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The Strategic Implications of the Caribbean Basin Initiative: A Case Study of the Honduran Export Sector (Dialogue #31)

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THE STRATEGIC IMPLICATIONS OF THE CARIBBEAN BASIN INITIATIVE: A CASE STUDY OF THE HONDURAN EXPORT SECTOR

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PREFACE

This paper is an updated and expanded version of Dr. Marta Ortiz' October, 1982 OPSD: "An Export Development Strategy in Honduras." Special attention is given to the Caribbean Basin Initiative and its potential impact in Honduras as well as an export development strategy for the country. The author is Associate Professor of Marketing and Environment at Florida International University. Comments are welcomed and should be addressed to Dr. Ortiz. Publication of this document has in part been made possible by a grant from the Florida International University Foundation, Inc.

Mark B. Rosenberg
Director

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A CASE STUDY OF THE HONDURAN EXPORT SECTOR

Abstract: This paper studies the historical background of the Honduran economy and the problems faced by the Honduran export sector to develop non-traditional export products. The evidence suggests that structural and institutional deficiencies pose a fundamental bottleneck in the development of a viable export sector.

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, Honduras began to suffer a sharp economic downturn. Gross National Product grew by only 2%, as compared to an average 7.8% in the previous four years. By mid-1983, real growth in GNP turned negative to minus 1.1%.

On the domestic front, the industrial sector, accounting for 15% of Gross Domestic Product, in the past one of the most dynamic sectors of the economy, also showed signs of sluggishness. Real growth in 1983 was minus 1.3%, as compared to an average 4.8% in the previous two years. The industrial sector faced a dwindling supply of financial resources for working capital, plant expansion, and needed inputs, as the economy contracted in a recessionary wold environment. This sector experienced a 24% dropoff in exports to Central America. Similarly, the slow-down in external demand had a strong impact on the Honduran export sector, which accounts for one-third of total output. Moreover, the political problem unfolding in Central America 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 falling prices and a slackening of demand in international markets. In 1982, total exports declined 12.4% while imports declined by 19.4%. Bananas, Honduras' main export crop, which accounts for one-third of total exports, increased by only 2%. Coffee exports, another important export product, declined by 11.4%. Meat exports declined by 25% while sugar exports toppled 47%. This last category was strongly affected by falling world prices and the implementation of a U. S. sugar quota. The best export performance was posted by seafood products (shrimp and lobster), an important emerging export in recent years. Seafood exports rose by 6.6% from 1981 levels. Other exports (metals, tobacco, lumber) also suffered from declining prices in world markets.

In the wide range of "non-traditional" exports, growth was stagnant although some products performed well (light manufactures, ornamental plants, melons, pineapples, and other fruits and vegetables). Although exports of these products is small in terms of the total, they offer greater growth potential than traditional products in light of current international trade patterns and structure.

In contrast, imports of goods and services continued to grow at a brisk pace. By 1982, import demand began to slow down affected by recessionary times, and for the first time in many years, the balance of payments was almost at equilibrium. However, the large deficits of previous years led to a series of unprecedented deficits in the balance of payments. The result was a decline of 73% in the net international reserves for the period between 1980 and 1982. Preliminary extimates for 1983 indicate that these trends are likely to continue, placing severe pressures in foreign exchange availability.

The impact of foreign exchange shortage in the economy is significant. In an economy where 60% of imports are capital equipment, raw materials, intermediate goods and another 24% is petroleum, the ability to finance imports affects the development of the economy as a whole and particularly that of the industrial sector. 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 development needs.

The deteriorating economic conditions, the weakness of the export sector, and the political problem unfolding in the area pose a strategic problem to the Honduran industrial sector. The problem centers around the ability of the Honduran industrial sector to take full advantage of the preferential treatments provided by the Caribbean Basin Initiative. The CBI entails a one-way access to U. S., markets for products of the countries in the region for a twelve-year period. The CBI also provides incentives to promote investment in the region to accelerate job creation and expansion of production capabilities. The major thrust of the CBI is to promote the exports of "non-traditional" products, an important component of world trade today. 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 Honduras and its ability to take advantage of these incentives.

This paper will focus on the factors that affect access to export markets and the problems faced by the industrial sector in developing viable export products. The underlying thesis of this paper is that exporting of manufactured products require techniques and skills which are influenced by product and market characteristics. Selling such products requires extensive marketing effort and knowledge of sophisticated marketing systems. Moreover, market structure is characterized by oligopolistic competition, where a few large firms dominate, 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 the present time and which may affect its capabilities to export.

In order to develop this analysis, it is necessary to evaluate the Honduran manufacturing and export sectors, as well as existing facilitating institutions and mechanisms in the system. The purpose is to identify problems and present needs in order to develop guidelines for an export development strategy that can provide a working framework for the development of the exports of manufactured products within the context 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 mountainous 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. 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 in the Central American region, 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 previous 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 myriad prohibitions and restrictions which restrained 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 the constant search by the Spanish for a key to fast wealth. This meant centering economic activity in developing one export crop at a time. Each endeavor was pursued with extraordinary singlemindedness. 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 (McLeod, 1973).

This type of economic activity precluded any long range economic stability and inhibited development of domestic factors of production. This eventually led 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 (McLeod, 1973).

The decline of the gold industry was all too familiar. In the absence of adequate promotion of the mining industry and lack of manpower, the primitive extractive industry was soon reduced 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, primitive technology and an exploitation of human 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 affected 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. 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 (McLeod, 1973).

The stagnant economies of Central America, greatly dissatisfied with colonial economic policies, made separate bids for independence and became independent nations in 1821. For a brief period in 1824 the Central American countries attempted to maintain economic and political unity by initiating an experiment in Federalism. 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.

b. <u>The Export Economy of the Twentieth Century</u>

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 six or seven 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 development of the Honduran economy in the early part of the twentieth century (Rodriguez, 1965).

Honduras became a typical export economy becoming the stereotype of the "banana republic". The impact of these multinational companies brought the Honduran economy into the international economic system, but the domestic market remained weak and small. Investors and managers, both foreign and domestic, became income-remitting agents leaving the bulk of the profits in foreign banks and generating a strong demand for imported consumer goods which were not produced in Honduras. The small domestic market precluded producing these luxury goods domestically, and the low purchasing power of the majority of the population did not warrant investment in domestic production. A commercial class quickly developed and an ethnically distinct group became the dominant factor in 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 economic impact of these activities was soon evident in the balance of trade. The foreign investors, managers, the wealthy, and the small trading group consumed imported luxuries and invested little in the development of the domestic economy. The income generated by exports and profits from domestic activities were either remitted abroad looking for more profitable opportunities or spent on imported luxuries at home.

d. The Central American Common Market

It was apparent, then, that the outward model of growth led by the export sector had failed to contribute to the needed levels of economic development. Consequently, the governments of Central American countries decided to take a more active role in economic activity by directing the economic development effort. Under the auspices of the United Nations, and following prevailing economic development theories of the 1950s, 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 through a series of selected incentives to provide the necessary linkages to stimulate the rest of the economy. The objective was the diffusion of income and earnings into the economy and thus create larger and more affluent markets for self-sustained economic growth and development (Castillo, 1966; Villagran Kramer, 1970; McLelland, 1972; Orantes, 1972; Pincus, 1972; SIECA, 1973).

One of the most important elements of this development plan was the new role of government in the economic process. Under the new economic arrangement, government was to become an intermediary, directing economic activity for the benefit of the domestic economy and creating 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 (CACM) 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 economies became diversified. Within a decade, intra-regional trade increased 800% and per capita income grew almost 50%. The industrialization process, however, soon reached its limits within the existing framework.

New problems were now faced by the Central American countries. Labor absorption, an important element of the import substitution model, was not fully realized to the extent necessary to provide an income generating force in the economy. Consequently, aggregate demand remained relatively static as the mass markets never materialized. Similarly, the extensive subsidies and protective measures affected the efficiency of the industrial sector, giving rise to a thin 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 and attracting a significant portion of foreign investment.

Furthermore, the structure of the external sector changed as the import coefficient grew faster than exports. Demand for consumer goods, industrial raw materials, and semi-finished goods quickly began to outpace the ability of the export sector to provide foreign exchange to finance such 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 infrastructure, propelled the public sector as a demander of foreign exchange in its attempt to accelerate economic development by financing development projects with external resources. Acting as an intermediary to promote social and economic progress without consideration of economic restrictions, the government in effect placed further strains on foreign exchange earnings.

From the outset, 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. Thus it became necessary to include foreign investment in the development model. One immediate result was the introduction of one more claim on foreign exchange earnings, as remission of a percentage of profits was initially guaranteed by foreign investment incentives. Moreover, since the incentives created opportunities to invest in the manufacturing sector, multinational companies quickly moved into light industries, producing mostly non-durable goods. Thus, product offerings were not the result of indigenous product development activities but corporate strategy. Moreover, the strategy of including foreign investment in the development model brought a proliferation of trademarks and brands and the corresponding commitment of resources to specific brand advertising. Consumers, therefore, may have paid higher prices for products under import substitution that would appear justified.

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 additional demand on foreign exchange. Moreover, since all Central American countries developed 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, therefore, required increased absorption of foreign exchange earnings by the industrial as well as the 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 aggretate income. A rising bill for petroleum imports in the 1970's and the world recessionary period further aggravated 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 became a zero-sum game by the end of the 1970's. Foreign debt payments and petroleum imports became priority items in the use of scarce foreign exchange. The import dependent industrial sector soon began to face input shortages leading to underutilization of its productive capacity.

The Central American common market went into a crisis in 1969, and it did not survive the crisis. Some of the elements of the common market arrangements are still observed on a bilateral basis. It can be said, as an afterthought, that the decision to become part of the Central American common market did not give Honduras all of the advantages it 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 of the participation of industrial output in Gross Domestic Product increased modestly. In 1960, the industrial sector accounted for 12% of value added to Gross Domestic Product. By mid-1970's, the sectoral participation rose to 13.3% rising to 15% by 1980. The industrial sector, however, is composed mainly of small and medium-sized firms, a majority of which (73%) average ten employees or less.

Similarly, the composition of output remained relatively unchanged. As shown in Table 1, in 1980, 86.6% of the total industrial output came from traditional or cottage industries, roughly the same participation as in 1960. 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.

Table 1

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.

As the Central American market unfolded, the Honduran industrial sector lost some ground domestically 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% (SIECA, 1973).

Undoubtedly, the modernizing aspect of the import substitution process had a positive effect on industrial output and income. However, the industrial development process was stymied by lack of adequate coordination taking into account balance of payment effects and the utilization of domestic raw materials and resources. Consequently, the Honduran industrial sector evolved into a small group of assembly or conversation-type light industries which have a high dependency on external inputs, providing few linkages with the domestic resource base.

ii) Non-Traditional Exports

Exports of non-traditional agricultural and manufactured products are becoming a factor in the economic development of less-developed countries. International trade patterns today suggest that there are significant opportunities in this type of export as an additional source of foreign exchange and a stabilizer in the economy. Selling non-traditional products in world markets, however, entails a higher degree of marketing expertise. Products sold in the more affluent markets of industrial countries must meet special market conditions in terms of price, quality, design, and distribution in a highly competitive environment. Consequently, the export activities of the firm require careful planning and diversification. This means adequate knowledge of the market, consumer motivations, development of exportable products, comprehensive promotional strategies, and design of adequate channels of distribution that can guarantee delivery of the products where and when the consumer wants them.

A careful on site analysis of the Honduran non-traditional export sectors in terms of the opportunities and skills required to serve world markets identified problem areas in its structure, dependency, and managerial infrastructure.

Structure

Industrial activity in Honduras is still expanding. Industries such as food processing, leather, shoes, cement, textiles, radios, televisions, chemicals, furniture, handicrafts, clothing, and agri-industrial firms are preparing for exports. The export offerings of non-traditional products are primarily composed of non-durable goods such as plastic products (keyholders, wallets, folders, etc.), kitchen utensils, soaps, detergents, toothpaste, disinfectants, cookies, pastries, handtools, toothpicks, pharmaceutical products (OTC), bottle caps, disposable cartons, plates, and dinnerware, shoes and shoe soles, heels, etc., zippers, as well as other products such as aluminum furniture, windows, operating parts, doors and screens. Exports of non-traditional agricultural products include shrimp, lobster, ornamental plants, melons, pineapples, and other fruits and vegetables. It can be readily observed that the export offer is aimed at markets where competition is intense as domestic production is likely to be strong and markets saturated. A perusal of the Honduran marketing activities indicated that firms with exportable supply have little marketing expertise for international markets, making exporting a very difficult venture for the average Honduran firm wishing to tap foreign market opportunities.

Dependency

A very serious problem confronting the Honduran industrial sector is the shortage of foreign exchange to pay for needed inputs. Honduras' main exports are bananas, coffee and metals (see Table 2). The first two products account for over half of total exports, while manufacturing products accounts for only 2.4% of total exports.

Table 2

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

Product	1979	1980	1981	1982
Bananas	27.3	27.7	27.7	34.0
Coffee	26.8	24.8	22.2	23.8
Lead, Zinc and Silver	11.8	10.7	11.0	4.4
Refrigerated Meat, Shrimp and Lobster	8.3	7.4	5.9	8.8
Sugar, Tobacco, Cotton	8.3	9.7	12.5	6.7
Manufactured Products	1.7	1.7	1.9	2.4

Source: Banco Central de Honduras

The shortage of funds is accentuated by the government's disbursement policies. The primary demands of foreign exchange are the industrial sector and the government. The industrial sector needs foreign exchange to pay for inputs to maintain present levels of production and employment. The latter needs resources to pay for and service debts incurred by the government to finance economic development projects, many of which have not reached the productivity projected. In order to fulfill these needs, the government must set priorities in allocating foreign exchange, assigning the highest priorities to government needs and importation of inputs for the agricultural sector. 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 had a negative impact on investment planning as the private sector takes a "wait and see" attitude.

Managerial Infrastructure

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 most 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 simply because there is no need for them. In highly saturated international markets, however, these two factors become crucial competitive tools. The commercial industrialist must compete against companies with extensive marketing experience in the U.S. and international markets where marketing is a premium and risk taking, and product innovations are, in many instances, a necessity for survival.

Perhaps the most striking problem of the industrial sector is the inherent bias introduced in product decision by import substitution indistrialization. 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 and no identified export market to absorb excess capacity.

This decision making process may have some validity in captive markets of developing countries, however, in international markets, the firm must take a different approach, that is, 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

The problems affecting the Honduran economy and affecting the non-traditional export sector can be summarized as follows:

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 (such as quantity restrictions and exhorbitant collateral requirements) 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 uncertainty and raises costs to the exporter.

5. Lack of any meaningful government policy to address any of the problems listed above.

b. <u>Marketing Problems</u>

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

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 flight_ 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 States, although the rates are relatively high due to low levels of cargo shipments. Access to other markets in Latin America or Africa is and con-

tinues 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 export 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 machanisms 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 diversify their economies and accelerate development by providing access to its markets through the Generalized System of Preference (GSP) and 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 non-traditional products remains low as Honduras continues to rely on the 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, in the short run, its ability to take full advantage of the preferential treatment described below. These weaknesses include the 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 the latter 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 which are geographically dispersed 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 fullfledged 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 short-term, the export development strategy should include provisions to:

a. Direct resources to develop 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, especially 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.

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

On the long-run, the Central American countries must look for economic cooperation in implementing export development policies. The small size of each country's market precludes any significant development in the non-traditional export sector that can realistically provide the foreign exchange earnings which can contribute to the country's development process. One country's isolated export promotion programs can have a positive impact; however, a comprehensive regional export development strategy that could help channel resources and investment in a balanced way could trigger a growing export sector with the managerial infrastructure needed to serve world markets. This cooperative effort should be the long-term objective of any regional strategy. Should any Central American countries initially refuse to participate in this effort, it could still be promoted among two or more countries until a comprehensive, regional policy could be developed. In order to achieve this goal, one of the Central American countries needs to take a leadership role, convincing government and private sectors of the problem posed to the export sector and the resource allocation efficiency that could accrue to all participating nations.

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 compay) 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 certainly not in a magnitude that can effectively help develop a dynamic industrial sector than can contribute to self-sustained growth and development.

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