October 1982

An Export Development Strategy in Honduras (Dialogue #10)

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PREFACE

Dr. Marta Ortiz is an Assistant Professor in Florida International University's College of Business and an expert in International Marketing. She previously published an extensive analysis of Guatemala's export and trade patterns. Dr. Ortiz' research on Honduras is part of a larger on-going multidisciplinary research program in Honduras by a group of FIU researchers. Funds for this research have been provided by the University's International Affairs Center, which was the recipient of a blocked fund grant from a local corporation with an affiliate in Honduras.

Mark B. Rosenberg
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by

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I. Introduction

Developing countries are facing a pressing need to stimulate economic development amidst growing world economic and political problems. Development plans to help alleviate economic and political problems have fallen short and today, many countries are facing a reverse economic spiral which threatens to undo the gains of the past two decades. Honduras, one of the poorest countries in the Caribbean Basin , is one such country, struggling with a weak economy and rising political and economic problems. In 1980, economic growth slowed down as Gross National Product (GNP) grew by only 2%, as compared to an average 7.8% in the previous four years. In 1981, the economy continued its sluggish growth, and in real terms, even declined by 0.3%. These trends are still present in 1982.[1]

On the domestic front, the manufacturing sector, in the past one of the most dynamic sectors of the economy, also showed signs of sluggishness, growing by 4.6% in 1980, as compared to an average 9.2% in the previous 4 years. The industrial sector was faced with a dwindling supply of financial resources for working capital, plant expansion, and needed inputs, as the economy contracted in a recessionary world environment. The slow-down of domestic demand was triggered by an international recession which impacted negatively on Honduras' export sector, which accounts for one-third of total output. A contributing factor was the political problem unfolding in Central America which motivated increased capital flight and discouraged investments in the domestic economies of the area.

Honduras export dependence is relatively high. Exports as percentage of

GNP represents 37% of total output. In the past two years, it has been severely affected by a slackening of prices and demand in international markets. In 1981, total exports of goods and services declined by 3.8%. Honduras' main export crop, bananas, which accounts for about one-third of its total exports, declined by almost 2%. Similarly, coffee exports, another important export product, declined by a sizable 15.2%. In contrast, imports of goods and services continued to grow as a brisk pace, giving rise to a series of unprecedented deficits in the balance of payments, $212.4 million in 1979, $342.1 million in 1980, and $300.3 million in 1981. The result was a decline of 73% in the net international reserves for the period between 1980 and 1981 (see Table 1). Preliminary estimates for 1982 indicate that this trend is likely to continue, placing severe pressures in foreign exchange availability.

The impact of these developments on the manufacturing, as well as whole-saling and retailing sectors, places further contracting pressures on the economy. Availability of raw materials, inputs, and final products, by necessity, become conditioned to a system of priorities and controls which inhibits growth and development. Considering Honduras' export dependence, these developments create a very difficult situation for a small and poor country with limited resources to face its economic and development needs.

The deteriorating economic condition and the weakness of the export sector pose an interesting dilemma for Honduras, in light of the opportunities available to the countries of this region through the U.S. Generalized System of Preferences (GSP) and President Reagan's proposed Caribbean Basin Strategy. The Caribbean Basin Strategy could be the more significant of these two, if implemented , as the economic development plan includes one-way access to U.S. markets for the products of the countries in the Caribbean Basin for a period

Key Economic Indicators: Honduras

All figures in million US$ unless otherwise stated.

Exchange rate as of June 1982
US$1.00 = Lempiras 2.00 (Since 1931)

ITEM	1979 (Final)	1980 (Final)	1981 (Prelim)	% Change 1981/1980
ECONOMIC GROWTH				
GDP at Current Prices	2,166	2,554	2,707	5.9%
GDP at Constant 1966 Prices	9831	1,002	1,006	.3%
Population (1,000) (mid-year)	3,564	3,691	3,821	3.5%
GOVERNMENT FINANCE:				
Central Government Budget				
Current Revenues	316	380	372.6	-1.9%
Current Expenditures	263.5	367.3	405	10.3%
Capital Expenditures	135.2	142	103	-37.8%
Deficit	95.8	198	206	3.1%
Public Sector Debt Outstanding	837	1047	1308.2	24.9%
Domestic Debt	236	299	402.7	34.6%
External Debt	601	748	905.5	21.1%
Public Sector Debt as % of Current GDP	27.8%	40.1%	48.3%	20.4%
MONEY AND PRICES: (As of December 31 each year)				
Money Supply	272	302	316	4.6%
Bank Deposits	452	498	524	5.2
Consumer Price Index (1978 - 100)	122.6	136.6	149.1	9.2%
BALANCE OF PAYMENTS				
Net International Reserves (Consolidated Banking System)	116	55	8.1	-85.4
Net International Reserves (Central Bank)	180	110	28.7	-73.6
Current Account Balance	-192	-321	-273	-17.6
Debt Service Ratio (% Export Goods & Services)	11%	12.8%	14.3%	
Total Exports (F.O.B.) Goods and Services	859	954	917	-3.8
Exports to the U.S. (F.O.B)	431.5	427.7	416	-2.7
Total Exports by Product Category:				
Bananas	200	220	216	-1.8
Coffee	197	204	173	-15.2
Lumber	42	36	43	19.4
Refrigerated Meat	61	61	46	-24.6
Metals	45	55	43	-21.8
Total Imports (C.I.F.) Goods & Services	1,072	1,300	1,217	-6.4
Imports of Goods (C.I.F.) from U.S.	358	426	386	-12.
Petroleum Imports	113	171	162	-5.
Trade with CACM				
Exports (F.O.B.)	60	84	69	-17.
Imports (C.I.F.)	98	103	116	12.
Capital Account: Net Inflows	196	285.1	236	-17.

SOURCE: Central Bank of Honduras.

of 12 years. It also includes the promotion of U.S. investment in the region to accelerate job creation and expansion of production capabilities.[2] The external incentives provide access to U.S. markets for a significant amount of manufactured products. One objective is to alleviate the economic problems of the area by reducing export dependence in one or two primary products and promoting exports of non-traditional products which are an important component of world demand today.

The dilemma centers around the ability of the Honduran industrial sector to take full advantage of these preferential treatments. Since access to markets cannot in itself create the necessary conditions for successful product introduction and consumer acceptance, other factors that affect access must be taken into consideration. It is important, then, to try to understand the underlying factors which may affect the Honduras' ability to take advantage of these incentives.

The framework of this analysis will take into consideration only problems related to manufactured products considered for access under the Caribbean Basin Strategy and GSP. The reason is that the rationality of the market-place is such that it dictates techniques and relationships which are influenced heavily by product characteristics and market structure. Manufactured products are heterogeneous products and selling such products requires extensive marketing effort and sophisticated marketing systems as the U.S. market is an affluent, highly discriminatory and saturated market. Moreover, market structure is characterized by monopolistic competition, dominated by a few large firms performing extensive marketing to sell their products with highly specialized distribution systems. The rationality of the marketplace, then, requires a direction and degree of marketing specialization which may not be present in the Honduran industrial sector at present and which may affect its capabilities to export.

In order to develop this analysis, it will be necessary to evaluate the Honduran manufacturing and export sectors, as well as the existing facilitating institutions and mechanisms in the system. The purpose of this analysis will be to identify past problems, as well as present needs, in order to develop guidelines for an export development strategy that can provide a viable framework for the development of the exports of manufactured products within the reality of the international marketplace.

II. OVERVIEW OF THE HONDURAN ECONOMY

a. Historical Analysis

Honduras is the second largest country in Central America, yet it is the poorest. Its mountaneous terrain, which covers 64% of its land, remains mostly unused due to inaccessibility and low population density. Its population of 3.4 million people is a very young one with about half under the age of 15. Its labor force accounts for 28.8% of its population, making the dependency ratio (the proportion of productive to nonproductive groups in society) relatively high.[3] Its geographic location makes it a natural for international commerce with the United States, the Caribbean, the northern part of Latin America, and Western Africa.

Honduras was discovered by Cristobal Colon and became a part of the Spanish Colonial Empire. The Spaniards, however, left the large Honduran territory almost uninhabited. When the Spanish arrived, the Indian population had all but disappeared with the exception of small groups in the central highlands of the territory. The Spanish came to the free world seeking precious metals and centered economic activity around this pursuit, with few thoughts on long range economic development. Honduras, like other Spanish colonial territories, was subjected to economic mercantilism, a highly restrictive and exclusive system of trade favorable to Spain. This control resulted in a myriad of prohibitions and restrictions which constrained Honduran trade with the Central American territory as well as other Spanish territories, and inhibited internal economic development.

Honduras came under Spanish control as part of New Spain, a territory which included what is today Mexico and Central America. Inasmuch as Central America was not particularly rich in precious metals, the economic history of this colonial territory can best be described as a constant search by the Spanish for a key to fast wealth, pursued by developing export crops one at a time. Each endeavor was pursued with extraordinary single mindedness, depleting and finally exhausting human as well as other resources. These activities condemned the region to a series of booms and busts, as the products would enjoy a period of prosperity and profit, then decline and disappear.[4]

This type of economic activity precluded any long range economic stability and inhibited development of domestic factors of production. The Spanish were only interested in depleting resources , not creating them. This type of economic activity eventually lead to a stagnant Central American economy dependent on a series of agricultural mono-experts, henceforth. In the middle of the 16th century, however, it became apparent that the streams and rivers of Honduras offered great potential for gold mining. Consequently, Honduras became the center of gold panning activities in the Central America territory. The initial gold exports were relatively large and promising and Honduras became the most important producer of gold in the region.[5]

The decline of the gold industry was all too familiar. In the absence of adequate factors of production and lack of manpower, the primative extractive technology reduced the productivity of this industry to a trickle. However, silver discoveries around Tegucigalpa once again made Honduras one of the major exporters of precious metals in the area. The silver discoveries produced another boom in the Honduran economy. Negro slaves were introduced to increase the labor force. However, primitative technology and the all too familiar exploitation of the resources finally hampered the industry. The inability, or unwillingness, of the Spanish to provide inputs to increase production (for example, Spain was reluctant to provide mercury to extract silver by more modern processes) quickly inhibited further development of the industry. The prevalent fraud present in colonial mining industry also inhibited the development of this industry. The Honduran mining industry enjoyed only a fleeting prosperity, and soon the Honduran economy, its resources depleted, was once again ignored by the Spanish authorities.[6] The brief periods of prosperity had given rise to a weak economy with a small and weak resource base, and lacking a dynamic element to develop the territory into a viable economic system, Honduras soon became a poverty stricken territory.

The stagnant economies of Central America, greatly dissatisfied with colonial economic policies, made separate bids for independence and became independent nations in 1821. In 1824, and for a brief period, the Central American countries attempted to maintain economic and political unity by initiating an experiment in Unionism. Disagreements and political bickering, however, dissolved the union and the Central American region became a group of five independent nations-states, Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.[7]

b. The Export Economy of the Twentieth Century

A rapidly rising demand for bananas in the United States gave Honduras an opportunity to enter the international economy once again at the end of the 19th century. Due to its geographical location and proximity to the U.S. market, Honduras had a special comparative advantage in growing this product, and soon became a major producer of this product. The export industry became the backbone of the Honduran economy and would dominate its export sector and the Honduran economy for the next decades. Entry into international markets, however, was thrust upon Honduras by external agents, as the lack of adequate resource base allowed a few U.S. firms to dominate this export industry, bringing in capital and management capabilities, as well as the extensive marketing network necessary to distribute and sell the product in the United States. These U.S. multinational corporations became a dominant factor in the Honduran economy.[8]

Honduras became a typical export economy under the umbrella of these companies, becoming the stereotype of the "banana republic".[9] The impact of these activities brought the Honduran economy into the international economic system, but the domestic market remained weak and small. Foreign investors and managers become income-remitting agents because the goods needed to maintain their higher standard of living were not produced in Honduras. The small domestic market precluded manufacturing these goods domestically, and the low purchasing power of the population did not warrant investment in domestic production. Hence, what these groups spent domestically was on imported luxuries. A commercial group quickly developed, and an ethnically distinct group soon became a dominant factor in the import trade. This group represented the more economically developed group in the domestic economy, catering to the whims and tastes of the wealthy and the foreign managers.

The result was that foreign factors, the wealthy, and the small trading group consumed imported luxuries and invested little in the development of the domestic economy. The domestic factor's income as well as the foreigner's was either remitted abroad looking for more profitable opportunities, or spent on imported luxuries at home.

c. <u>The Central American Common Market</u>

Since the export sector failed to contribute to enlarge local markets, as the profits of the export economy were either remitted abroad or spent on imported luxuries by the more economically developed groups in the economy, the governments of Central American countries decided to embark on a major development effort. Under the auspices of the United Nations, and following prevailing economic development theories, the Central American countries rejected models of outward development and chose import substitution industrialization as a catalyst to promote rapid and sustained economic growth. The development model entailed the stimulation of the industrial sector to provide the necessary linkages to stimulate the rest of the economy and allow the diffusion of income and earnings into the economy and thus create larger and more affluent markets for self-sustained economic growth and development.

A most important element of this development plan was the new role of government in the economic process. Under the new arrangement, the government became an intermediary to direct economic activity for the benefit of the domestic economy and to create a domestic resource base necessary to generate the dynamic, self sustained economic growth sought by the development model. The promotion of the industrial activities was envisioned as the way to stimulate the development of domestic capital and human resources and create the resource base necessary to spur economic development.

The five Central American countries formed the Central American common market in an effort to overcome the limits of each country's small markets and create a larger regional market to facilitate industrial growth. The initial results were positive, as industrial production increased rapidly. Nevertheless, by the early 1970's, it became apparent that this effort was insufficient. True, significant gains were made, as output increased and the economy became more diversified. Industrialization, however, soon reached its limits within the framework of import substitution.

New problems were faced by the Central American countries. Labor absorption, an important element of this process, was not fully realized in the extent necessary to provide an income generating force in the economy, and demand remained relatively static as the mass markets never materialized.[10] Similarly, the extensive subsidies and protective measures affected the efficiency of the industrial sector, giving rise to a small sector composed mainly of light industries throughout Central America, all producing similar products. Moreover, the benefits of intraregional trade were not evenly distributed, as Guatemala and El Salvador generated two-thirds of the intraregional trade.[11]

Furthermore, the structure of the external sector changed as the import co-efficient grew faster than exports, and demand for consumer goods, industrial raw materials, and semi-finished goods outspaced the ability of the export sector to provide foreign exchange to finance these purchases. Finally, the economic development rationale, which formulated a framework which included a high degree of government intervention to promote the development of an adequate resource base, propelled the public sector as a demander of foreign exchange, in its attempt to accelerate economic development by financing development projects with external loans. Acting as an intermediary to promote social and economic progress and promote consumption without consideration of economic restrictions, the government in effect placed further strains on foreign exchange earnings.

From the onset, it was evident that the policies aimed at developing a domestic industrial base would not be carried out without foreign investment.

inasmuch as the domestic economy lacked technology and domestic capital to embark in such an ambitious development program. From the onset, there was a tendency to include foreign investment in the development model. One immediate result was that indigeneous product development activities were inhibited simply because there was no need for them. The strategy of including foreign investment in the development model brought a proliferation of trademark and brands, with a committment of resources to specific brand advertising. Consumers, therefore, may have paid higher prices for products under import substitution that would appear justified. Similarly, the use of foreign investment in development process placed additional claims on foreign exchange earnings.[12]

The highly-subsidized industrialization process with its foreign component resulted in an industrial sector composed mainly of assembly or conversion-type industries, i.e., industrial processes requiring very limited capital investment (light industry) with a relatively small percent of value added by the local economy but with a high content of semi-finished inputs provided by external agents, with the resulting demand on foreign exchange. Moreover, since all Central American countries have similar product offerings, the small and static markets were soon saturated, as the industrial sectors competed with similar products in the same markets.

The new economic development framework required increased absorption of foreign exchange earnings by the industrial and public sectors. In the absence of any link between industrial policy, government expenditures, and increases or reductions in export earnings, import substitution industrialization laid the groundwork for the inflationary pressures of the 1970's. Additional pressures arose as the government increased the monetary supply to accelerate economic activity and augment aggregate income. A rising bill for petroleum imports further aggrevated the problem and placed the economy in a very precarious position. The automatic balancing of the international trade account through a reduction of imports or through higher tariffs and other restrictions was no longer possible by the end of the 1970's.

The Central American common market went into a crisis in 1969, and the common market arrangement has not yet survived this crisis. Some of the elements of the common market arrangements are still observed on a bilateral basis, imposing greater restraints on the Honduran industrial sector. As an afterthought, the decision to become part of the Central American common market did not give Honduras all of the advantages sought. It did, however, provide the basis to start a domestic industrial resource base, an objective sought by the development policies.

d. The Honduran Economy Today

i) The Industrial Sector

The industrial development process was important inasmuch as it enabled the industrial sector to grow. The "common market era" in Honduras, however, did little to create the type of industrial sector which could eventually contribute to the dynamic self-sustained growth of the Honduran economy.

Examining the industrial sector today, it can be found that, while the actual number of industrial enterprises increased during the initial impetus of import substitution, the degree of industrialization or the participation of industrial output in gross national product, increased modestly. In 1960, the industrial sector accounted for 12% of value added to Gross National Product. By mid 1970's, the sectoral participation rose to 13.3%. The industrial sector is composed mainly of small and medium-sized firms. In 73% of all industrial firms, the employees number less than twenty.[13]

Similarly, the composition of output remained relatively unchanged. As shown in Table 2, in 1980, 86.6% of the total industrial output came from traditional or residentiary industries, roughly the same participation as in 1960.

Table 2

HONDURAS: OUTPUT OF THE INDUSTRIAL SECTOR
(in percentages)

	1960	1970	1980
Final Consumption	86.6	83.7	86.4
Intermediary Industries	7.7	10.7	12.1
Metal Machinery Industries	7.3	6.0	1.5
	100.0%	100.0%	100.0%

Source: Secretaria Permanente del Tratado de Integracion Economica Centroamericana (SIECA), and Banco Central de Honduras.

Intermediate industries increased sectoral participation, accounting for 12.1% of the total industrial output by 1980. The metal machinery industry showed little dynamism as sectoral participation declined in the 1970-1980 decade.[14]

As the Central American market unfolded, the Honduran industrial sector lost some ground to Central American industries. In the early 60's, the Honduran economy consumed 57.3% from domestic supply, but by the end of the decade, this had declined to 55%. Central American products made significant inroads in the Honduran market. While in 1960, the economy consumed only 5% of products of the region, and by 1970, it was consuming 11.3%.[15]

Undoubtably, the modernizing aspect of the import substitution process had a positive effect on industrial output and income. However, the industrial development process lacked the adequate coordination for a rational development, taking into account balance of payments affects and adequate complementarity, i.e., utilization of domestic raw materials and resources.

Consequently the Honduran industrial sector only evolved from a small sector composed of residentiary industries into one composed of a thin group of assembly or conversion-type light industries which have a high dependency on external inputs, providing few linkages with the domestic resource base.

The Honduran industrial manager can best be described as a commercial industrialist, i.e., a type of businessman which is more of a salesman than a risk-taker, in contrast with the typical risk-taking entrepreneur which characterized the industrial development process of more industrialized nations. This is a result of the protective umbrella of import substitution industrialization. Under captive markets, risk taking is minimized, and product innovation and marketing expertise is reduced considerably simple because there is no need for them. The problem is that the commercial industrialist, when attempting to compete in highly saturated international markets, must do so with companies with a high degree of marketing expertise arising from experience in domestic and international markets, where marketing is a premium and risk-taking and product innovations in many instances, a necessity for survival.

The recessionary forces which affect the industrial sector, as well as the Honduran economy, have reduced foreign exchange earnings and caused a serious problem: a shortage of funds to pay for needed inputs. Given the structure of the industrial sector and its reliance on foreign inputs, the problem posed by the weakening external sector has adversely affected the dynamics of the industrial sector. The slow down of the industrial sector has affected the retail and wholesale sectors as well, and as a result, the recessionary climate has impacted on investment planning as the private sector takes a "wait and see" attitude, and the rest of the world struggles with a stubborn recession.

ii) Export of Manufactures

The previous analysis highlighted the problems of the Honduran economy and the industrial sector. Many of these problems were aggrevated by the deterioration of the balance of payments position started in 1980. As the recessionary climate began to affect world markets, softening demand and lowering prices, the Honduran economy saw foreign exchange earnings and net capital influx decline, affected by economic and political factors. The unfavorable effect of these developments, plus the continued acceleration of demand for industrial inputs and merchandise imports, seriously affected foreign exchange availability in Honduras. These trends are expected to continue in 1982.

As seen in Table 3, the United States is Honduras' main trading partner accounting for 53.5% of Honduras' total exports. Together with Germany (Federal Republic) these two countries account for almost two-thirds of total exports. Honduras' main export products are bananas and coffee. These two products account for 54.1% of total exports, while manufactured goods account for 2% of total exports (see Table 4).

Table 3

HONDURAS: MAIN TRADING PARTNERS
(as % of Total Exports)

Country/Region	1979	1980	1981
United States	58.9	52.1	53.5
Central America	8.2	10.2	8.9
Caribbean and Other Latin American Countries	4.2	3.6	4.1
Germany (Fed. Rep.)	9.9	11.6	10.2
Rest of World	18.8	22.5	23.3

Source: Banco Central de Honduras

Table 4

HONDURAS: MAIN EXPORT PRODUCTS
(as % of Total Exports)

Product	1979	1980	1981
Bananas	27.3	27.7	27.7
Coffee	26.8	24.8	22.2
Lead, Zinc and Silver	11.8	10.7	11.0
Refrigerated Meat, Shrimp and Lobster	8.3	7.4	5.9
Sugar, Tobacco, Cotton	8.3	9.7	12.5
Manufactured Products	1.7	1.7	1.9
Total Exports (in millions of U.S. dollars)	732.5	822.1	777.5

Source: Banco Central de Honduras

The rigidity of the import component of Balance of Payments can be observed in Table 5. It can be seen that only 24% of imports are goods for final consumption. Raw materials, fuels, oils, lubricants, capital goods and equipment, account for almost 76% of the total imports. The export of manufacturers has remained relatively stable over the past three years, composed mainly of export products such as soap, canned fruits, cement, manufactured wood products, barbed wire, cigarettes and tobacco products.

An analysis of Honduras export supply indicates that a very serious problem exists inasmuch as firms with exportable supplies have little marketing expertise for international markets. The extreme competitive pressures and the lack of marketing expertise make exports of manufactured products a very difficult venture for the average Honduran industrial manager.

Table 5

HONDURAS: VALUE OF MAIN EXPORTS - JAN. TO APRIL
(in millions of dollars)

Product	1980	1981	1982/a
Bananas	75.1	59.7	79.0
Coffee	124.1	88.1	79.9
Lumber	10.8	14.7	12.5
Meat (Beef)	21.7	16.1	8.8
Silver, Lead, Zinc & Cadmium	12.2	11.6	15.6
Shrimp & Lobster	5.7	4.6	3.1
Sugar	13.6	21.8	5.7
Cotton	9.5	6.2	3.9
Beans & Corn	--	--	1.5
Resine	1.6	2.2	1.9
Pineapple	2.4	3.8	0.2
Manufactured Products[b]	16.0	15.5	16.0
Total Jan/Apr	292.6	244.3	228.1
Total Exports Jan., Dec.	954.0	917.0	832.0/c

a/ preliminary figures
b/ soap, canned fruits, cement, manufactured wood products, barbed wire, cigarettes and tobacco products
c/ estimate based on preliminary figures
c/

Source: Banco de Honduras

Perhaps the most striking problem of the industrial sector is the inherent bias introduced in product decision by import substitution industrialization. In a protected environment, product decisions were made to conform to development policies. The rationale for product decisions was affected by the number of jobs created, the level of technology acquired, and the effect on output and income. Thus, a firm found itself with the latest technology and excess capacity, serving a small captive market but with no identified export markets or domestic market growth to absorb excess capacity.

This decision making process may have some validity in captive markets of developing countries, but, in international markets, the firm must take a different approach, i.e., produce the products that sell and be able to identify markets and develop a strategy to serve them. The ability to identify opportunities in international markets and the decision making process thereof requires a high level of marketing expertise, especially in the markets of manufactured products.

III. PROBLEMS OBSERVED

In addition to the general problems summarized previously affecting the Honduran economy and the manufacturing sector's ability to take advantage of external markets, the following summary of problems is presented.

A. Financial problems

1. Shortage of working capital that inhibits the industrial firm's growth and its ability to develop markets adequately.
2. High cost of credit and restrictive credit policies that inhibit capital formation and plant expansion required to tap foreign markets.
3. Non-availability of credit capital, rendering the Honduran industrial sector incapable of providing supplier's credit, seriously affecting its competitiveness in world markets.
4. Delays in providing foreign exchange and threats of devaluation causes incertainty and raises costs to the exporter.
5. Lack of any meaningful government policy to address any of the problems listed above.

B. Marketing Problems

1. Few inter-industry linkages that make imports costly and raise the cost of export products. Assembly-type or conversion-type industries have little competitive advantage in product, quality, and/or price.

2. Quality standards and product offerings that are not directed at satisfying international demand but are closely linked to internal development and employment policies, rendering many products inadequate for international markets. Existing exportable supply is, for the most part, of non-durable consumer products, where competition is the keenest.

3. Higher transportation costs to the United States and the Caribbean arising from the reduction of imports. Especially affected is air transportation, since the reduction of imports forced airlines to reduce the number of slights and increase the price of transportation causing problems to the export sector. Air transportation to other areas (Northern Latin American and Western Africa) is generally not adequate as there is no direct link with those markets due to the small volume of trade. Sea transportation is generally adequate to the United Sates, although the rates are relatively high due to low levels of cargo shipments. Access to other markets in Latin America or Africa is and continues to be a problem as availability of services is very low, sometimes non existent.

C. Institutional Problems

1. Inadequate government and private sector cooperation. Even though evidence suggests there is a high degree of consultation, Government assigns itself the highest priority in the foreign exchange market squeezing the private sector and straining its resources.

2. Lack of an adequate export promotion program. Export development laws make exporting very cumbersome (registration procedures, paperwork, taxes). For example, the tax, an anachronism of the past, is a distorting disincentive in an economy that sorely

needs foreign exchange.

3. Overprotection of domestic industries. That acts as a disincentive that effects efficiency. It impacts on competitive ability, especially in markets where most opportunities lie for the efficient marketing-oriented producer.

4. Lack of private sector cooperation. Although inter-industry groups exist, most are concerned in studying national problems, rather than concentrating in creating effective mechanisms to develop a viable export sector for manufacturers. Attempts are being made in this direction, but efforts are still insufficient to generate an adequate mechanism to serve the manufactured export sector adequately.

IV. SUMMARY AND CONCLUSIONS

Recent world trade patterns in manufactured products have tended to shift international division of labor to the advantage of developing countries, since the absolute and relative costs of production are lower in developing countries than in industrial ones. To that effect, the United States, along with other industrial countries have instituted incentives to help developing nations to diversity their economies and accelerate development by providing access to its markets through the Generalized System of Preference (GSP) and proposes to further expand such access through the Caribbean Basin Strategy.

The analysis of the Honduran economy indicates that the problems inherent in the industrial sector are not only related to current economic problems but to structural and institutional deficiencies which must be addressed if the export potential of the industrial sector is to be realized. A perusal of the Honduran external sector indicated that exports of manufacturers are still very low as Honduras continues to rely on export of agricultural products.

While Honduras has a geographical advantage to reach U.S. and Caribbean markets, its industrial sector shows some weaknesses which may hamper, on the short run, its ability to take full advantage of the preferential treatment described above. These weaknesses include industrial product offering and lack of marketing expertise in export activity.

The crux of the matter is the need of the industrial sector to develop expertise in production, distribution and marketing of export products. The challenge faced by the industrialist-exporter is to develop an adequate product for export markets as well as the managerial skills to plan strategy and effectively compete in foreign markets. The offer made by the United States to provide access to its markets in order to stimulate growth and development of the industrial sector is likely to have little, if no effect, on the small and medium sized firm with no marketing expertise and inadequate products for export markets. The markets of manufactured products in international trade is significantly different from trade in raw materials and agricultural products. Trade activity of these products is a relatively simple exchange of goods, buying and selling operations which require little marketing effort. However, buying and selling manufactured goods is a different situation. Marketing expertise becomes a primary activity of the firm in order to sell products which serve a significantly wider range of consumer wants and needs, geographically dispersed, and with varying levels of income, tastes and consumption patterns. The adaption must be there if the Honduran industrialist-exporter is to realize the goal of developing an acceptable volume of exports of Honduran manufactured products.

V. AN EXPORT DEVELOPMENT STRATEGY FOR HONDURAS

The Honduran government should initiate, in cooperation with private sector, a full-fledged campaign to promote exports. The export promotion activity should make clear the role of the private sector and government activities in export development and provide clear guidelines and mechanisms to achieve this goal.

1. In the <u>short-term</u>, the export development strategy should include provisions to:

   a. Direct resources to develope adequate management/human resources for export development. This means extensive training and education with special emphasis of the marketing aspects of exporting.

   b. Eliminate export disincentives like export taxes and other such taxes that affect cost and efficiency in the export sector.

   c. Make financial resources available, at low cost, to qualified exporters for market development and working capital.

   d. Promote the development of a prototype export trading company, to provide procurement, assembly, distribution and marketing functions to the export sector in specialized product areas and regions. The key provisions of this prototype organization should be to provide needed expertise to reach the following long-term objectives:

- - specialization of product/geographical area
- - displacement of foreign-owned resources in export activities.
- - centralization of buying, selling, and other marketing functions to escape constraints imposed by small and medium sized production capabilities.
- - centralization of financing functions in order to liberate industrial capital to expand industrial capabilities along export market needs.

2. In the long run, the export development strategy should aim to:

   a. Promote industries that provide domestic linkages (for example, agribusiness and labor- intensive industries) with identified export market potential.

   b. Develop the capabilities of domestic resources, expecially managerial resources, to displace foreign-owned resources in export industries.

   c. Phase-out foreign ownership in qualified export enterprises and export trading companies to develop a domestic resource base to benefit the Honduran economy.

   d. Review the import substitution process to provide a more selective process, providing protection to industries which provide linkages with domestic resources.

   e. Gradually eliminate protection of assembly or convention-type industries to redirect resources to industrial activities with exportable supply.

The export development strategy outlined above should require a definite commitment by the private sector to assume higher responsibility in the development process, providing more resources to the government so that excessive intervention in the economic system is unnecessary. The rationality of the international marketplace dictates new directions for the export sector. Unless some measures are introduced to promote development of the necessary expertise to promote new mechanisms for the marketing of export products (as is the case of the export trading company) as well as other incentives to develop adequate resources over the long-run, it is highly unlikely that countries like Honduras can benefit from the U.S. offer in the long run.

The major problem is to achieve the adequate perspective on the problems which are outlined in this paper. This perspective calls for long-term solutions to make the export sector a viable one. This may well require changes in the economic, political and social structure and imply long-term solutions to short-term necessities. Unless this perspective is achieved, any effort to stimulate exports without the adequate development of resources may prove futile and short-lived, and not in a magnitude that can effectively help develop a dynamic industrial sector that can contribute to self-sustained growth and development.

NOTES

[1]Banco Central de Honduras

[2]Other industrial countries also give preferential treatment to the manufactured products of developing countries. However, due to its geographical location, the U.S. Generalized System of Preferences (GSP) offers the Honduran export sector a more immediate and logical opportunity. This paper, therefore, will address only the problems related to access to U.S. markets.

[3]The dependency ratio is calculated by dividing the economically active population by total population. In Honduras, the depandency ratio is 1:3.

[4]Murdo J. McLeod, _Spanish Central America_ (Berkeley, Calif.: University of California Press, 1973), pp. 46-68.

[5]_Ibid._, pp. 55-56.

[6]_Ibid._, p.58.

[7]Marta Ortiz-Buonafina, _The Impact of Import Substitution on Marketing Activities_ (Washington, D.C.: The University Press of America, 1981), p. 12.

[8]Mario Rodriguez, _Central America_ (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1965), p. 103.

[9]_Ibid._, p. 106.

[10]Marta Ortiz-Buonafina, _The Impact of...._ , p. 22.

[11]Guatemala and El Salvador may have had a comparative advantage in geographical location and resource availability which may account for this phenomenon. Both countries have a relatively larger pool of labor force and lie in the southern coast of Central America. This geographical location links all the Central American countries with the exception of Honduras. Its mountaneous terrain may have hampered access to the rest of the Central American markets and given the other two countries a comparative advantage in the Central American Common Market.

[12]Marta Ortiz-Buonafina, _The Impact of...._ , pp. 59-60.

[13]Banco Central de Honduras.

[14]Residentiary industries are those that evolved from cottage industries, such as textiles, shoes, etc. and which form the basic industrial structure of most economic societies. Intermediary industries are those producing semi-finished or intermediate goods for the industrial sector.

[15]_El Desarrolo Integrado de Centro America en la Presente Decada_ (Buenos Aires: Instituto para la Integracion de America Latina BID/INTAL, 1974), Tomo 4, pp. 25-28.

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