

**DIRECT FOREIGN INVESTMENT IN BELIZE**

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by:

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The views expressed in this paper are those of the author and are not necessarily those of the Central Bank of Belize.

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## INTRODUCTION

In recent years developing countries (ldcs) have displayed renewed interest in direct foreign investment (DFI), primarily because of its potential for channelling scarce resources into these economies. External financing has been of great importance to Belize given the small size of its domestic market, the underdeveloped nature of its physical and industrial infrastructure, and the shortage of domestic financing for development projects.

During the 1960s and 1970s, a time when the Belizean economy enjoyed sustained and fairly rapid growth rates, foreign investments were mainly concentrated in plantation agriculture, sugar processing and in the financial sector. During the first half of the 1980s, the economy experienced serious difficulties as a result of the international recession of 1980-1983 which contributed to a rapid deterioration in Belize's terms of trade - owing largely to the collapse of world sugar prices.<sup>1</sup> In addition, the Mexican debt crisis and the consequent devaluation of the Mexican peso in 1982 triggered the collapse of the re-export trade from Belize to Mexico.

The early years of the 1980s were characterized by balance of payments difficulties, unsustainable public sector deficits and high unemployment levels. The government successfully implemented stabilization measures in 1984-86 and this formed the basis for renewed growth in the late 1980s. In 1985, following a change of government, the development strategy re-emphasized export-led growth, and placed high priority on export-

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<sup>1</sup> Sugar is Belize's major foreign exchange earner, accounting for some 40 percent of total export earnings.

diversification to reduce the over-reliance on the declining sugar industry. The private sector became the main engine of growth. Production for the local market was undertaken mainly by local investors while foreign investors were encouraged to produce for the export market. The government limited its role to maintaining macro-economic stability and to providing the infrastructure necessary for private sector investment.

Belize possesses an abundance of agricultural land and considerable potential in ecotourism, an expanding segment of the international tourist market. The country also benefits from a number of preferential export market arrangements. However, there is an absence of the capital, technology, management and marketing skills necessary to undertake viable investment projects. The Belizean government, recognizing the opportunities as well as the constraints, embarked on a campaign - via a range of development incentives - to attract foreign investors willing to utilize the country's natural resources in order to stimulate the process of economic growth and development.

Within the last few years there has been a marked improvement in the Belizean economy, with real growth rates, for the period 1987-1989, averaging 8.5 percent per annum, as compared with an average annual rate of 2.6 percent for 1984-1986 and 0.5 percent for 1980-1983. This growth has been induced by a strong rise in private and public investments. The level of DFI in Belize increased significantly in the second half of the 1980s. A significant part of this investment has been channelled into such export-oriented activities as light-manufacturing and tourism, and into new areas of tropical agriculture.

The main purpose of this paper is to critically review the government's programme for attracting DFI into Belize, particularly since 1985. Given that there is a vast amount of literature on the costs and benefits of DFI in developed and developing countries, Section 1 will give only a brief summary of the advantages and disadvantages of DFI to ldc's. Section 2 looks at the factors that have contributed to Belize's attractiveness to foreign investors; in Section 3 an assessment of the regulatory framework and fiscal incentives is made; Section 4 looks at the activities of foreign investors over the years, and Section 5 gives the conclusions of the paper.

## **SECTION 1: DIRECT FOREIGN INVESTMENT: A THEORETICAL OVERVIEW**

Lack of capital has traditionally been regarded as a major constraint on economic development in ldc's (Meier,1976; Ramsarran,1986). Faced with inadequate foreign exchange and low levels of domestic saving, ldc's have relied on external sources of finance in order to raise investment levels and to strengthen their balance of payments position. The need for foreign capital is based on the premise that, especially at the early stage of development when incomes are low, ldc's cannot generate sufficient domestic savings to finance the level of investment necessary for economic growth. Moreover, because investment is usually import intensive, while export supply may be limited in the short term, foreign capital may be necessary to overcome possible foreign exchange constraints.

The flows of foreign capital to ldc's have been in the form of loans, DFI and to a lesser extent, portfolio investment. In recent years, the move towards more market-oriented economic policies in developing countries, as advocated by the IMF and the World Bank, and the serious balance of payments problems caused by, among other factors, high levels of external debt, have contributed to a renewed interest in DFI as a source of investment and foreign exchange.

During the 1960s and the early 1970s, the flow of DFI into ldc's accounted for a significant share of total foreign capital inflows. But with the increased availability of commercial bank credit in the 1970s, there was a shift in the composition of capital flows with DFI becoming

relatively less important. At the same time, there was the emergence of economic and political opposition to DFI in many ldc's as foreign investors and, in particular, multinational corporations (MNCs), came to be regarded as appropriators of the economic benefits of their investments without the anticipated positive gains for the host countries (World Bank, 1979; IMF, 1985; Jenkins, 1990). This gave rise to a more cautious approach to DFI by many ldc's which was manifested in more restrictive policies. However, since the onset of the debt crisis and the consequent decline in commercial bank lending, ldc's have become more receptive to DFI, and have adopted more liberal policies for the encouragement of a greater inflow of DFI as well as ensuring that the investments make the maximum contribution possible to economic development.

The more accommodating attitude of ldc's reflects, in part, a realization of the advantages of DFI over other forms of capital, in particular, external debt. In addition to the capital it provides for development - capital which might not have otherwise been available - DFI can be an important source of technological, managerial and marketing expertise, resources which are generally in short supply in ldc's. The fact that DFI is directly linked to productive investment can have substantial effects on economic activity through increased exports, employment creation, the stimulation of further investments, and in higher incomes and savings in the domestic economy.

The desirability of DFI over external debt is also based on its effect on a country's balance of payments. Income payments on DFI - profits and dividends - are made only when there

are positive returns to such investment. Since the rates of return on investments tend to vary in the same direction as the rate of growth of a country's GDP, income payments on DFI are not likely to increase when an economy is experiencing negative growth, as is often the case with interest payments on external debt. If DFI is concentrated in the export sector, income payments will also be correlated with export receipts. Given the present high cost of borrowing, ldc's might find it advantageous to rely more on DFI than on external loans.

A number of criticisms of DFI have been advanced in the literature. The main criticisms however, tend to lie in the very nature of its contribution to the development process. Because the package provided by DFI is often associated with some degree of overseas management and marketing expertise, it has been argued that it can inhibit the development of local initiatives. Domestic ventures that are unable to compete with the greater resources of the foreign firms may be crowded out (Grossman, 1984; Pazos, 1988).

There has also been the charge that, especially among the MNCs, inappropriate technologies (involving capital intensive technology and over-sophisticated products) have been used, primarily because MNCs conduct very little research and development in most ldc's but instead utilise production techniques and products developed in the industrial countries. (IMF, 1985). Based on the experiences of the colonial period, there have also been concerns among ldc's that substantial foreign ownership of major sectors can result in the growth of



oligopolistic market structures which impose the usual welfare costs. Foreign companies have also been accused of practising transfer pricing in order to avoid liabilities in ldc's.

The role played by DFI in an economy is largely determined by government policy (IMF,1985). Inappropriate macroeconomic policy in the host country can weaken the country's attractiveness to foreign investors and may reduce the benefits of DFI. Governments should therefore provide sound macroeconomic policy to ensure economic stability, and a stable political environment in order to reduce many of the uncertainties associated with DFI. Many of the criticisms made of DFI in ldc's, and in particular, of MNCs, can arguably be attributed to inappropriate economic policies such as subsidized interest rates, high tariffs, industrial licensing schemes, overvalued exchange rates and excessive protection from imports. Provided the net benefits derived from DFI by the host country are positive, DFI should be encouraged.

## **SECTION 2: BELIZE'S ATTRACTIVENESS TO FOREIGN INVESTMENT**

Belize, with land area of 23,000 square kilometers and population of 180,000, is one of the most sparsely populated countries in the Western Hemisphere. Belize is a small, open, dependent economy based primarily on export agriculture (traditionally sugar), but with significant potential in tourism and export manufacturing. There are a number of structural deficiencies in the economy which have dampened its internal dynamism. These include the small size of the internal market, inadequate physical and industrial infrastructure, and an underdeveloped financial market.

Despite these deficiencies, and the competition faced from countries in Central America and the Caribbean, there are a number of factors that have made Belize attractive to foreign investors. These include, an abundance of natural resources - cheap agricultural land, timber and natural tourist attractions, economic and political stability, preferential access to export markets, close proximity to the U.S. market<sup>2</sup>, a competitive investment incentive package, English legal institutions and an English speaking (or bi-lingual) labour force.

Economic stability has played an important role in attracting DFI to Belize in the second half of the 1980s. Following the crisis of the early 1980s, macro-economic stability was restored following the successful implementation of fiscal and monetary adjustment policies under an IMF Standby programme. Since then, the public sector has moved into substantial

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2 From Belize, the US is accessible by air, sea and road.

surplus and overall balance of payments surpluses have been accumulated over the five years to 1989. Price and exchange rate stability have also been maintained<sup>3</sup>.

Although some of the countries in Central America have been facing severe political and social problems, Belize has been able to maintain a history of political and social stability, ensuring a climate conducive to investment.

Belize has access to preferential markets under a number of bilateral and multilateral agreements with industrial countries and countries in the Caribbean. This combination of trade agreements and market access, along with Belize's proximity to the U.S. market, has enhanced its ability to attract DFI in export-oriented activities. The country benefits from such trading arrangements with the U.S. as the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI), and the 806 and 807 sections of the U.S. Tariff Schedules. Belize's exports to the U.S. market are generally free of quota restrictions, except for sugar. As a member of the African, Caribbean and Pacific (ACP) group of countries, Belize has preferential access to the EEC market under the Lome IV agreement. Preferential markets extend to the 13-member Caribbean Common Market (CARICOM) and to Canada's market under CARIBCAN, a duty free agreement between Canada and most Caribbean countries similar to the CBI agreement.

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3 Since 1976, the Belize dollar has been tied to the US dollar at BZ\$2=US\$1.

Of Belize's exports, sugar,<sup>4</sup> citrus, banana and garments are the main beneficiaries of these trade arrangements. Under the provisions of the CBI, exports of citrus concentrate from Belize enjoy duty free treatment in the U.S., as compared with those from Brazil, a non-CBI country and the world's largest exporter of citrus, which pays duty of 9.25 US cents per litre on orange concentrate into the U.S. The price Belize currently receives for bananas exported to the U.K. under the Lome agreement is about one-third more than that received on the world market. Garments are exported primarily under the U.S. 807 program which exempts the value of U.S. inputs in the finished product from tariffs. These exports, along with tourism, have been the main areas in which DFI has taken place.

Foreign investors in Belize can benefit from a package of development concessions and, more recently, from operating in an export processing zone (EPZ). Belize's investment incentives are generally competitive with those offered elsewhere in the region. (Incentives are discussed in Section 3).

An English speaking labour force and the presence of English legal institutions have featured highly as a motivating factor for foreign investment in Belize, as against other countries in Central America<sup>5</sup>. Belize is the only English speaking country in Central America, with more than half the population being bilingual - in English and Spanish.

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4 Sugar is exported under quota arrangements to the U.S. and the EEC markets. However sugar production is excluded from foreign investment.

5 The importance given to an English speaking labour force may be because DFI in Belize has predominantly been small to medium size, undertaken mainly by investors from the US who manage the enterprises themselves. The organizational structure is simple, not requiring the elaborate layout that often comes with MNCs or their subsidiaries.

Belize also has a high literacy rate, in excess of 90 percent, surpassing many countries in Central America and the Caribbean.

The small size of Belize's labour force is potentially a major constraint on DFI, especially in labour intensive industries, like garment manufacturing and export agriculture. Limited job opportunities have forced many Belizeans to migrate to the USA, resulting in a serious shortage of managerial and technical personnel. Many investors consider Belize's high literacy rate to be compensation, in a small way, for the inadequate labour supply since it provides a trainable and adaptable labour force. Labour shortages have been mitigated by migration from neighbouring countries. At present, most of the unskilled and semi-skilled labour used for large-scale export agriculture are immigrants.

Other major deterrents to DFI and to development in Belize are the high costs of labour, energy and transportation and inadequate infrastructure. Wage levels in Belize are generally higher than those of other regional countries, and are about twice that of low cost investment locations such as the Dominican Republic. Fuel imports are not eligible for duty exemptions under the terms of the development concession. Infrastructural deficiencies are mainly in transport and electricity. In recent years, the government has invested heavily in these areas.<sup>6</sup> However, further development is necessary to facilitate the continuing economic expansion.

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6 Between 1986 and 1989, public fixed investment rose by nearly 100% to approximately 13% of GDP. Government's single largest investment, which will greatly benefit the tourist industry, has been the construction of new terminal facilities, a control tower and extension to the runway at the international airport. Public investment in roads and bridges has mainly been in areas facilitating the expanding banana and citrus industries.

### **SECTION 3: THE REGULATORY FRAMEWORK AND FISCAL INCENTIVES**

The regulatory and incentives policies adopted towards investments reflect the government's desire to induce investments that utilize the country's natural resources, engage in production for export and, at the same time, involve the transfer of new and appropriate technology. The package of fiscal and other incentives, which is administered by the Ministry of Economic Development (MED), includes tax holidays, duty exemptions and subsidized rental of factory spaces in industrial estates. It provides special benefits for the location of industries in the less-developed rural areas, for export-oriented production, and for the introduction of new technology. Foreign enterprises are granted tax holidays ranging from 3 to 15 years for industry and tourism, and up to 25 years for agriculture. Eligibility for incentives is determined by the extent of local value added, foreign exchange earnings or savings, the enterprise's profitability, and on the enterprise's ability to create employment opportunities.

#### **Regulations**

The regulations allow for 100 percent foreign ownership of an enterprise in Belize, but also provide for joint ventures, and the establishment of subsidiaries or branches of private foreign companies. In the case of 100 percent foreign ownership however, approval for development concessions are granted only for investment of at least US\$125,000. Foreign investors are guaranteed free repatriation of capital, profits and dividends, provided that the

capital invested had been registered with the Central Bank. Foreign loans can be entered as part of capital investment, but the Exchange Control Regulations stipulate that the foreign investor obtain the approval of the Central Bank regarding the terms and conditions before contracting any foreign loan. There are no restrictions on take-overs or acquisitions by foreign investors. The Alien Land Holding Act of 1973 requires foreign investors to obtain a license in order to purchase over half an acre of urban land and in excess of 10 acres of rural land.

DFI has been excluded from a number of activities, as the government attempts to reserve those industries requiring relatively simple technology and low financial requirements for local investors. Those restricted are the distributive trades, commercial fishing inside the barrier reef, sugar cane cultivation, internal transportation, beekeeping, self-standing restaurants and bars, souvenir manufacturing, diving operations and sightseeing tours.

### **Fiscal Incentives**

The Development Incentive Ordinance of 1960 and the Fiscal Incentive (Industrial Enterprises) Act of 1973 were the first two pieces of legislation introduced to regulate the granting of development concessions to potential investors. These laws gave exclusive power to the Minister<sup>7</sup> to determine an enterprise's eligibility for concessions. Provisions were made for a maximum tax holiday of 15 years for capital-intensive firms and for those

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7 Initially to the Minister of Finance and later to the Minister of Economic Development.

producing for the export market. Allowance was made for duty exemptions, during the tax holiday, on capital goods and on raw materials used in the production of goods for re-exportation while profits were exempted from tax payments. The legislation remained in place until March 1990 when the investment climate was improved with the passing of the new Fiscal Incentive Act of 1990 and the Export Processing Zone Act of 1990. The Fiscal Incentive Act repealed the Acts of 1960 and 1973.

The changes made in the new Act relate primarily to provisions for the tax holiday and duty exemption periods. Under the previous Acts, an approved investment enterprise was automatically granted both a tax holiday and duty exemption, effective the date of production.<sup>8</sup> Under the new Act, allowance is made for the granting of either a tax holiday or duty exemptions, or both. The law now provides for a normal tax holiday period of five years from the date of production. However, enterprises engaged in agriculture, food-processing, mariculture or manufacturing, and whose operations are labour intensive and produce only for the export market, can be granted a tax holiday of up to 25 years. The duty exemption period now becomes effective prior to the tax holiday period, i.e., from the date approval is granted for the establishment of the development enterprise.

The Export Processing Zone Act of March 1990, gives the power for the authorization of EPZs to a Committee comprised mainly of representatives from various government agencies. In addition to being afforded access to centralized facilities and abridged custom

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<sup>8</sup> Enterprises are allowed an establishment period beginning the date the concession is approved but for no more than five years. The date of production begins at the end of that determined establishment period.



procedures, as well as the streamlining of the application procedure, foreign investors in the EPZs have been allowed duty exemptions on all imports of capital equipment, office furniture, spare parts, raw materials, intermediate goods, supplies and consumer goods; exemption from income tax, withholding tax, and capital gains tax for at least the first 20 years of operations; tax exemption, in perpetuity, on any dividends paid; and exemption from the requirements of the Exchange Control Regulations Act.

### **An Assessment of Fiscal Incentives**

Although most Idcs offer generous fiscal incentives, empirical studies have given little support to the notion that these incentives are necessary to attract DFI (Lin,1983; World Bank,1979). Incentives have been found to have had only limited impact on the flows of DFI to Idcs. In assessing the impact of incentives, Billerbeck and Yasugi (1979) found them to be ineffective and inefficient: ineffective because they have little impact on the distribution of DFI in Idcs since many of these countries have similar and competing schemes; and inefficient since the same amount of DFI might have been attracted with proper economic policies. Of the incentives offered, tax concessions appear to have had the least impact on DFI, especially since the aim has been to attract new investments rather than promote existing ones.

It has been argued that governments in Idcs should concentrate more on the creation of a sound investment climate, since this, in addition to the availability of natural resources, is

a more important factor in attracting DFI (Billerbeck,1979). However, a number of factors are likely to induce governments in ldc's to consider incentives - and generous ones too - necessary, even if not sufficient conditions to attract DFI. These factors include the realization of the potential benefits of DFI, the competition - even among ldc's - for DFI, as well as pressure on the government, be it political or from investors.

Countries in the region have offered a combination of some degree of regulation with various incentives. Differences relate mainly to the length of the concessionary periods, eligibility requirements, and the proportion of sales in the local market. A consultancy report prepared for the MED<sup>9</sup> found Belize's development concessions to be generally competitive with incentives offered by other countries of the region, including incentives offered in EPZs in the region.(See Appendices 1 and 2).

Belize's use of the tax holiday as an incentive to DFI appears to have been of secondary importance to many foreign investors. Investors have indicated a preference for cost-reducing incentives, like duty exemptions, because of their immediate effect on cash flows through the lowering of production costs, especially in the initial stage of operation when costs tend to be high and revenues low. Without these duty exemptions, firms producing for the export market could be seriously disadvantaged in terms of international competitiveness.

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9 Phase 1 of the the Belize Freezone Feasibility Study prepared by The Services Group Inc.

The granting of tax holidays can be justified, in the case of Belize, where DFI has been made mostly by small firms which often do not have the benefit of subsidized loss-making in the initial stage of operation as is often the case with subsidiaries of MNCs. Higher after tax profits might also enable firms to undertake greater amounts of reinvestment. The provision of tax holidays might therefore provide additional encouragement for such firms.

Because of the likely impact on the daily operation of an enterprise, an investor will place more importance on the smooth working of the investment administration mechanism than on the liberal incentives provided. Despite the provisions of Belize's investment code, the actual implementation of the regulations and the incentive package has been subjected to discretionary decision making, delays in administrative procedures, custom clearance delays and political interference.

The numerous administrative arrangements involved in the authorization of investment in Belize are major obstacles for DFI. The investment regulatory and support institutions are many,<sup>10</sup> requiring investors to be familiar with a number of pieces of legislations, and this has contributed to prolonged delays. The approval process should normally be undertaken within 60 days but inter-Ministerial evaluations of applications have contributed to

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10 The Ministry of Economic Development assesses the viability of projects for development concessions; Ministry of Finance reviews concession applications received from MED; Customs Department monitors and controls export and import activities; Ministry of Natural Resources issues licenses for land purchase; Ministry of Environment handles environmental concerns; Ministry of Labour regulates the labour practices; Ministry of Trade and Industries issues import and export licenses; Central Bank maintains a register of DFI and authorises foreign exchange transactions.

additional delays of more than 30 days<sup>11</sup>. The MED, on approval of an application, grants duty exemptions for a list of items. However, investors can be, and have been, given additional exemptions through the Ministry of Finance and the Comptroller of Customs. The laws have also been subjected to various interpretations and discretionary decisions. Personal contacts with government officials can also prove to be rather rewarding to investors at times.

For foreign investors unfamiliar with these procedures, a great deal of time can be lost before customs clearance for imported goods is obtained. Often it is only when goods have been imported and delays are encountered at the Customs Department that unsuspecting investors become aware of the need for import licenses. (Import licenses are required for some 29 items). The protection given to local producers through import licensing results in implicit taxes on investors, who pay prices that are much higher than the costs of importing such commodities.<sup>12</sup>

The centralization of the responsibilities of the various government departments concerned with regulating the administration of development concessions and, by extension, the associated control and monitoring of export activities, would be the ideal long-run solution to the administrative delays. The adoption of the concept of a "one-stop-shop", a scheme successfully employed in the Far East, has been advocated for the region. The case by case

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11 The law requires that evaluation of applications be done by the Ministries most affected by the investment project, and all applications have to be assessed by the Ministry of Environment.

12 Bleaching agents, used by garment manufacturers for stone-wash jeans, is a case in point.

assessment of investment projects seeking development concessions places additional pressure on the already limited administrative capacity. Given the problem Belize faces regarding the shortage of managerial personnel, interim provisions are required to improve the regulatory environment through appropriate co-ordination between the various government agencies involved.

The provisions of the EPZ Act eliminate most of the administrative procedures associated with development concessions. But, given the way events become politicized in a small society like Belize, government might find itself pressured into taking steps to modify further the regulatory environment to eliminate possible contradictions and discriminations between investments under development concessions and those in the EPZs.

#### SECTION 4: THE SCOPE OF FOREIGN INVESTMENT IN BELIZE

DFI in Belize has traditionally been concentrated in the agriculture sector. During the colonial period investment was made initially in the timber industry, followed, in the mid-nineteenth century, by investment in the sugar industry. In the early twentieth century, some amount of DFI was directed to the citrus industry and the financial sector. Substantial investment in sugar processing was made by the British company Tate and Lyle in the 1960s<sup>13</sup>.

Agriculture continues to be the dominant economic sector, attracting increasing levels of investment in the banana and citrus industries. Foreign investors have also been moving into such activities as production of fresh and processed fruits and vegetables, cocoa, shrimp farming, cattle ranching and wood products. Most production is aimed primarily at the export market. There has also been noticeable increases in the levels of DFI in tourism - mainly hotels - and in manufacturing, primarily assembly type operations like garment manufacturing. The change that has taken place in terms of the sectoral distribution of DFI, especially since 1985, is in line with efforts to diversify the economy, and are supportive of government's targeted priority industries of agriculture, livestock and agro-industry; tourism

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13 In 1985 Tate and Lyle agreed to an employee buy-out of its holding in the Belize Sugar Industry. Payments have been spread over a number of years, but a time limit of September 1994 has been set when, even if the full purchase price of US\$8.5 mn has not been made, the transfer of ownership would be completed, and no further payments would be required.

and tourism related industries; forestry and forestry based industries; light manufacturing and offshore assembly plants (export-oriented); aquaculture; and deep-sea fishing and processing.

There are no accurate or comprehensive data on the levels of DFI in Belize. The figures in Table 1 are based on the development concessions that were issued from 1985-1989 and give some idea of the sectoral distribution of DFI. There were 80 development concessions granted to foreign investors over the period. Some 41 percent of the concessions granted were for investment in the agriculture sector, 31 percent were for investment in tourism and 28 percent for manufacturing. Of these 80 foreign firms, 60 are still active - 27 in agriculture (45%), 19 in tourism (32%), and 14 in manufacturing (23%).

During the period, proposed investment by the 60 active foreign firms totalled US\$196.8 mn. Estimates of actual investments are available only for the 1987-1989 period. Indications are that, of the US\$186.5 mn proposed investment for the period, about US\$38.4 mn was realized, the equivalent of 5 percent of GDP per year. The realization of more investment has been inhibited by the shortage of skilled labour, inadequate infrastructure, and at times, costly and time consuming land preparation. Investors have also had to delay operations because of inadequate financing as there have been cases where investors obtain development concessions without first securing sufficient financing.

**TABLE 1**

**DISTRIBUTION OF DEVELOPMENT CONCESSIONS TO  
FOREIGN INVESTORS BY SECTOR 1985-1989**

SECTOR	NO. OF CONCESSIONS ISSUED	PROPOSED INVESTMENT US\$M	PROPOSED NO. OF JOBS	OF CONCESSIONS ISSUED	
				NO. STILL ACTIVE	PROPOSED INVESTMENT US\$M
AGRICULTURE	33	151.41	1,499	27	144.64
TOURISM	25	108.15	791	19	37.60
MANUFACTURING	22	23.75	1,499	14	14.56
TOTAL	80	283.31	3,789	60	196.80

Source: Ministry of Economic Development

Investment in Belize has been undertaken mostly by investors from the United States. Over the five year period, they received more than 80 percent of the concessions issued and have been responsible for the majority of investments in all the sectors - 91% of that in tourism, 78% of the investment in manufacturing and 74% of that in agriculture. New entrants in the garment industry have come mainly from the Far East - especially Hong Kong and Taiwan - and have taken advantage of Belize's access to the U.S. market. The Caribbean region, in general, has become an alternative production site for these investors primarily because textile exports from the Far East to the U.S. are constrained by import quotas, while Caribbean based textile exporters have not yet been subjected to quotas.



Belize appears to have a comparative advantage in those industries utilizing natural resources - agriculture and tourism - but not in labour intensive, assembly type operations. The limited labour supply, high wage rates and energy costs have contributed to this situation. These factors have also mitigated against Belize ability to attract DFI in skilled, capital intensive industries like data processing or electrical and electronic assembly.

## CONCLUSIONS

The sharp rise in DFI in the second half of the 1980s has contributed considerably to the economic development of Belize. DFI has also assisted in the diversification of the country's economic base into such areas as tourism and light manufacturing. Factors contributing to the increase in the level of DFI include the availability of natural resources - an abundance of land and ecological tourism potential, access to preferential export markets, and an improvement in the country's terms of trade. Government support through the creation and maintenance of a stable macro-economic environment, the provision of development concessions and needed infrastructure have also exerted a positive influence on DFI.

Belize's investment policy has not been restrictive by most standards and the fiscal incentives offered are competitive with others in the region. The actual impact of these incentives on investment is still to be determined. Except for those areas where the banana and citrus industries are located, there has not been substantial DFI in non-traditional exports in the rural areas, despite the special incentives that have been offered. It might now be appropriate for government to reconsider the mechanics for the implementation of incentive policy. The investment incentive mechanism needs to be streamlined so as to reduce bureaucratic delays. Cost reducing incentives, like duty exemptions, should be encouraged for all exporting firms so that they can compete in the international market. But corporation tax holidays should only be granted to firms which can provide significant urban

employment or skilled jobs, or which might provide a catalyst for other firms in the same industry to be established. It is doubtful whether the tax holidays given to firms - particularly in the banana and citrus industries - have had any positive influence on the level of DFI, given that profit rates in these industries are very high. Because such factors as the availability of natural resources and preferential market access have stronger influences than the incentives provided on DFI in Belize, some of the foreign investment might still have taken place without the incentives.

A matter which needs to be addressed is the granting of additional concessions to enterprises after the original development concession has expired. Frequently, investors who have been operating for long periods, apply for extensions of and modifications to existing concessions. The renewal of such concessions means that either inefficient firms are being accommodated, and/or firms are enjoying further concessions even when they have become profitable. There should be no need to prolong the benefits of development concessions to firms that realised, in early years, the benefits of their investments.

Although Belize's rather liberal incentives might have had little impact on investment decisions, they demonstrate the government's receptiveness to DFI, which, in turn, enhanced Belize's attractiveness to foreign investors. They can also be viewed as small compensations for the many constraints that investors are likely to face in Belize - small labour market, inadequate physical infrastructure, high wage rates, transportation and energy costs. Despite the uncertainties regarding the future of banana exports to the unified EC market after

1992, two recent developments augur well for future DFI in Belize. These are the establishment of EPZs in Belize with extremely favourable operating conditions, and the permanent extension of the CBI.

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APPENDIX 1

BELIZE: SELECTED ECONOMIC INDICATORS 1982 - 1989

	1982	1983	1984	1985	1986	1987	1988	1989 <sup>P</sup>
GDP <sup>1</sup> Growth (%)	0.05	-1.4	2.8	2.5	2.6	13.3	7.1	5.1
GDP at Current Market Price (US\$M)	174.2	177.0	196.9	196.2	209.2	251.8	289.0	320.0
Growth of Exports (%)	-18.8	7.3	11.8	-11.6	15.6	16.7	9.5	-0.2
Growth of Imports (%)	-17.8	2.8	13.3	-4.3	2.1	16.4	24.1	10.3
Debt Service/Exports (%)	6.7	4.3	4.5	15.1	10.5	8.7	8.4	7.7
Current Account Balance (US\$M)	-17.4	-7.5	-0.2	2.4	16.5	9.4	-9.3	-20.0
Net Foreign Reserves (US\$M)	-0.5	-6.6	-6.5	10.0	10.8	9.8	18.8	11.4
Investment (US\$M)	39.5	34.0	40.9	35.8	40.1	59.7	79.3	100.4
Public	14.4	12.7	12.0	18.4	20.6	21.2	27.0	39.9
Private	25.1	21.3	28.9	17.4	19.5	38.5	52.3	60.5

Sources: Central Bank of Belize  
 Central Statistical Office  
 Ministry of Finance  
 International Monetary Fund

P: Provisional

<sup>1</sup>: GDP at constant 1984 prices

APPENDIX 2

COMPARATIVE INVESTMENT INCENTIVES FOR VARIOUS COUNTRIES<sup>1</sup>

	BELIZE	COSTA RICA	EL SALVADOR	GUATEMALA	HONDURAS	MEXICO	DOMINICAN REPUBLIC	BARBADOS	JAMAICA	TAIWAN	HONG KONG
Corporate Income Tax Abatement	100% exemption for 1-25 years	100% exemption for 6 years; 50% for 4 years following	100% exemption for 10 years	100% exemption for 12 years	100% exemption in perpetuity	37% tax on corporate income	100% exemption for 8-20 years	100% exemption in perpetuity	100% exemption in perpetuity	Optional 100% exemption for 5 years otherwise 20% tax on corporate income	18% tax on corporate income
Sales to Local Market	Case by case	49% of total output	Case by case	Limited access	Unlimited access	20-40% of total output	20% of total output	None allowed	None allowed	2% of total output	Unrestricted
Capital/Profits Repatriation	No restrictions	No restrictions	Not explicit	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
Management of Foreign Currency	Semi-controlled	Unrestricted	Controlled	Unrestricted	Unrestricted	Controlled	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Duty Treatment for Imports and Exports	Case by Case	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption	100% exemption

Source: Ministry of Economic Development, Phase 1 and Phase 2 Belize Free Zone Feasibility Study

<sup>1</sup> For EPZ incentives except in Belize (Development Concessions) Mexico (Nequiladora) and Barbados (Industrial Estates)



**APPENDIX 3**

**COMPARISON OF INCENTIVE SCHEMES  
AND EXPORT FREEZONE REGIME**

	Development Concessions <sup>1</sup>	Free Zone Incentives
<b>Eligibility Requirements For Incentive Regime</b>	Case by Case Foreign & Domestic Origin	100% Export Firms Zone Developers Foreign & Domestic Origin
<b>Application Review Period</b>	60-90 Days	30 Days for Zone Users 60 Days for Zone Developers
<b>Income Tax Treatment</b>	1-15-Years Tax Holiday (Up to 25 years for Agriculture Projects)	Minimum of 20 years Tax Holiday
<b>Capital/Profits Repatriation</b>	Guaranteed	Guaranteed
<b>Management Of Foreign Currency</b>	Semi-Controlled	Independent Foreign Currency Accounts Permitted
<b>Duty Treatment For Imports</b>	Case by Case Exemption On Production Imports and Most Capital Equipment	Automatic 100% Exemption In Perpetuity On All Imports (Excluding Vehicles & Fuel)
<b>Duty Treatment For Exports</b>	Case by Case Exemption	Automatic 100% Exemption In Perpetuity On All Exports
<b>Customs Service</b>	Point of Entry Or In-Bond Transit	Expedited On site
<b>Alternative Provision Of Infrastructure/Amenities</b>	No	Yes
<b>Preferential Access To Expatriate Work Permits</b>	Case by Case	Guaranteed
<b>Sales to Local Markets</b>	Case by Case	Case by Case

Sources: 1) Ministry of Economic Development Phase 2 Belize Free Zone Feasibility Study  
 2) Fiscal Incentive Act 1990  
 3) Export Processing Zone Act 1990

<sup>1</sup> Incentives presented reflect MED Development Concessions program and general provisions of the Belize Investment Code.