634,711	327,423,912
85	Electrical machinery and equipment	120,228,961	135,375,222	205,846,290
86	Railway or tramway locomotives, rolling-stock	685,934	388,444	280,876
87	Vehicles and parts	231,420,950	249,863,494	293,793,320
88	Aircraft, spacecraft, and parts thereof	1,337,287	623,442	891,113
89	Ships, boats and floating structures	764,861	1,039,643	1,436,509
90	Optical, photographic instruments, etc.	30,839,121	21,599,349	31,606,185
91	Clocks and watches and parts thereof	1,663,852	1,558,864	1,678,501
92	Musical instruments	770,539	679,711	1,280,446
93	Arms and ammunition	726,902	923,259	3,059,856
94	Furniture; bedding and the like	19,675,593	16,980,944	28,018,492
95	Toys, games and sports requisites	13,405,447	10,289,267	11,375,427
96	Miscellaneous manufactured articles	9,973,544	7,727,053	10,213,539
97	Work of art, collectors' pieces and antiques	190,434	88,377	270,012
98	Special Classification Provisions, NES	121,118	98,041	8,252
99	Special Import Provisions, NES	2,055,021	1,591,142	2,221,576
TOTAL		**2,428,892,424**	**2,019,092,659**	**2,654,310,259**

Source: Cortes Chamber of Commerce.

Appendix Table A.3
Honduras: Exports of Major Products, 1990-99
(Million US dollars and thousands of units)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p/
BANANA										
Value	357.9	314.4	256.3	225.6	155.1	214.2	279.8	212.0	175.7	37.7
Volume Boxes 40 Lbs.	42,321	38,325	40,933	36,324	26,824	31,726	38,748	33,126	28,234	6,750
Price	8.46	8.21	6.26	6.21	5.78	6.75	7.22	6.40	6.22	5.58
COFFEE										
Value	180.9	145.9	147.6	124.6	200.1	349.3	278.9	326.3	429.8	256.1
Volume Bags 60 Kgs.	1,735	1,444	1,961	1,705	1,718	1,796	2,060	1,722	2,330	1,986
Price	104.25	101.00	75.31	73.06	116.45	194.47	135.38	189.46	184.49	128.92
Volume Bags 46 Kgs.	2,264	1,883	2,556	2,225	2,241	2,343	2,687	2,246	3,039	2,591
Price	79.93	77.52	57.78	56.01	89.28	149.10	103.79	145.31	141.44	98.84
WOOD										
Value	16.1	15.3	15.6	21.9	21.3	19.0	21.7	19.5	16.4	12.6
Volume P.T.	36,868	30,627	33,690	36,387	32,282	28,654	30,111	25,658	24,531	17,500
Price	0.44	0.49	0.46	0.60	0.66	0.66	0.72	0.76	0.67	0.72
MEAT, REFRIGERATED										
Value	25.3	31.4	37.0	39.6	39.0	13.0	11.0	11.0	4.0	2.3
Volume Kilos	11,463	14,154	16,523	16,886	16,248	5,967	5,900	5,473	1,792	1,223
Price	2.21	2.22	2.24	2.35	2.40	2.18	1.87	2.01	2.21	1.92
SILVER										
Value	4.7	4.3	5.2	3.5	4.4	5.5	4.7	6.5	7.8	5.4
Volume Troy Ounces	1,034	1,115	1,374	855	866	1,114	945	1,434	1,525	1,085
Price	4.57	3.83	3.75	4.12	5.02	4.93	5.02	4.52	5.14	4.94
LEAD										
Value	4.2	3.3	7.9	1.8	1.7	1.8	2.7	4.6	3.2	2.6
Volume Pounds	12,339	12,741	29,749	7,828	6,349	5,774	7,423	13,624	10,365	8,633
Price	0.34	0.26	0.27	0.23	0.27	0.30	0.36	0.34	0.31	0.30
ZINC										
Value	46.4	36.3	35.7	23.0	21.1	27.1	25.7	53.8	36.3	39.4
Volume Pounds	69,226	74,161	70,272	58,497	51,408	63,160	61,543	96,572	85,659	74,197
Price	0.67	0.49	0.51	0.39	0.41	0.43	0.42	0.56	0.42	0.53
SUGAR										
Value	12.4	8.4	5.4	5.2	4.8	6.8	9.5	12.1	10.2	5.3
Volume Kilos	27,111	20,053	12,829	11,637	9,634	13,292	19,343	24,862	21,033	10,509
Price	0.46	0.42	0.42	0.45	0.50	0.51	0.49	0.49	0.48	0.50
SHRIMP, FARMED										
Value	29.0	43.2	53.3	100.5	106.7	93.9	124.6	130.8	135.9	130.3
Volume Kilos	3,323	4,675	5,966	9,092	8,190	6,962	9,296	9,083	10,037	9,411
Price	8.73	9.25	8.93	11.05	13.03	13.48	13.40	14.42	13.54	13.85
LOBSTERS										
Value	29.6	38.7	32.4	26.8	31.9	34.1	35.0	28.2	31.8	39.5
Volume Kilos	1,792	2,231	1,697	1,188	1,045	1,066	1,082	866	968	1,200
Price	16.54	17.35	19.14	22.56	30.53	32.00	32.38	32.54	32.80	32.93
TOBACCO										
Value	2.5	2.1	4.1	6.4	5.8	5.5	5.3	7.3	8.6	10.5
Volume Kilos	1,221	1,188	1,869	2,858	2,572	2,394	2,322	2,438	2,729	3,750
Price	2.07	1.78	2.16	2.22	2.25	2.30	2.29	2.98	3.16	2.80
MELON										
Value	6.6	12.8	10.8	19.6	24.2	25.4	30.9	39.3	43.8	47.0
Volume Kilos	38,301	42,216	44,958	67,719	83,420	68,718	79,312	98,193	109,603	111,795
Price	0.17	0.30	0.24	0.29	0.29	0.37	0.39	0.40	0.40	0.42
PINEAPPLE										
Value	12.2	12.8	20.1	21.2	19.7	21.5	18.1	18.4	18.5	19.2
Volume Kilos	45,350	53,171	51,248	54,339	50,420	53,835	43,034	42,695	43,096	43,527
Price	0.27	0.24	0.39	0.39	0.39	0.40	0.42	0.43	0.43	0.44
SOAP AND Detergents										
Value	2.5	5.0	7.7	8.3	10.4	26.3	34.1	36.9	37.2	38.7
Volume Kilos	5,263	8,705	11,256	13,430	16,747	31,402	40,118	42,900	43,256	44,527
Price	0.48	0.58	0.69	0.61	0.62	0.84	0.85	0.86	0.86	0.87
SUB-TOTAL	**730.3**	**673.9**	**639.1**	**628.0**	**646.2**	**843.4**	**882.0**	**906.7**	**959.2**	**646.6**
Other Products	93.6	107.5	146.8	221.9	292.4	346.2	415.4	518.9	596.6	578.8
TOTAL	**823.9**	**781.4**	**785.9**	**849.9**	**938.6**	**1,189.6**	**1,297.4**	**1,425.6**	**1,555.8**	**1,225.4**

p/ Preliminary
Source: Central Bank of Honduras.

Appendix Table A.4
Honduras: Exports by Destination, 1997-99
(Million US dollars)

	1997	1998	1999
TOTAL	**1,073,595**	**1,206,518**	**761,230**
North America	**765,277**	**753,054**	**439,288**
UNITED STATES	757,744	743,388	436,201
MEXICO	2,056	6,239	1,347
CANADA	5,476	3,427	1,740
CACM	**33,178**	**186,586**	**150,939**
GUATEMALA	7,241	57,926	58,641
EL SALVADOR	11,268	72,140	76,779
COSTA RICA	8,113	12,704	5,808
NICARAGUA	6,555	43,816	9,711
Other LA Countries	**10,426**	**13,081**	**13,413**
PANAMA	4,472	6,103	3,203
VENEZUELA	948	1,123	-
BRAZIL	70	222	76
COLOMBIA	791	578	1,650
NETHERLANDS ANTILLES	414	100	342
TRINIDAD AND TOBAGO	748	1,971	3,484
ECUADOR	185	79	8
DOMINICAN REPUBLIC	2,233	2,736	4,177
CHILE	555	159	95
ARGENTINA	11	11	378
European Union	**212,174**	**178,309**	**105,098**
GERMANY	86,750	59,885	34,917
SPAIN	24,456	19,246	13,891
NETHERLANDS	10,859	12,730	11,214
FRANCE	11,593	9,642	7,080
ITALY	22,596	10,309	9,299
BELGIUM	15,093	32,645	9,599
UNITED KINGDOM	29,905	23,388	10,715
FINLAND	5,426	2,542	3,346
DENMARK	597	1,043	1,955
IRELAND	1,986	537	977
SWEDEN	127	3,542	877
PORTUGAL	1,796	2,779	1,189
AUSTRIA	988	-	27
GREECE	-	22	12
Other Countries	**1,620**	**2,459**	**1,368**
SWITZERLAND	1,618	2,458	1,368
NEW ZEALAND	2	1	0
Middle East	**987**	**1,141**	**367**
EGYPT	109	-	-
ISRAEL	879	1,141	367
Asia	**38,796**	**44,216**	**32,515**
JAPAN	26,063	35,468	26,307
CHINA,P.R.: MAINLAND	112	996	315
TAIWAN PROV.OF CHINA	198	244	128
KOREA	10,478	7,236	5,666
CHINA,P.R.:HONG KONG	1,926	156	100
INDIA	7	-	-
INDONESIA	11	117	-
Rest of World	11,136	27,671	18,243

Source: Ministry of Industry and Trade.

Appendix Table A.5
Honduras: Imports by Origin, 1997-99
(Million US dollars)

	1997	1998	1999
TOTAL	**2,662,781**	**3,736,593**	**2,662,062**
North America	**1,598,962**	**2,628,292**	**1,447,243**
UNITED STATES	1,484,805	1,386,431	1,294,593
MEXICO	107,272	1,230,605	136,656
CANADA	6,885	11,255	15,994
CACM	**349,324**	**421,165**	**432,706**
GUATEMALA	157,109	205,944	203,467
EL SALVADOR	116,394	129,854	161,365
COSTA RICA	54,754	69,181	53,961
NICARAGUA	21,067	16,187	13,914
Other LA Countries	**417,105**	**277,099**	**338,539**
PANAMA	68,604	99,967	113,956
VENEZUELA	271,124	51,062	85,566
BRAZIL	21,483	82,655	30,871
COLOMBIA	11,722	16,754	27,998
NETHERLANDS ANTILLES	7,853	5,872	26,680
TRINIDAD AND TOBAGO	11,713	2,052	22,416
ECUADOR	1,547	1,563	10,984
DOMINICAN REPUBLIC	12,900	6,998	6,072
CHILE	4,997	7,040	9,615
ARGENTINA	5,163	3,137	4,382
European Union	**93,932**	**174,937**	**189,097**
GERMANY	22,300	34,049	46,353
SPAIN	20,469	30,204	30,599
NETHERLANDS	6,580	35,175	27,617
FRANCE	5,928	18,082	25,458
ITALY	13,595	15,205	22,306
BELGIUM	1,180	17,009	14,412
UNITED KINGDOM	14,004	17,149	12,091
FINLAND	153	313	894
DENMARK	1,965	1,041	2,241
IRELAND	3,964	2,372	2,917
SWEDEN	2,840	2,042	2,480
PORTUGAL	443	518	343
AUSTRIA	453	1,521	1,382
GREECE	59	256	4
Other Countries	**14,219**	**16,045**	**19,530**
SWITZERLAND	7,285	9,702	11,563
NEW ZEALAND	6,934	6,343	7,966
Middle East	**2,905**	**3,672**	**16,561**
EGYPT	-	65	11,629
ISRAEL	2,905	3,608	4,932
Asia	**105,786**	**168,297**	**163,383**
JAPAN	69,437	118,499	107,173
CHINA,P.R.: MAINLAND	10,594	18,203	16,151
TAIWAN PROV.OF CHINA	7,507	13,799	16,221
KOREA			6,107
CHINA,P.R.:HONG KONG	5,330	8,424	9,043
INDIA	2,003	4,137	5,410
INDONESIA	10,914	5,235	3,277
Rest of World	**80,548**	**47,085**	**1,919,074**

Source: Ministry of Industry and Trade.

Appendix Table A.6
Honduras: Balance of Payments, 1997-98
(Millions of US dollars)

		1997	1998
A	**CURRENT ACCOUNT**	-272.2	-332.9
A.0	Balance on Goods and NFS	-319.9	-349.1
A.1	Exports of Goods and NFS	2,191.4	2,386.5
A.2	Imports of Goods and NFS	-2,511.3	-2,735.6
1	**Trade Balance**	-293.9	-323.1
1a	Exports, FOB	1,856.5	2,016.5
1b	Imports, FOB	-2,150.4	-2,339.6
2	**Services, net**	-26.0	-26.0
2a	Receipts	334.9	370.0
2b	Payments	-360.9	-396.0
3	**Income, net**	-211.8	-175.7
3a	Receipts	70.0	90.5
3b	Payments	-281.8	-266.2
4	**Transfers, net**	259.5	191.9
4a	Receipts	306.8	268.6
4b	Payments	-47.3	-76.7
B	**CAPITAL ACCOUNT**	243.3	260.7
1	**Foreign Direct Investment, net**	121.5	84.0
1a	Direct Investment Abroad	-	-
1b	Direct Investment in Egypt	121.5	84.0
2	**Portfolio Investments, net**	0.0	-25.8
2a	Portfolio Investment Assets	-	-
2b	Portfolio Investment Liab., n.i.e.	-	-25.8
3	**Other Investments, net**	121.8	202.5
3a	Other Investment Assets	-53.4	-61.7
	Monetary Authorities	-	-
	General Government	-	-
	Banks	-53.4	-61.7
	Other Sectors	-	-
3b	Other Investment Liab., n.i.e.	175.2	264.2
	Monetary Authorities	-24.1	7.5
	General Government	-48.4	63.1
	Banks	113.8	73.1
	Other Sectors	133.9	120.5
C	**Errors and Omissions**	196.5	22.7
D	**OVERALL BALANCE**	167.6	-49.5
E	**FINANCING**	-182.2	1.9
	Reserve Assets	-307.9	-237.5
	Use of Fund Credit and Loans	-8.8	64.8
	Exceptional Financing	134.5	174.6

Source: IMF, *International Financial Statistics*.

Appendix Table A.7
Honduras: Real Cross Exchange Rate Indices, 1990-99
1994=100

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
TOTAL	118.9	118.7	119.1	109.3	100.0	111.0	108.4	115.1	122.7	123.5
North America	114.1	116.0	117.5	108.2	100.0	114.7	110.9	116.2	122.8	121.4
UNITED STATES	112.8	115.5	117.6	108.6	100.0	111.7	108.9	115.1	121.4	120.7
MEXICO	137.9	128.7	119.8	104.5	100.0	162.0	142.3	132.7	141.6	129.1
CANADA	92.9	92.2	100.5	100.1	100.0	112.9	110.8	120.0	136.4	136.4
CACM	147.3	134.9	133.2	115.4	100.0	105.9	99.4	101.2	106.8	113.0
GUATEMALA	147.8	129.9	127.9	116.5	100.0	106.8	101.2	99.9	106.2	118.8
EL SALVADOR	144.4	143.2	143.8	116.4	100.0	104.6	95.6	99.0	103.5	104.5
COSTA RICA	113.2	125.5	118.8	108.7	100.0	106.7	105.1	112.4	119.2	119.7
NICARAGUA	2092.2	121.4	106.1	105.1	100.0	115.4	114.1	122.6	131.1	134.1
Other LA Countries	114.7	113.9	116.4	105.8	100.0	109.1	110.7	112.6	116.8	125.2
PANAMA	104.4	109.9	113.3	107.2	100.0	113.8	112.7	120.4	128.2	128.9
VENEZUELA	122.9	118.3	113.7	104.3	100.0	85.5	100.8	85.4	75.5	68.7
BRAZIL	112.9	95.3	131.8	78.1	100.0	153.0	145.1	157.5	176.0	266.7
COLOMBIA	150.5	150.6	137.8	123.7	100.0	104.9	98.9	99.4	112.2	126.6
NETHERLANDS ANTILLES	109.6	112.4	116.0	108.0	100.0	111.6	108.0	112.6	116.4	114.0
TRINIDAD AND TOBAGO	92.4	95.0	93.6	107.5	100.0	110.2	110.5	117.2	118.2	119.6
ECUADOR	147.5	144.2	143.4	122.0	100.0	109.2	109.5	113.8	122.0	136.2
DOMINICAN REPUBLIC	131.7	124.6	124.7	112.2	100.0	106.8	103.8	108.6	118.2	121.5
CHILE	127.4	127.8	120.6	113.4	100.0	100.2	97.3	101.1	112.9	122.7
ARGENTINA	189.6	145.7	127.1	110.3	100.0	111.0	111.2	119.3	126.7	130.3
European Union	104.3	109.3	105.5	109.5	100.0	102.3	102.4	122.8	131.9	137.7
GERMANY	116.1	122.3	114.9	110.8	100.0	99.7	103.7	127.4	137.7	144.8
SPAIN	93.0	95.5	93.2	105.3	100.0	102.1	100.5	123.3	132.5	137.5
NETHERLANDS	111.5	118.5	113.3	110.9	100.0	99.3	102.5	125.5	134.0	139.0
FRANCE	106.9	114.6	110.2	109.7	100.0	101.4	102.1	124.5	133.9	141.0
ITALY	90.0	93.5	92.6	107.5	100.0	110.2	100.8	118.3	127.0	132.7
BELGIUM	110.4	116.7	112.5	112.0	100.0	99.7	103.2	127.1	137.0	143.4
UNITED KINGDOM	100.6	101.4	101.8	110.5	100.0	108.4	106.7	107.1	110.5	112.4
FINLAND	80.5	87.3	98.6	117.0	100.0	95.0	99.2	119.9	130.4	136.4
DENMARK	104.4	112.5	109.1	110.1	100.0	99.1	100.8	121.5	129.7	133.9
IRELAND	99.2	105.3	101.5	110.6	100.0	104.6	103.4	116.2	129.5	136.3
SWEDEN	91.2	90.9	89.8	109.1	100.0	103.5	97.2	119.1	133.0	139.9
PORTUGAL	116.0	112.7	101.4	107.8	100.0	100.4	99.7	120.0	128.5	133.3
AUSTRIA	111.9	118.9	113.4	110.6	100.0	99.7	103.2	127.2	137.2	144.6
GREECE	114.1	117.2	110.9	110.9	100.0	100.7	97.3	113.2	125.6	129.0
Other Countries	112.7	118.3	122.4	116.5	100.0	99.1	98.9	118.9	136.9	141.5
SWITZERLAND	115.9	120.6	119.3	115.4	100.0	97.5	101.5	128.3	137.2	143.3
NEW ZEALAND	107.8	115.0	127.2	118.3	100.0	101.4	95.0	104.7	136.5	138.7
Middle East	128.9	127.9	125.6	113.1	100.0	105.0	99.2	103.0	109.3	110.8
EGYPT	139.6	137.2	132.8	114.0	100.0	105.4	98.9	100.7	103.3	101.7
ISRAEL	110.4	111.9	113.2	111.7	100.0	104.4	99.8	106.9	119.8	126.5
Asia	132.3	131.6	129.2	111.2	100.0	105.0	113.6	131.6	157.3	142.2
JAPAN	150.8	145.0	140.6	116.0	100.0	105.7	122.5	144.9	167.0	148.1
CHINA,P.R.: MAINLAND	86.4	99.2	101.4	87.8	100.0	95.0	87.5	91.9	99.2	102.2
TAIWAN PROV.OF CHINA	117.0	120.4	113.4	109.9	100.0	110.9	111.9	125.4	154.0	150.7
KOREA	113.3	114.6	120.4	112.4	100.0	105.5	105.2	128.9	189.3	161.8
CHINA,P.R.:HONG KONG	144.6	138.4	132.0	115.3	100.0	105.4	99.5	101.8	106.1	112.5
INDIA	83.3	101.3	107.8	111.9	100.0	109.3	106.9	113.3	119.2	121.0
INDONESIA	118.7	122.5	124.4	110.9	100.0	109.2	105.9	133.2	310.1	205.3

Note: REER = (1/NER)*(CPId/CPIf); data obtained from IMF's *World Economic Outlook* and Ministry of Industry and Trade.

Appendix Table A.8
Honduras: Nominal Cross Exchange Rate Indices, 1990-99
(1994=100)

	Base	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
HONDURAS	1994=100	11474.1	2141.7	325.1	100.8	100.6	111.2	132.7	143.9	148.8	161.4
North America		52.0	65.0	67.2	78.1	100.0	108.8	133.5	148.1	155.5	171.1
UNITED STATES	1994=100	51.2	64.3	66.7	77.6	100.0	112.7	139.2	154.6	163.1	179.8
MEXICO	1994=100	61.4	71.9	72.7	84.1	100.0	59.3	61.8	65.9	60.3	63.5
CANADA	1994=100	59.9	76.6	75.3	82.2	100.0	112.2	139.4	152.5	150.1	165.2
CACM		76.4	74.0	72.5	79.6	100.0	110.2	131.3	144.5	147.3	151.1
GUATEMALA	1994=100	65.4	73.8	74.0	79.3	100.0	111.8	131.6	146.7	146.3	139.0
EL SALVADOR	1994=100	58.7	69.4	67.6	78.1	100.0	112.4	138.7	154.1	162.5	179.1
COSTA RICA	1994=100	87.8	82.5	77.8	85.8	100.0	98.5	105.2	104.4	99.6	100.1
NICARAGUA	1994=100	348.1	102.4	90.7	84.2	100.0	100.9	118.3	125.2	126.0	131.4
Other LA Countries		108861.2	19837.2	2508.8	289.3	100.0	101.6	106.1	113.5	114.7	119.5
PANAM	1994=100	51.2	64.3	66.7	77.6	100.0	112.7	139.2	154.6	163.1	179.8
VENEZUELA	1994=100	162.2	168.2	144.9	126.7	100.0	94.7	49.8	47.1	44.3	44.1
BRAZIL	1994=100	1237116.5	224577.5	27574.8	2340.1	100.0	52.8	59.5	61.7	60.4	42.6
COLOMBIA	1994=100	84.2	86.5	81.0	81.6	100.0	102.1	111.0	112.1	94.5	84.6
NETHERLANDS ANTILLES	1994=100	50.8	63.9	66.4	77.5	100.0	112.9	139.7	155.5	164.3	181.4
TRINIDAD AND TOBAGO	1994=100	71.5	89.7	93.1	79.2	100.0	111.5	133.3	145.6	154.6	165.8
ECUADOR	1994=100	146.5	135.0	95.5	85.7	100.0	96.6	95.9	85.0	65.8	42.6
DOMINICAN REPUBLIC	1994=100	67.5	65.0	67.8	79.2	100.0	107.7	130.2	138.1	136.7	140.0
CHILE	1994=100	70.5	77.3	77.3	80.7	100.0	119.4	141.8	154.5	148.8	148.4
ARGENTINA	1994=100	105.0	67.4	67.3	77.6	100.0	112.7	139.2	154.6	163.1	179.8
European Union		56.9	69.7	75.1	77.2	100.0	123.8	148.9	146.7	152.5	161.4
GERMANY	1994=100	51.2	62.9	69.3	76.2	100.0	127.7	150.1	144.7	150.4	159.1
SPAIN	1994=100	67.3	82.9	87.2	81.7	100.0	121.1	147.2	141.5	146.2	154.4
NETHERLANDS	1994=100	51.2	62.6	69.0	76.1	100.0	127.8	150.2	144.2	149.6	158.4
FRANCE	1994=100	52.2	63.3	69.9	76.1	100.0	125.4	151.0	147.1	153.5	162.3
ITALY	1994=100	68.9	83.6	87.2	79.5	100.0	111.6	145.4	146.4	151.5	159.7
BELGIUM	1994=100	51.2	63.0	69.4	75.1	100.0	127.9	150.4	144.6	150.3	159.0
UNITED KINGDOM	1994=100	59.7	74.3	76.8	76.1	100.0	116.2	141.9	165.4	176.4	189.9
FINLAND	1994=100	69.9	83.0	77.7	71.0	100.0	134.9	158.3	155.6	159.4	168.5
DENMARK	1994=100	52.6	63.9	70.2	76.1	100.0	128.0	152.7	148.9	154.8	163.9
IRELAND	1994=100	56.7	69.3	75.9	76.0	100.0	120.7	148.7	156.7	155.3	162.6
SWEDEN	1994=100	66.7	82.0	88.3	76.9	100.0	121.9	160.1	156.3	158.3	167.9
PORTUGAL	1994=100	59.6	73.9	82.0	80.1	100.0	123.8	149.8	146.4	150.3	158.8
AUSTRIA	1994=100	51.4	62.9	69.3	76.2	100.0	127.7	150.1	144.7	150.5	159.2
GREECE	1994=100	78.3	85.6	84.8	82.1	100.0	118.1	140.3	137.4	133.9	142.7
Other Countries		100.0	121.7	124.4	140.6	196.8	252.4	308.4	306.8	298.1	319.7
SWITZERLAND	1994=100	100.0	121.7	128.7	142.6	198.4	258.7	305.5	289.2	305.3	324.7
NEW ZEALAND	1994=100	100.0	121.8	117.4	137.4	194.3	242.2	313.2	335.5	286.4	311.5
Middle East		67.9	76.7	72.1	79.8	100.0	112.4	136.2	148.0	151.7	162.6
EGYPT	1994=100	64.0	73.0	67.7	78.6	100.0	112.3	138.5	153.9	161.9	177.4
ISRAEL	1994=100	76.5	84.9	81.6	82.6	100.0	112.7	131.3	135.0	129.2	130.3
Asia		46.2	58.4	62.0	76.8	100.0	119.7	133.0	135.0	128.3	157.3
JAPAN	1994=100	36.1	48.8	53.8	71.3	100.0	122.5	130.8	130.6	127.3	161.3
CHINA,P.R.: MAINLAND	1994=100	92.2	104.1	104.2	116.1	100.0	116.3	144.5	160.8	169.8	187.1
TAIWAN PROV.OF CHINA	1994=100	50.4	63.4	70.1	77.8	100.0	112.6	134.1	142.5	129.0	147.3
KOREA	1994=100	58.1	70.4	68.6	77.7	100.0	117.4	139.0	130.6	93.5	121.5
CHINA,P.R.:HONG KONG	1994=100	50.8	63.9	66.6	77.5	100.0	112.6	139.1	154.4	162.7	179.1
INDIA	1994=100	91.2	88.2	80.7	80.9	100.0	107.4	124.8	132.1	125.3	131.7
INDONESIA	1994=100	60.0	71.2	71.0	80.4	100.0	108.3	128.1	114.9	35.2	49.4

Note: Cross rate indices calculated from nominal exchange rates (NER); NER's calculated from per capita nominal GDP, obtained from IMF's *World Economic Outlook*.

Appendix Table A.9
Honduras: Anti-Export Bias for Selected Products

	ai	NRP	aiti	Anti-Export Bias
COFFEE		17%		**16.8%**
Tradable material inputs			0.0018	
Machinery	-	1%	-	
Chemical Fertilizers, Pesticides	0.081	1%	0.0008	
Seeds	0.095	1%	0.0010	
BANANAS		17%		**16.8%**
Tradable material inputs			0.0018	
Machinery	-	1%	-	
Chemical Fertilizers, Pesticides	0.081	1%	0.0008	
Seeds	0.095	1%	0.0010	
SUGAR		40%		**39.3%**
Tradable material inputs			0.0048	
Machinery	0.218	1%	0.0022	
Chemical Fertilizers, Pesticides	0.217	1%	0.0022	
Seeds	0.040	1%	0.0004	
COTTON		1%		**0.6%**
Tradable material inputs			0.0043	
Machinery	0.199	1%	0.0020	
Chemical Fertilizers, Pesticides	0.212	1%	0.0021	
Seeds	0.023	1%	0.0002	
SORGHUM		20%		**6.2%**
Tradable material inputs			0.1295	
Machinery	0.076	1%	0.0633	
Chemical Fertilizers, Pesticides	0.069	1%	0.0572	
Seeds	0.011	1%	0.0090	
MELON		17%		**16.8%**
Tradable material inputs			0.0019	
Machinery	0.057	1%	0.0006	
Chemical Fertilizers, Pesticides	0.102	1%	0.0010	
Seeds	0.033	1%	0.0003	
MAIZE traditional		20%		**20.0%**
Tradable material inputs			0.0001	
Machinery	0.009	1%	0.0001	
Chemical Fertilizers, Pesticides	-	1%	-	
Seeds	0.005	1%	0.0000	
MAIZE mechanized		20%		**19.8%**
Tradable material inputs			0.0019	
Machinery	0.057	1%	0.0006	
Chemical Fertilizers, Pesticides	0.102	1%	0.0010	
Seeds	0.033	1%	0.0003	
RICE traditional		45%		**44.7%**
Tradable material inputs			0.0021	
Machinery	0.022	1%	0.0002	
Chemical Fertilizers, Pesticides	0.086	1%	0.0009	
Seeds	0.100	1%	0.0010	
RICE mechanized		45%		**44.1%**
Tradable material inputs			0.0065	
Machinery	0.134	1%	0.0013	
Chemical Fertilizers, Pesticides	0.453	1%	0.0045	
Seeds	0.065	1%	0.0006	
WATERMELON		17%		**16.9%**
Tradable material inputs			0.0009	
Machinery	0.057	1%	0.0006	
Chemical Fertilizers, Pesticides	0.017	1%	0.0002	
Seeds	0.011	1%	0.0001	
AFRICAN PALM		5%		**4.7%**
Tradable material inputs			0.0030	
Machinery	-	1%	-	
Chemical Fertilizers, Pesticides	0.205	1%	0.0021	
Seeds	0.096	1%	0.0010	
BEANS traditional		17%		**16.9%**
Tradable material inputs			0.0007	
Machinery	0.003	1%	0.0000	
Chemical Fertilizers, Pesticides	-	1%	-	
Seeds	0.066	1%	0.0007	
BEANS mechanized		17%		**16.7%**
Tradable material inputs			0.0028	
Machinery	0.165	1%	0.0016	
Chemical Fertilizers, Pesticides	0.075	1%	0.0008	
Seeds	0.040	1%	0.0004	
PINEAPPLE		17%		**16.4%**
Tradable material inputs			0.0049	
Machinery	0.022	1%	0.0002	
Chemical Fertilizers, Pesticides	0.061	1%	0.0006	
Seeds	0.411	1%	0.0041	

Note: Calculations by the authors.

Appendix Table A.10
Honduras: 2000 SAC Applied Tariffs

HS Section	Description	No. of Tariff Lines	Tariff Rates by Section				
			Minimum Rate %	Maximum Rate %	Average Rate[1] %	Standard Deviation	Mode[2]
1	Live Animals/Products	259	1	50	12	8.4	10
2	Vegetable Products	362	1	45	11	7.2	17
3	Animal/Vegetable Fats	51	1	17	8	6.5	1
4	Processed Foods/Tobacco	251	1	55	13	7.2	17
5	Mineral Products	163	1	20	4	4.5	1
6	Chemical/Industrial Products	870	1	17	3	4.1	1
7	Plastics/Rubber	301	1	20	5	4.6	1
8	Animal Hides/Skins	81	1	17	10	6.8	17
9	Wood/Wood Articles	87	1	17	9	5.9	10
10	Paper/Cellulose Material	191	1	20	5	5.8	1
11	Textiles	882	1	30	15	7.5	20
12	Footwear/Misc. Articles	62	1	20	15	6.2	20
13	Stone/Glassware	157	1	17	8	7.2	1
14	Precious/Semiprec. Mat.	53	1	20	9	7.1	5
15	Base Metals	671	1	17	4	4.8	1
16	Machinery/Electrical Equip.	905	1	20	3	5.2	1
17	Motor Vehicles/Vessels	152	1	35	8	8.6	5
18	Precision Instruments	244	1	20	5	6.1	1
19	Arms/Munitions	17	5	20	18	5.0	20
20	Misc. Manufactured Articles	152	1	20	12	6.0	17
21	Art/Antiques	7	5	20	16	6.3	20
	Overall	5,918	1	55	7	8	1

[1]Unweighted average.
[2] The mode indicates the most frequently occurring applied tariff rate.
Source: Derived from data provided by the Ministry of Industry and Trade.

Appendix Table A.11
Honduras: 2000 SAC Applied Tariffs for Agriculture

			Tariff Rates by Chapter				
		No. of Tariff Lines	Minimum Rate	Maximum Rate	Average Rate1	Standard Deviation[2]	Mode[3]
1	Live animals	19	1	10	7	4.5	10
2	Meat	68	5	50	19	10.9	17
4	Dairy produce	37	1	20	14	5.6	20
5	Prods animal origin	22	1	5	4	1.8	5
6	Live trees etc.	33	1	17	13	6.9	17
7	Edible vegetables	79	1	20	14	4.1	15
8	Edible fruits nuts	70	1	20	16	3.7	17
9	Coffee tea	40	5	17	12	3.8	10
10	Cereals	22	1	45	14	15.1	1
11	Prods milling ind	38	1	15	9	4.9	10
12	Oil seeds	53	1	10	3	2.9	1
13	Lac gums etc.	14	1	1	1	0.0	1
14	Veg materials nes	13	1	15	4	3.9	5
15	Animal veg fats	51	1	17	8	6.5	1
16	Preps of meat	37	1	17	16	3.2	17
17	Sugars	20	1	40	11	10.3	1
18	Cocoa	11	5	17	12	4.9	17
19	Preps of cereals	21	1	17	14	5.0	17
20	Preps of veg	58	1	30	15	5.7	17
21	Misc edible preps	24	1	17	12	6.5	17
22	Beverages	27	5	20	18	3.5	20
23	Residues waste	34	1	17	7	4.6	5
24	Tobacco	19	1	55	9	12.4	5
29	Organic chemicals	326	1	10	1	0.8	1
33	Essential oils	39	1	17	9	7.9	17
35	Albuminoidal subst.	19	1	15	5	5.2	1
38	Misc chemicals	81	1	17	3	3.5	1
41	Raw hides and skins	37	1	10	4	3.4	1
43	Fur	19	17	17	17	0.0	17
50	Silk	10	1	20	8	8.5	1
51	Wool, etc.	36	1	20	8	8.3	1
52	Cotton	132	1	20	14	7.6	20
53	Other veg textiles	35	1	20	6	6.8	1

[1]Unweighted average.
[2] The mode indicates the most frequently occurring applied tariff rate.
Source: Derived from data provided by the Ministry of Industry and Trade.

Appendix Table A.12

Honduras: Price Wedge between World and Domestic Prices for Selected Agricultural Products, 1997-99

	1997	1998	1999
Nominal Exchange Rate	13.0	13.4	14.2
Consumer Price Index	148.8	169.2	188.9
US Consumer Price Index	105.3	107.0	109.3
Equilibrium Exchange Rate	18.4	21.2	24.6
SUGAR			
Border Price Equivalent (Lps/MT)	4,267.8	3,603.3	2,907.0
Domestic Price Equivalent (Lps/MT)	6,100.0	6,660.6	6,886.7
Price Wedge (%)	0.4	0.8	137%
Tariff on Imports(%)			40%
Price Wedge - Tariff			97%
SORGHUM			
Border Price Equivalent (Lps/MT)	2,355.9	2,246.8	2,144.5
Domestic Price Equivalent (Lps/MT)	3,403.5	3,177.4	2,922.3
Price Wedge (%)	0.4	0.4	36%
Tariff on Imports(%)			20%
Price Wedge - Tariff			16%
MAIZE			
Border Price Equivalent (Lps/MT)	2,434.2	2,273.9	2,210.4
Domestic Price Equivalent (Lps/MT)	3,452.9	2,767.3	2,613.5
Price Wedge (%)	0.4	0.2	18%
Tariff on Imports(%)			20%
Price Wedge - Tariff			-2%
BEANS			
Border Price Equivalent (Lps/MT)	14,570.5	12,416.4	12,875.6
Domestic Price Equivalent (Lps/MT)	12,524.9	10,145.9	11,542.3
Price Wedge (%)	-0.1	-0.2	-10%
Tariff on Imports(%)			17%
Price Wedge - Tariff			-27%
RICE			
Border Price Equivalent (Lps/MT)	2,331.8	2,401.0	2,255.3
Domestic Price Equivalent (Lps/MT)	3,437.9	3,752.0	3,598.8
Price Wedge (%)	0.5	0.6	60%
Tariff on Imports(%)			45%
Price Wedge - Tariff			15%
COFFEE			
Border Price Equivalent (Lps/100 lbs)	2,125.7	1,530.8	1,213.9
Domestic Price Equivalent (Lps/100 lbs)	1,995.6	1,396.7	1,071.9
Price Wedge (%)	-0.1	-0.1	-12%
Tariff on Exports(%)			0%
Price Wedge - Tariff			-12%
BANANAS			
Border Price Equivalent (Lps/100 lbs)	289.6	289.7	275.3
Domestic Price Equivalent (Lps/100 lbs)	207.8	208.2	205.0
Price Wedge (%)	-0.3	-0.3	-26%
Tariff on Exports(%)	0.0	0.0	-3%
Price Wedge - Tariff			-22%
PALM OIL			
Border Price Equivalent (Lps/100 lbs)	286.4	366.3	246.5
Domestic Price Equivalent (Lps/100 lbs)	211.0	198.9	194.9
Price Wedge (%)	-0.3	-0.5	-21%
Tariff on Exports(%)			0%
Price Wedge - Tariff			-21%

Note: Calculations by the authors.

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