

## SUMMARY

1. Belize has a small relatively open economy and is the only member of CARICOM geographically situated in Central America. Belize has few barriers to investment. Services industries make the biggest contribution to GDP and employment. Agriculture is important, particularly since it provides inputs to Belize's agri-processing industries, which comprise the bulk of Belize's manufacturing base. In addition, agriculture accounts for most of Belize's exports. Sugar and bananas are exported to the EU under the CARIFORUM-EU Economic Partnership Agreement, and citrus juice and papaya are exported to the United States under the Caribbean Basin Initiative. High quality crude oil has been discovered and, since 2006, has been commercially exploited. Belize also has an active offshore sector for business and financial services companies as well as an international maritime registry.

2. In spite of its vulnerability to severe weather conditions, Belize has significant natural advantages and the potential to develop them further. It has untapped productive agricultural land, the world's second largest coral reef, unspoilt forests, and ancient ruins, and is only a short flight from some major tourist markets. Many Belizeans are fluent in both English and Spanish, an added advantage given Belize's geographical location.

3. Since independence, economic performance has been cyclical and driven by government spending. High levels of government spending have led to high growth periods, but also to unsustainable levels of government debt, with the result that reduced public spending has meant lower growth. Thus, the Government's fiscal policy options have been limited by its debt levels. In addition, following restructuring of its commercial debt in 2007, the Government's borrowing options have been restricted to bilateral sources and international organizations. The use of monetary policy is constrained by its fixed exchange rate with the U.S. dollar.

4. As a result, the Government may need to concentrate its efforts on developing and supporting a competitive, and efficient private sector as the key driver of economic growth. This is becoming more urgent given the reality of preference erosion. In this regard, trade policy, and trade policy-related reforms have a crucial role to play, supported by targeted aid-for-trade assistance.

5. Belize's trade regime remains similar to that in place at the time of its previous TPR in 2004. It faces the dilemma of continued reliance on taxes on international trade as a key source of government revenue; a perceived need to protect domestic producers; as well as a need to ensure the affordability of basic necessities for consumers. This has led to a complex mix of policies, some of which are at odds with each other. For example, the impact of border protection, which raises the prices of goods for producers and investors, is then offset by an array of tax exemptions and price controls intended to reduce prices for consumers.

6. Belize's main instruments of border protection are tariffs and a non-automatic import licensing system applied mainly to agricultural products and processed foods. The significant binding overhang between applied and bound tariffs, as well as the apparently arbitrary and non-transparent nature of the licensing system, make Belize's trading regime less predictable. As an unintended consequence of these policies, the productive capacity of domestic manufacturing industries may be undermined by limiting their access to either affordable or available inputs. Protection afforded to domestic producers gives them no incentive to operate more efficiently, and also raises prices for consumers and investors.

7. There is scope for tax reform and simplification. Belize levies three internal taxes on goods and services: a General Sales Tax (which functions like a VAT), at a general rate of 12.5%; excise duties, which are levied at varying specific rates on certain locally produced goods; and a revenue replacement

duty (RRD), levied on 219 tariff lines (imports and locally produced goods, with the exception of locally produced goods already subject to excise duties). Belize charges a 2% environmental tax on imports only. The corporate tax system, with a choice between business and income taxes, could be simplified. Exemptions from some of these taxes are in place to ensure the affordability of basic necessities, some of these are applied on a discriminatory basis.

8. Tax breaks are also used as a main incentive to producers and investors: Customs duty exemptions are available to targeted sectors under Customs and Fiscal Incentives laws. Broader tax incentives are provided to promote exports through export processing zone and commercial free zone programmes. However, the revenue implications of these incentive programmes are not clear, nor the distortions they might introduce in the economy. Belize's obligation to phase out the export subsidy elements of its incentive programmes by 2015 could provide an opportunity for a closer look at the costs and benefits its tax incentives.

9. While Belize's economy is largely in the hands of the private sector, its small size may not naturally lead to price competition. Indeed, there is some evidence of a lack of competition in some areas. For example, there have been complaints from industry regarding high port charges, and telecommunications tariffs are higher than in most neighbouring countries. In this regard, Belize's objective of enacting competition legislation would be a positive and necessary step. Likewise, it is crucial that the Public Utilities Commission is able to effectively regulate the telecommunications and utilities sectors, where there are a limited number of players.

10. Trade facilitation is another area where improvements can continue to be made. For example, customs processing is presently manual and cumbersome. A Customs Reform and Modernization Project, which is in train, should see the gradual introduction of ASYCUDA World at Belize's customs entry points, which will allow electronic submission

of customs documentation. The creation of a Customs Tariff Board to deal with valuation and classification disputes, which is also foreseen, should give a better structure to dispute resolution.

11. Increased transparency, centralization and uniformity in procurement practices could help making effective use of scarce public money and engender greater competition among suppliers.. This is being considered by the authorities. While recent reforms have importantly introduced clearer procurement rules and stronger oversight by the National Assembly through the Contractor-General's office, the experience of decentralized procurement decision-making has not been so positive.

12. Aid for trade could have a significant role to play in assisting Belize to develop. Despite the relatively small AFT assistance Belize has received so far, this has already had positive impacts on its ability to expand export opportunities, particularly with respect to tropical fruit, through the expansion of productive capacity and the enhancement of SPS facilities. Aid For Trade could be pivotal in alleviating several bottlenecks to trade that have been identified by the private sector. Access to finance on reasonable terms is one: in the absence of any governmental support in the form of trade finance, insurance, and guarantees, loans have to be drawn from commercial banks and the cost of borrowing is extremely high. There are deficiencies in trade-related infrastructure, with investments needed to replace and build bridges, improve highway networks, improve drainage and feeder roads, and develop solid waste management. Upgrades to the international airport and a cruise ship docking facility could help develop the tourist industry. Likewise, the agriculture sector, for example, would benefit from better storage facilities and investments in the agri-processing and aquaculture sectors to develop new products.