

ITC in Central America



Situation Analysis

Mexico and Central America have received growing attention in recent years as a result of the consolidation of democracies and their efforts towards integration into the global economy. The region has made progress in stabilizing and opening their economies. GDP per capita (has risen in all countries in real terms, ranging from \$2,876 to \$9,803. Nevertheless, poverty levels remain high and social reforms still lag. Income inequalities have softened, but are still high, with Gini coefficients ranging from 0.43 to 0.55. Although globalisation has been largely positive, many sectors of society have not yet benefited.

Mexico is by far the largest and richest country, with two thirds of the population and around 90% of the region's GDP. Guatemala, the next largest country, has one-tenth the population and about one-twentieth the GDP of Mexico.

Recent GDP growth has been solid, averaging around 6% in 2006, fuelled by FDI, trade and remittances. Exports of goods and services have strengthened; at about a third of national GDPs, this is a significant change from a decade earlier. All countries have pursued opportunities provided by the multilateral trading system. Nevertheless, higher national and foreign investment is needed to sustain growth and improve social conditions.

The region has been active in negotiating free trade agreements (FTAs) and implementing existing agreements. Mexico has signed 32 bilateral or multilateral FTAs, while the Central American countries average about a dozen each; many of them also include investment facilitation chapters. After negotiating NAFTA, Mexico has pursued strengthened commercial links with Asian and South American partners. The negotiation of CAFTA-DR has absorbed much of Central American attention in recent years; implementation is at the earliest stages and not without challenges. Intra-regional initiatives have included the Puebla-Panama plan, a plan of action for Central American Economic Integration, and an FTA between Mexico and Central America; all these are at an early stage.

Still, the region is highly dependent on traditional exports and on US economic performance. 86% of Mexico's exports and 50% of Central America's go to the US. A slowdown in the US

economy could have a serious impact in all countries. Further efforts to diversify target markets and add value to the product offer should reduce this dependence.

After the many decades of internal civil strife, institutional development is picking up speed. At the trade level, trade support institutions (TSIs) are moving to improve their services and their technical competences. Mexico has recently created a dedicated export promotion agency. In Central America, although some sectoral TSIs have a long tradition, the national trade promotion organisations (TPOs) are relatively young or still need to be consolidated. Export successes have been due to particular groups of producers or individual enterprises; the rise and effectiveness of concerted national export promotion efforts could open a window of opportunity for SME and non-traditional exporters.

International cooperation could play an important role in catalysing the path ahead, through assistance in developing technical expertise, facilitating the coordination of inter- and intra-regional institutions, and fostering the consolidation of political stability and social progress.

Mexico and Central America's export performance

Country	Exports (US\$ million)	Exports to GDP (%)	Exports per capita (US\$)	Growth of export value (% p.a)	Share of exports to the region (%)	HDI ranking (out of 177)
Mexico	214,170	32	2,078	8	1	53
Costa Rica	7,141	39	1,650	11	19	48
Guatemala	5,367	20	426	22	33	118
El Salvador	3,363	21	489	5	27	101
Honduras	1,877	25	261	9	21	117
Panama	962	7	298	3	13	58
Nicaragua	858	20	156	13	40	112
Total region	233,740,735		1,637	8		

Source: ITC TradeMap, WB, UNDP Human Development Indicators. Data refer to 2005 and growth rates to 2001-2005. Export figures only include trade in goods.

Trade Challenges

ITC's Strategic Objectives

Trade Policy and Regulations

The need for institutional development

Although the region has been integrating into the multilateral trading system (MTS), the institutional framework to support and adequately implement these developments is still very weak. National or regional trade facilitation institutions in areas ranging from standards to export finance require assistance to become internationally competitive. The private sector has been involved in trade negotiations, but further public-private sector dialogue is needed to implement effectively existing trade agreements and pursue national export goals.

A quest for diversification

Mexican policy is refocusing to capture new markets for their industrial products, and there is increasing awareness in Central America for the need to move towards higher-value added goods and services. These moves require a concerted effort by stakeholders at all levels, facilitated by national governments. In Mexico many local and state governments also need to take a more active role in export promotion.

Support policy-makers in integrating the business sector into the global economy

Trade Development

Strengthening and developing trade support institutions

There are multiple success stories throughout the region of product-specific private sector associations. Yet, national trade promotion organisations (TPOs)—and state TPOs in Mexico—are struggling to establish a role for themselves. Their challenge lies in providing services to promote export competitiveness that build on synergies across productive sectors and/or exploit economies of scale. Export enterprises could benefit from their assistance in market intelligence and analysis, certification procedures, achievement of international standards, and electronic commerce.

TPOs should also play role in the strengthening or creation of specialized technical agencies, in fostering sector clusters, and in helping exporters tap into regional and international networks. Awareness of trade in services is incipient; there is a need for a widespread assessment on the potential of service exports and outreach to potential providers.

Develop the capacity of trade service providers to support businesses

Building Production Capacity

Widening the export offer and clients

Small- and medium-sized enterprises (SMEs) in the region face challenges as they enter the fiercely competitive international business environment. Adding value to traditional export products, upgrading production processes, improving quality control, and analysing demand trends are critical in order to achieve international competitiveness.

Learning from others

Many individual enterprises have succeeded in developing niche export products and penetrating diverse markets. The challenge lies in encouraging such entrepreneurship to expand the base of dynamic exporters. SMEs will need assistance in strategic planning, building marketing and management skills, and understanding better international business practices.

Strengthen the international competitiveness of enterprises

ITC Responses

Pursuing Opportunities and Shaping Global Strategies

ITC offers various programmes to address the strategic issues facing governments, involve the private sector, and ensure the legitimacy of national trade facilitation institutions. In this region, ITC proposes to:

- organise public-private fora to analyse the commercial implications of the multilateral trading system and free trade agreements, and provide coherent responses
- identify and help address critical gaps in trade-related infrastructure
- enhance the capacity of national stakeholders to design and implement coordinated strategies to diversify the product offer
- provide analytical tools to trade officials as they embark in further free trade negotiations and seek to identify new commercial partners
- support the development of information networks, such as the joint WTO-ITC Reference Centres recently opened in Mexico and Guatemala.

Building Institutions for the Future

ITC will continue to assist the region's trade support institutions in their efforts to increase export competitiveness. Many workshops have been conducted throughout the region to build capacity in market analysis and strategy design. Areas of future activity at the trade support-level include:

- building TPO capacity to help SMEs develop strategic plans, enter new markets and improve international networking,
- assisting TPOs to improve their analysis and dissemination of market information
- developing export-led poverty reduction programmes in underprivileged communities
- strengthening technical trade support institutions offering services such as certification, implementation of international standards, quality assurance, trade finance and electronic commerce
- working with sectoral associations to improve supply chain management and development of sector strategies
- reaching out to service exporters and addressing their needs for certification and accreditation.

Replicating Export Success Stories

Helping SMEs improve their competitiveness to face the challenges of globalisation is a cornerstone of ITC's mission. At the enterprise level ITC's expertise will be applied to:

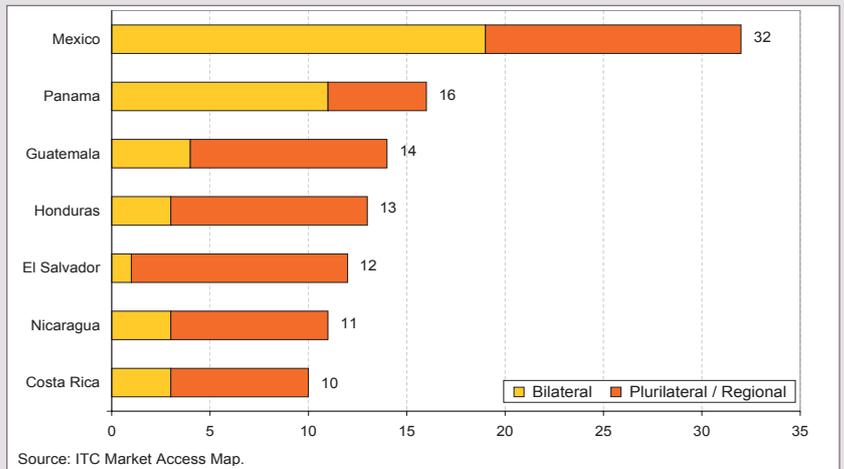
- research case studies of successful exporters and draw lessons to benefit and guide emerging entrepreneurs
- promote the development of region-wide enterprise networks to increase competitiveness
- strengthen the capacity of enterprises to analyse and anticipate demand
- promote the development of new products and target new export markets
- build capacity at SME-level in designing and implementing export-oriented business plans
- organize producers in poor communities and build their managerial and marketing skills to tap foreign markets for their goods or services.

The success of technical assistance in uncovering dormant possibilities and stimulating the international insertion of small and medium sized enterprises will be critical to promoting economic and social progress in the region, particularly in underprivileged areas.

■ Strengthening Links

Trade Agreements in Force or under Negotiation

Mexico has negotiated many trade agreements all over the world. Panama has pursued bilateral agreements, while the others have favoured the plurilateral approach.



■ Doing Business

Representative Indicators

Mexico leads the region in terms of doing business. For many indicators Panama ranks above many developed countries; intra-region variation is low relative to other regions.

■ Concentrated or Diversified?

Product and Market Concentration

- Mexico is by far the dominant exporter.
- Mexican and Central American exports are highly concentrated to the US market.
- The region has a relatively low concentration in terms of export products.

