Honduras Trade Brief

Trade Policy

Based on the latest MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 7.1 percent, which ranks it 77th out of 125 countries, Honduras' trade regime is more open than that of an average Latin America and Caribbean (LAC) or lower-middle-income country (which have TTRIs of 7.8 and 8.6 percent, respectively). Its barrier to agricultural goods is higher than for non-agricultural goods, at 15.4 percent versus 5.3 percent. The 2008 simple average MFN tariff is low at 5.6 percent, and when taking into account the preferences, it is 5.5 percent. Honduras increased its maximum tariff (excluding alcohol and tobacco) from 89.5 percent in 2007 to 164.0 percent in 2008. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has been 26.9 percent for several years now. Regarding the extent of its commitment to trade liberalization in services, Honduras ranked 104th out of 148 countries according to the GATS Commitment Index.

In response to the food crisis, in February 2008, Honduras 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. However, in October 2008, after high production in the last harvest, the government lifted a ban on exports of beans and maize.[2]

External Environment

Honduras' Market Access TTRI[3] (including preferences), on which it is ranked 34th (out of 125), fell sharply to 1.4 percent from 6.0 percent the year before. This fall indicates that its exports are facing much more favorable access to external markets, especially when compared to the averages for LAC and lower-middle-income country averages (2.0 and 2.3 percent, respectively). The 2008 rest of the world simple average applied tariff (including preferences) on Honduras' exports is 9.9 percent, up from 3.7 percent in 2004. But, when the level of exports is taken into account, it is much lower at 1.3 percent, with little difference between agricultural and non-agricultural goods. At the end of June 2009, Honduras' three neighboring countries temporarily suspended trade for a 48 hour period in an attempt to influence the political situation.[4]

Honduras' 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.[5] A free trade agreement (FTA) between Taiwan and Honduras that was signed in 2007 entered into force in Honduras in July 2008.[6] However, negotiations for an Association Agreement between the EU and six Central American countries, including Honduras, which began in 2007 and that include an FTA, have been postponed as of July 2009, due to the political instability in Honduras.[7] Honduras' currency, the lempira, remained stable against the U.S. dollar in 2008.[8]

Behind the Border Constraints

Honduras remained in the bottom 30 percent of international business environments in 2009, being ranked 141st out of 183 countries in the Ease of Doing Business index. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Honduras at 2.5 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. Honduras ranked 80th in the world and 14th in the LAC region (with Chile leading the regional group). The areas in which it

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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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performed the best were domestic transportation costs and timeliness of shipments and it needs improvement in the quality of transport and IT infrastructures.

Trade Outcomes

Honduras' real (in constant 2000 U.S. dollars) growth in trade of goods and services was 6.1 percent in 2007, but decelerated to 2.6 percent in 2008. Real exports remained steady, growing by 3.5 percent in 2008, and are expected to grow by 2 percent in 2009. Real imports rose to 8 percent in 2007, but then sharply decelerated to 1.9 percent in 2008. They are expected to grow by 2.1 percent in 2009.

In nominal terms, total trade grew by an estimated 13.3 percent on the back of strong export and import growth. Nominal exports grew by an estimated 8.7 percent in 2008.[9] The country's merchandise exports are dominated by coffee (which makes up almost one quarter of merchandise exports), bananas, palm oil, and shrimp. Products from the *maquila* industry are very important, and result from an advantageous industrial policy geared at enterprises situated in free-trade or industrial zones. In 2008, the *maquila* industry exported almost 30 percent more than traditional manufacturing exports. General merchandise exports grew by more than 20 percent in 2008, led by increases in exports of its top products including a 20 percent increase in exports of coffee and a 33 percent increase in the exports of bananas. Exports from *maquila* firms, two-thirds of which are textiles, grew by less than one percent over the same period. The United States is the largest trading partner and receives over 63 percent of all Honduran exports. El Salvador and Guatemala are the next largest export markets, together importing 10 percent of Honduras' exports. Due to declining global demand, nominal exports are forecast to fall in 2009. In the first quarter, exports fell by 14 percent year-on-year according to national statistics. Nominal imports grew by 21 percent in 2008 and are expected to fall further in 2009 due to a decline in imports of intermediate goods and lower oil prices. Remittances are important to the economy, accounting for 20.1 percent of GDP in 2008. This is a slight decrease from 21.5 percent of GDP in 2007. FDI inflows are relatively high, accounting for 6.7 percent of GDP in 2007.

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. Xinhua News Agency, 2009.
5. SICE, 2009.
6. SICE, 2009.
7. Bilaterals.org, 2009, and European Commission, 2009.
8. IMF, 2009.
9. Nominal Trade Outcome Data from Banco Central de Honduras, 2009.

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