Nicaragua Trade Brief

Trade Policy

Since the early 1990s, Nicaragua has taken significant steps towards establishing a more outward-oriented economy by opening up its trade policy. This is reflected in the latest MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 5.0 percent, which ranks Nicaragua 59th out of 125 countries. The trade regime is more open than that of an average Latin America and Caribbean (LAC) or lower-middle-income country (with TTRIs of 7.8 and 8.6 percent, respectively). The barrier to agricultural goods (11.9 percent) is approximately three times as large as the barrier to non-agricultural goods (4.0 percent), as judged by the TTRI. Including preferences, the TTRI on all goods is lower at 3.3 percent, which represents a significant decrease from 6.0 percent in 2006. The latest simple average MFN tariff is very low at 5.6 percent. Nicaragua has kept its maximum tariff (excluding alcohol and tobacco) relatively stable in recent years at 67.6 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), was maintained at 36.1 percent in 2007. Regarding the extent of its commitment to trade liberalization in services, Nicaragua ranked 85th out of 148 countries according to the GATS Commitment Index.

In response to the food crisis, in February 2008 Nicaragua and three of its fellow Central American Common Market countries canceled import taxes on wheat flour until the end of 2008 or up to a maximum of 10,000 imported tons. In May 2008, the government removed the tariff on beans and reduced tariffs to zero or five percent for some vegetable oils.[2]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

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External Environment

According to the Market Access TTRI[3] (including preferences), on which it is ranked 26th (out of 125 countries), Nicaragua's exports enjoy very low barriers. Since 2006, the MA-TTRI has fallen to a seventh of its value and now stands at 1.2 percent, compared to the LAC and lower-middle-income country averages of 2.0 and 2.3 percent, respectively. The 2008 rest of the world simple average applied tariff (including preferences) on Nicaragua's exports grew to 9.8 percent from 4.7 percent in 2006. When taking into account the level of exports, however, it is much lower at 2.1 percent, with its agricultural exports facing a tariff of 5.7 percent and its non-agricultural exports of 0.6 percent.

Nicaragua's most important trade arrangement is the DR-CAFTA with the United States that became effective in 2006. DR-CAFTA consolidates and expands the current access that Central American countries currently have to the U.S. market, while extending broadly reciprocal access for U.S. goods to their own markets. The decision to make the provisions of the agreement applicable multilaterally is deepening regional integration efforts and facilitating the creation of a Central American Customs Union.[4] Negotiations for an Association Agreement between the EU and six Central American countries, including Nicaragua, which began in 2007 and include a free trade agreement, have been postponed as of July 2009, due to the political instability in Honduras.[5] The real effective exchange rate of the Nicaraguan córdoba appreciated by 6.6 percent over the course of 2008, making exporters less competitive abroad.

Behind the Border Constraints

Nicaragua ranked 117th in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Nicaragua at 2.21 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.47 for countries in the lower-middle-income group. Nicaragua ranked 70th in the world and 9th in the LAC

region (with Chile leading the regional group). The area in which it performed the best was domestic transport costs and it needs most improvement in increasing the quality of transport and information technology (IT) infrastructures.

Trade Outcomes

Nicaragua's real (in constant 2000 U.S. dollars) trade growth reached 13.8 percent in 2007, and then decelerated to 8.8 percent in 2008. It is expected to shrink by 3.5 percent in 2009, due to falling imports and exports. Nicaragua's exports grew in real terms by 9.7 percent in 2007, and its growth rate decreased to 4 percent in 2008. Imports of goods and services grew in real terms by 11.4 percent in 2008. Both exports and imports are expected to decline in 2009 by 3.8 and 3.2 percent, respectively.

In nominal terms, total trade grew by 15.9 percent in 2008, although it is expected to shrink by 7.6 percent in 2009. Exports increased by 13.5 percent in 2008, although growth slowed to 0.3 percent in the last quarter over the same quarter in 2007.[6] *Maquilas* play an important role in Nicaragua's trade, amounting to approximately half of total exports of goods and helping diversify its traditional export basket.[7] Outside of the *maquila* sector, agriculture is the largest export sector for Nicaragua. As commodity prices rose in 2008, coffee and meat exports, which make up close to 20 and 14 percent of all goods exports, respectively, grew by 48 and 17.4 percent in 2008.[8] Although the role of the United States has been declining in importance in recent years in favor of Nicaragua's Central American neighbors, it remains the largest export market, receiving 60 percent of all Nicaraguan exports. El Salvador and Honduras are the next largest export markets, together importing 12 percent of Nicaragua's exports. Exports are expected to shrink by 3.5 percent in 2009, and in the first quarter of the year have outpaced this forecast, falling by 10.5 percent over the first quarter 2008. Nominal imports increased by 17.3 percent in 2008 but are expected to fall by 10.1 percent in 2009. Nicaragua's import markets are more diverse than its export markets, with the largest being the United States, followed by Mexico, Guatemala, Costa Rica, and República Bolivariana de Venezuela. Imports fell by 22.3 percent in nominal U.S. dollar terms in the first quarter of 2009. Remittances accounted for a share of 12.4 percent of GDP in 2008. FDI inflows accounted for a high 9.5 percent of GDP in 2008.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
4. SICE, 2009.
5. Bilaterals.org, 2009, and European Commission, 2009.
6. All quarterly data is from IMF, 2009.
7. ECLAC, 2007.
8. Banco Central de Nicaragua, 2009.

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