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Belize's Northern Region; Its Economic Performance in the post-independence period

Crucita Ken

Abstract

Belize got its Independence when the region was going through an economic crisis with debt burden and traditional export prices reduction. The northern region, once the most important economically, faced major challenges which prompted the introduction of fiscal incentive programs to alleviate the growing unemployment and decreasing economic activity. As an international border, it also faced, during the eighties and nineties, the effects of the Mexican peso devaluation. However, Mexico also constituted its mayor market for the establishment of the Commercial Free Zone. The northern region economy has only partially recovered from the major structural changes that Belize has gone through in its post independence period.

In 1981 when Belize attained its independence, other countries in the region were also celebrating anniversaries: Mexico its 171st anniversary, Jamaica its 19th, Guatemala its 160th and Honduras its 159th. Independence in the voice of then-Prime Minister George Price was the attainment of political and economic freedom. Although this political move was met by skepticism by some, many were betting on better times to come, higher standards of living, and improved political participation.

On that 21st day of September the Belizean people faced a challenging future, since the neighbouring Central and South American regions were at the verge of falling into debt crises. Guatemala, El Salvador, and Nicaragua were in the midst of civil wars--battling with guerrillas and civil revolutions, and at the same time international trade was restructuring with respect to traditional exports, which affected the whole region.

The economic performance of Belize was, and continues to be, connected to its relations with the United States, the Caribbean, and to a lesser extent to its Latin American neighbours, with the exception of Mexico, which has played an important role in Belize's development. This brief description of Belize's post independence performance highlights Belize's economic relations with Mexico, in particular that of the border region that they share.

Belize enjoys warm relations with its neighbour to the north. As early as 1958, Mexico stated its desire for a resolution of Belize's territorial problem with Guatemala and supported initiatives that respected the freedom and independence of the Belizean people. Mexico also provided critical support in favour of Belizean

independence and territorial integrity in 1977. Although Mexico claimed parts of Belize during the nineteenth century, it signed treaties with both Britain and Guatemala in the course of that century to set the border definitively between Mexico and Belize. One such treaty, and probably the most important, is the Spenser St. John – Mariscal signed on the 8th of July 1893 and its amendment on the 26th July 1897 celebrated between Mexico and Britain. Part of this amendment included an agreement to guarantee Mexico, in perpetuity, transit rights through Belizean waters ([Http://www.sre.gob.mx/cilasur/Assets/Images/ActasBelice/tratadomexbel1893.pdf](http://www.sre.gob.mx/cilasur/Assets/Images/ActasBelice/tratadomexbel1893.pdf)).

Quintana Roo is the most southeastern state in Mexico and borders Belize. Its capital city is Chetumal. Quintana Roo and other Mexican states in the region¹, Belize, Guatemala, and Honduras all share a common heritage initiated and perpetuated by the great Maya civilization. The Maya people, their heritage, culture, and language today serve as tourist attractions in a broad project carried on by the Mundo Maya Organization (<http://www.mundomayaorganizacion.org/>).

Economic relations between Belize and Mexico can be analysed at least on two levels: national and local. At the national level we share the benefits of international trade and socioeconomic agreements with respect to motor vehicle transit, education, culture, the fight against drug trafficking and dependency, preservation of archaeological sites, preservation of natural resources, among others (www.sre.gob.mx). At the local level there are cultural and economic relations between the inhabitants of the border region. The published accounts of these relationships are many (Iniciativa 1992a, 1992b, CIQRO, 1994, Caribe 1994a, 1994b, 1994c); however, our interest is in how these relationships have evolved since the independence of Belize in 1981.

The major events affecting the border region during this period are (1) the devaluation of the Mexican peso in 1982, (2) the closure of the sugar factory at Libertad, Corozal District in 1985, (3) the entry of Mexico in the World Trade Organization in 1984, (4) the signing of the North American Trade Agreement in 1994, and (5) the opening of the Commercial Free Zone at Santa Elena, Corozal District, also in 1994. These events have influenced the relations between Belize and Mexico, both at the national and local level, in particular the latter.

Devaluation of the Mexican Peso

Northern Belize and southeastern Mexico share a common Maya culture. The early inhabitants of northern Belize came from Mexico, bringing with them the Spanish and Maya language, traditions, and other elements of culture, and the cultivation of sugar cane. Cultural² and later economic ties with Mexico have therefore been present from years back. Mexico, unlike Guatemala, gave its support to Belize in the negotiations for independence. Mexico voted in favour of the United Nation's

¹ [Yucatán](#), [Campeche](#), [Quintana Roo](#), [Tabasco](#), and [Chiapas](#).

² Historical accounts of cultural and economic ties between inhabitants of Mexico and Belize can be read in Nigel Boland, Grant Jones, Paul Sullivan.

General Assembly resolution that called for the necessary steps to be taken to lead Belize to independence with territorial integrity (Belize Times, 22 March 1981).

However, during the early 1980s Mexico was going through economic problems that led to continued devaluation of the Mexican peso as shown in the table below.

Year	Pesos per \$US (average)	Percentage of devaluation
1976-82	70.00	240 %
1982-88	2,285.00	3,164 %
1988-94	3,450.00 (N\$ 3.45)	51 %
1994-00	9.45	174 %
2000-	11.63	23.07 %
Source: Banco de México		

Devaluations have an effect on the balance of trade by making imports expensive and exports more attractive. This translated to weakening of Mexico's purchasing power of foreign goods. Both at the national and in particular at the local level, this event caused significant economic changes in Belize and Mexico.

In 1972 the city of Chetumal was designated a free zone area. Being the only such territory in southeastern Mexico, its fame as a commercial centre was well known in the region. Manufactured items from Panama were imported through the deep water port in Belize. Reciprocally, Belizeans have used Mexican highways to travel from the USA bringing along goods and used vehicles for sale in Belize. As a Free Commercial Territory, Chetumal flourished with the sale of imported merchandise such as electrical equipments, canned food, and clothing.

[Informal Trade](#)

During the 1970s Northern Belize, especially Corozal, also experienced an economic boom with Mexicans coming to buy from the Hindu, Chinese, and Belizean merchants. Among their favorite imported products were Dutch cheese, creamery butter, textiles, and many Chinese and Hindu products, a luxury for most Mexicans. Mexicans came in their private vehicles and by buses. This important injection of Mexican pesos in the northern Belizean economy helped to keep the Hindu, Chinese, and local businesses vibrant, particularly in Corozal. However the devaluation of the peso in 1982 reversed this benefit. Now with more pesos to the Belizean dollar, the monetary flow of Belizean dollars went north to the businesses in Chetumal, Mexico.

The devaluation of the peso marked the beginning of the small scale transborder trade conducted by Belizeans households and merchants, particularly from the Corozal and Orange Walk districts, of basic items purchased in Chetumal. This leakage was increased by the demand by Belizeans for medical and other services in southeast Mexico. Consequently, commercial activity in Corozal declined resulting in the flight of many foreign businessmen to other parts of Belize and to México causing the town of Corozal to face a depression. Other businesses as cinemas, discotheques, and restaurants among others eventually shut their doors, since most of the income available was being spent in the state of Quintana Roo's capital, Chetumal.

In an article in *Amandala* (January 27th, 1995), I stated that the 1982 devaluation had a tremendous impact on the northern economy. The peso fell from 12 to 20, and then to 50 and eventually reached 70 to the Belize dollar. Belizeans flooded the Mexican supermarkets in search of basic food items, and conducted business with gas stations, health centers, hotels, and restaurants. These transactions created an informal trade estimated to have reached an amount of \$6,965.23 million Belize dollars per annum (Ken, 1995). Between 1981 and 1991 estimated arrivals per day in Chetumal were 500 Belizeans. This represented a significant leakage for the Mexican economy. Belizean customers caused a financial boom for the city of Chetumal.

The flow of Belizean dollars to southern Mexico increased with subsequent devaluations of the Mexican peso. From 1988 to 1994, this situation worsened. However, the effect of this trade in Mexico was the transfer of subsidy to Belizean consumers since most of the trade was concentrated in basic food items bought at the government-subsidized supermarkets, such as CONASUPO, SEDENA, and ISSTE (Pech Febles and Cruz Cáceres, 2000).

It is important to note that while the transfer of income over the border meant a loss to the Belizean economy, it helped the Belizean households of the northern region to stretch their dollars. The sugar industry was in a crisis, the business community was suffering, and the possibility of getting more for the few dollars circulating in Belize was there. The situation of the Mexican economy and its impact on northern Belize indicated a lack of interest by the national government: research was not conducted, the economic impact was not measured, and no contingency plan or solution was proposed. The economic crises experienced by the northern region illustrated the centralization of economic³ and political issues, since this outdistrict concerns was not given enough importance in the house of representatives and by the cabinet⁴. Prices of Mexican imported food items in Belize were many times higher compared to prices in the easily accessible Mexican bordering town of

³ Economic issues such as commercial and price structures in Belize have not been studied sufficiently, but the existence of few companies in this activity can indicate the existence of duopolies.

⁴ This is a reflection on the political structure of Belize. Research need to be done to give evidenced accounts of centralization. The move for political reform carried out by government through the Society for the Promotion of Education, Advocacy and Research together with Civil Societies during the 90s constitutes the initial platform towards the decentralization process.

Chetumal. This stimulated contraband and households numerous border crossing to acquire basic food items (CIQRO, 1994b). This behavior of the Belizean population at the Mexican border gave an insight of the commerce structure that maintains higher prices on imported food items.

Formal Trade

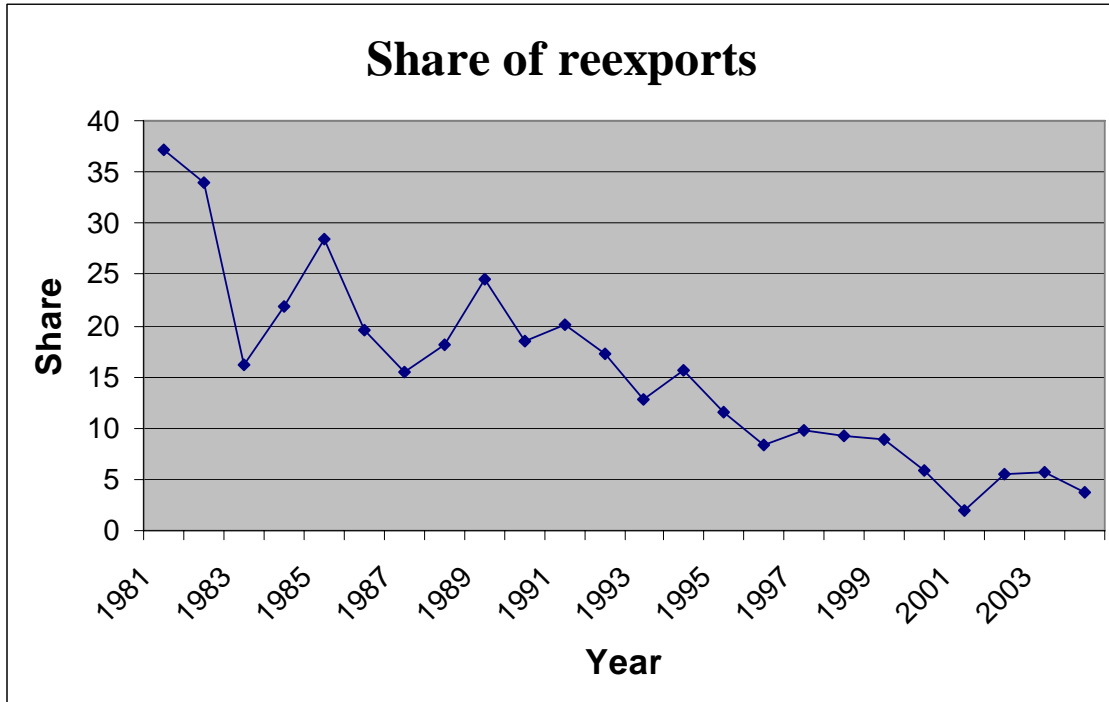
Formal trade between Mexico and Belize are of two types: the normal imports and exports of good and Belize's reexports to Mexico.



Source: Abstract of Statistics 1990, 2000, 2005, CSO and Central Bank of Belize

Imports of Mexican products to Belize have steadily risen, while exports remained stable, with the exception of a sudden rise in 1999.

As a reexporter, Belize imports goods and then resells them in neighbouring countries, primarily Mexico, or merely transports them, collecting fees for port and road facilities. The arrangement is attractive because of Belize's relatively low shipping costs. However, Mexico's economic payment crisis of 1982, which reduced Mexican imports, put a dent in Belize's foreign exchange earnings as well. Reexports had amounted to 37% of export earnings in 1981, but fell to 16% in 1983, contributing to a 35% drop in total export earnings during that period.



Source: Abstract of Statistics 1990, 2000, 2005, CSO and Central Bank of Belize.

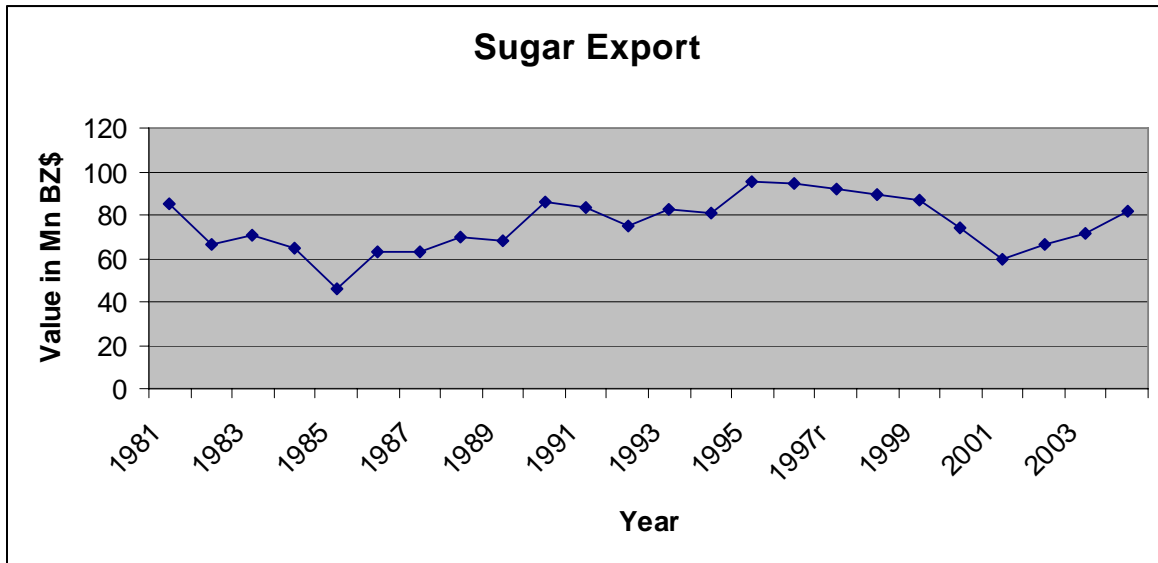
Reexports show a decline, particularly in 1993, 1996, 2001, and 2004. Most of these reexports are related to the economic performance of Mexico. However, the recovery in 1997 and 2002 as a whole may have been in response to the activity at the Commercial Free Zone at the Belize - Mexico border.

Restructuring of the sugar industry

To add to the economic crises already being suffered in the north during the early years of independence due to the devaluation of the Mexican peso, the sugar industry, Belize's number one foreign exchange earner, was also in crisis. The history of sugar cane in Belize starts in 1964 when the small mill at Libertad was established by Tate and Lyle, a large British sugar conglomerate. This event accompanied the beginning of nearly twenty years of great profit. During the 1960s and 1970s, Belize's economy grew rapidly, thanks to the extraordinary success of the sugar production. During the 1970s, sugar accounted for almost 70% of all export revenues. As a result of this high level of dependency, the Belizean economy, although prosperous, entered the 1980s insufficiently diversified and highly susceptible to external shocks. In the late 1980s, farmers of Corozal started to diversify into the production of papaya, soya beans and other agricultural products.

In 1980 the average world price of raw sugar was US\$0.13 per kilogram. By 1984, that price had fallen to US\$0.02. As sugar prices collapsed, Belize's terms of trade deteriorated, and from 1980 to 1985 GDP grew an average of only 1.2% per year. The crisis was compounded in 1982 when, for the first time since 1974, the United States government implemented a sugar quota system. The result was a reduction

in total sugar exports from about 5 million tons in 1980-81 to about 1 million tons by 1987.



Source: Abstract of Belize 1990,2000, 2005, CSO and Central Bank of Belize.

During 1984 it became clear that the combined effects of reduced US quota, low world prices, and unfavourable currency exchange rate resulted in financial losses for the Belize Sugar Industry (BSI) and would shortly lead the company into bankruptcy unless drastic action was taken. By mid 1985, the financial crises forced the restructuring of BSI which, unfortunately, had to include the closure of the Corozal Factory after the completion of crop in that year (BSI, 25th Anniversary Publication,1989).

Preferential trade agreements provide a reminder that trade liberalization is a double-edged sword for all trade participants, developed and developing alike. For example, in the early 1990s the existing quota systems for the Belizean sugar industry provided distinct advantages. Quotas guaranteed that Belizean sugar would have access to markets in the European Economic Community (EEC) and the United States at prices far above world market levels. At the same time, it was also clear that a quota system was a unilateral act that limited market access and that it could be changed or eliminated by foreign powers at their will.

The sugar crises in the early years of independence created a production problem in the northern district of Corozal. As noted by Perry, Woods, and Steagall (1993)

Sugar industry leaders reacted rationally, trying to shift output to alternative markets as cultivation shrunk. Great Britain was able to absorb much of the excess supply, under the LOME Agreement, passing it through to world markets ... Cane farmers in northern Belize also reacted rationally. Many of them shifted to the illegal

cultivation of marijuana, adding to the problem of drug regulation facing the national government. (49)

By December of 1986 the closure of the Libertad sugar factory had displaced hundreds of employees and affected the livelihood of cane farmers and their families. According to the BSI officials, the 41% reduction of the sugar quota from 16,200 to 8,500 long tons by the US Congress meant an \$8 million loss in foreign exchange to the economy of Belize.

The sugar industry situation was the result of the world's trading conditions of that commodity as mentioned above. Similar experiences had occurred in many other regions; for example the Heineken manufacturing in Yucatan caused an economic crisis among the cultivators, the industry, and the government, which eventually led to the restructuring of the region's economy. It is important to state that the effective restructuring of the economy of a region depends largely on the government's insight and foresight of the industry and its communication with the stake holders and the population at large. However, for political reasons, the situation of the sugar industry was kept from the people; the government insisted on promising the increase in quotas by the industry, which led not only to increasing the existing quotas among the existing cane farmers but, to worsen the situation some more, giving quotas to new farmers based on political clientelism. After the closure of the Libertad factory, promises were made to reopen it in addition to establish a new factory under an agreements with the Mexican sugar industry in the region. But indeed the sugar industry was and is a declining industry worldwide.

In 1988 a new industry, Petrojam, opened at the Libertad factory to produce molasses.

As part of its first moves to address the situation, government increased the sugar quota—that is the amount of sugar cane both the Belize Sugar Industries (BSI) and Petrojam can grind each year... This increase has benefited cane farmers in the northern districts, especially Corozal. (GOB, Oct. 11, 1990)

Government is also exploring the possibilities of a joint venture between the Obregón Sugar Factory in Chetumal, Quintana Roo and Petrojam to produce sugar. Earlier this year, government signed a memorandum of understanding with Belize Bio-chemical Limited for the establishment of a sugar cane factory on 50 acres of land between Concepción and Libertad Villages ... to produce sugar and ethanol. (GOB, Oct. 11, 1990)

Petrojam opened, but only for a few years. The other projects mentioned by government were not successful. By November of 1989 the shortage of jobs was

also causing frustration, especially among the young population. Then the news broke.

We (the government) are looking into the possibility of establishing a pilot commercial free-trade zone in Santa Elena. Studies are presently being undertaken and we hope to get this project started as soon as possible. This would undoubtedly create jobs for more customs officers, clerks, managers, carpenters, plumbers, electrician and masons. Recently, a concession to open a bicycle factory has been signed by the Minister of Economic Development in Corozal. (El Corozaleño, 6th November 1989)

Because of the uncertain future of these traditional exports, efforts were made towards agricultural diversification, and a special focus was made on tourism and industry. Industrial development was encouraged through a number of incentives, which included the awarding by government of tax holidays and import duty exemption on inputs of up to a maximum of 25 years to qualifying companies.

Tourism

With the decline of the sugar industry in Corozal, tourism started to become important as an alternative economic activity to generate the necessary income for the region. But unfortunately, with both Corozal and Chetumal's slow growth, it would take a couple of years for it to surge. To market tourism it is necessary to know your attractiveness and your market potentials. The type of bay and services available at the time in Corozal were underqualified for the type of tourist that visited the area. Much needed to be done to turn this into an income generating activity. However, proximity to San Pedro, Belize and Cancun, Mexico, meant that a potential market existed and efforts to link up with these two tourist sites would be a sound investment.

Thus in the early 1990s some projects were announced; one was the Consejo Bay Project to develop a multi-million dollar tourist resort on 550 acres of land in the Consejo Area about two miles north of Corozal Town. "The company plans to build vacation villas, condominiums, hotels along the seaside. The resort will have an 18 hole golf course and a harbour marina for pleasure boats" (GOB, Oct. 1990,13). At the time Consejo already had the Adventure Inn Resort and was being promoted as a residential area for retired US and Canadian citizens. The resort eventually closed, but the residential area for retirees continues to grow slowly. The Consejo Bay Project was also aborted, and it is not quite clear if the extension of land proposed for development was sold to the company and what the future of it will be.

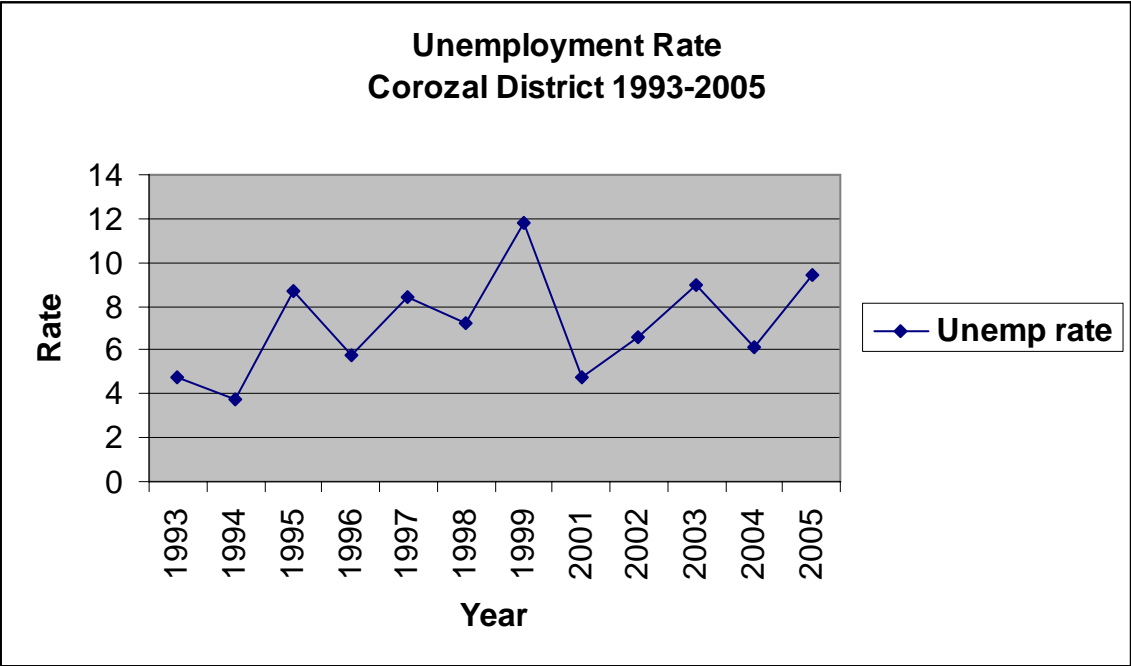
Belize's environmental resources create substantial opportunities in the nature-based tourism market; the district of Corozal can participate in it, but much has to be done in regards to training in services, tourist guides, catering, marketing, among others. Again government policies play an important role in promoting

tourism in out districts; concentration of funds and activities and centralization of policies will not help Corozal to diversify its economy.

A favourable initiative was the creation by government in 1990 of the Belize Tourist Board to carry out marketing plans. Their actions should focus on the districts too.

Fiscal incentives to promote employment in Corozal.

As mentioned above, Corozal suffered economically during the early years of independence; the devaluation of the Mexican peso and the closure of the sugar factory had adversely affected employment. However, for the 1980s period and early 1990s no data on the rate of unemployment in this district are available. .



Source: Abstracts of Belize, 1990, 2000, 2005, CSO

As shown above, in 1999 the highest unemployment rate was experienced, but the entire period shows instability of employment. The fluctuations were primarily because of the opening of new sources, such as the Export Processing Zone and the Commercial Free Zone, which offset some of the decline caused by other economic activities. In a move to bring stability to employment in the country of Belize, the government created an array of fiscal incentives.

The 1990 Fiscal Incentives Act provided tax holidays and duty exemptions for investments that would benefit the economy. The 1990 Income Tax Act granted tax relief to non-traditional exporters.

Several incentive schemes have been instituted to encourage and promote investment. The investment schemes are contained in the following legislations:

1. Fiscal Incentives Act No. 6 of 1990
2. Mines and Minerals Act, 1988
3. Export Processing Zone (EPZ) Act, 1990
4. Commercial Free Zone (CFZ) Act, 1994
5. International Business & Public Investment (IBC) Act, 1990

The Export processing Zone in Corozal

The Export- Processing Zones (EPZ) Act exempted eligible firms from certain requirements concerning import licenses, quotas, import and export taxes, export licenses, price controls, and other regulatory mechanisms. The first export-processing zones (EPZs) were scheduled to be established in 1993. The concept required the designation or development of a physical facility (the zone) similar to an industrial park. As part of the effort to provide a more favorable environment for investment, Prime Minister George Cadle Price also introduced legislation that would lower corporate taxes from 45% to 35% in fiscal year 1992.

The EPZ Act's main focus was to encourage local and foreign investment in Belize in order to promote trade, foreign exchange earnings, employment, and transfer of technology. Belize's first EPZ was inaugurated at San Andres, Corozal on July 18th, 1992 (*Belize Times*, August 2, 1992). A total of two companies established in Corozal under this fiscal incentive: Pleat-Tex Ltd and The Belize Bicycle Co. The EPZ is located in the Village of San Andres, two miles from Corozal Town. The expectation on the passing of the Act was for this EPZ to generate approximately 2,500 jobs, a goal never attained. In 1994 the EPZ Programme was amended, but the number of established companies under this did not increase in Corozal.

Transformation of the Northern Economy: The Commercial Free Zone in Corozal

The Corozal Free Zone (CFZ) project was a private initiative involving few citizens⁵ interested in the development of the northern region. In its proposal phase, the CFZ project was consulted with the Northern Caucus⁶ and the Corozal Business Community. Once the proposal was written, the supporters of the CFZ lobbied nationally to get the approval of the Cabinet.

The Commercial Free Zone Act No 27 was passed in June of 1994 and was published in the Gazette on the 11th February, 1995. This was a much needed instrument to reverse the economic situation of Corozal.

An Act to provide for the establishment and operation of commercial free zones within Belize to foster commercial trade and investment with neighboring countries, to promote economic growth and development, to create new employment opportunities for

⁵ I was personally involved in the initial proposal of the CFZ, and became the first Free Zone Business Association's General Manager in 1996.

⁶ A group consisting of the Peoples United Party representatives and other interested citizens.

Belizeans, and to provide for matters connected therewith or incidental thereto. (Act No 27 of 1994)

As defined in the Act, a commercial free zone means a geographic area in Belize designated as such by the Commercial Free Zone Management Agency (CFZMA), where investors may establish businesses and conduct trade and commerce free of the national customs regime.

One year later in June of 1995 the Corozal CFZ started to operate with the establishment of the CFZMA's office at the Santa Elena Border, situated at the foot of the bridge connecting Mexico and Belize. Its purpose was to establish a private sector driven commercial activity with internationally competitive laws for the attraction of trade and investment in Belize. This designated area can best be described as a tax haven. Its primary income was to be the administrative services offered to the businesses. Its location offered an advantage since it is within walking distance from the only bridge that connects Mexico and Belize, allowing Mexican residents to enter the zone without having to go through Belize's Immigration and Customs checkpoints.

Its strategic location made it attractive for tourism packages and offshore financial services. The signing of the North American Free Trade Area gave it another competitive advantage; the slogan utilized to showcase it was "60 seconds to NAFTA territories." The objective was for the CFZ to serve, in addition to the NAFTA territory, the wider Asian and European market. The expected goods traded were automobiles, chemical products, electric and electronic equipment, iron and steel, textiles and leather, oil, fresh vegetables, computers, machinery parts, glass, cattle, fresh fruits, copper, photographic appliances, mining products, wood, shrimp, coffee, petrochemicals, canned foods and other products.

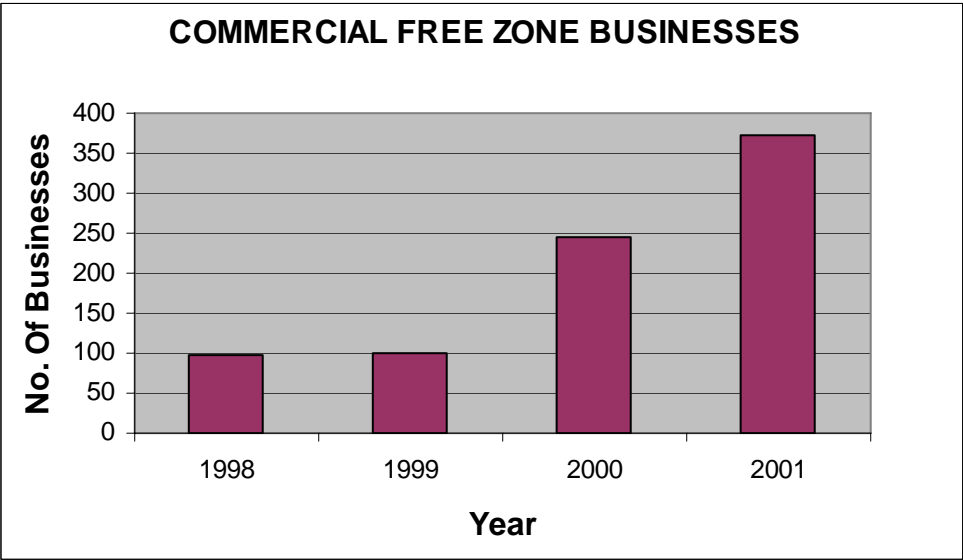
Although the performance of the Free Zone of Colon in Panama and in Miami, Florida served as models to design the CFZ of Belize, other experiences were welcomed to improve the operation of this pioneering project. Thus for the month of January 1996, experts from the Free Zone of Chile visited the CFZ of Belize to give their advice on its future development. They met with government authorities and other business officials in Belize and in Chetumal, Mexico. The specialists stated, "As a development alternative, this (CFZ) should be given priority in Government's economic policy and must be kept on the agenda until it becomes consolidated" (Ken, 1996).

The CFZ started with the businesses already established as "In bond" businesses and some new arrivals. The first businesses were Belizean based companies. Few Mexican businesses took up the challenge. As months went by, promotions were directed to Belize, Mexico, and the US; new investments started to flow both from Mexico and Belize.

The promotion of the Affiliated Associates, small scale businesses, brought in many small business people from Belize and Mexico. The full package for

company formation, including as optional the purchase of land, was US\$12,500, among other expenses.

By the end of 1995, goods were already being imported to the CFZ; these included food items and cereals. Mexico at this time was going through economic restructuring since its entry in the GATT/WTO and the NAFTA agreement was eliminating its tariff advantages, and its privileged free zone territory was disappearing. The CFZ offered the Mexican businessmen an alternative to continue in the activity they knew well. This prompted their participation as businesses opened with very high expectations from the Mexican customers. By the end of 1996, and especially for its Christmas season, businesses at the CFZ made good sales. Mexican consumers were flooding the CFZ. It was precisely at this initial stage that the CFZ project gained the acceptance of the business community of both Mexico and Belize. From there on, the entry of businesses to the CFZ multiplied, attracting Mexican, Belizean, and other foreign investors (Ken, 2000).



Source: Information and Statistical Office, CFZMA

In the year 2000 there were a total of 372 registered companies, of which 215 were active. The type of economic activities at the time were manufacturing, consulting, importation and exportation, wholesale and retail, leases of business spaces, gas stations, restaurants, electric energy and construction.

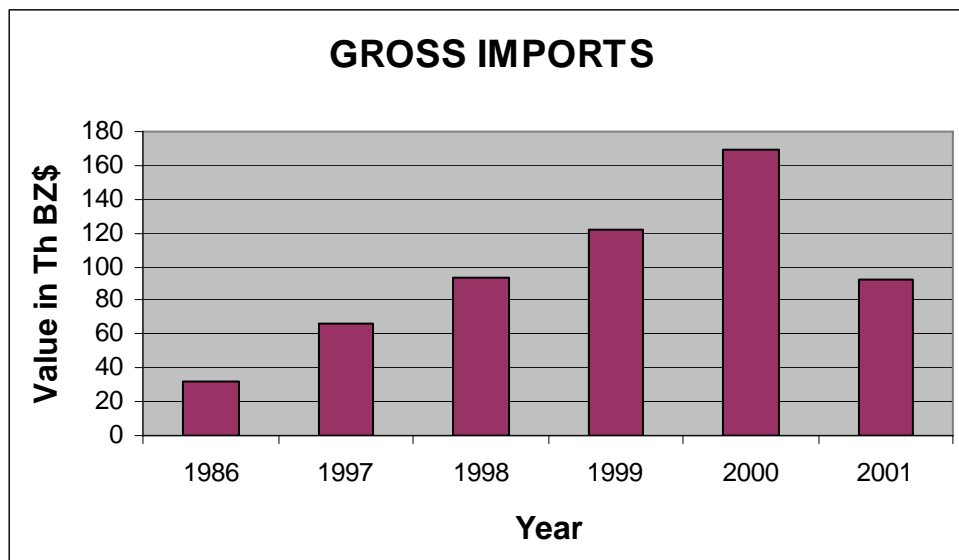
In 2000 the major businesses sold commodities such as liquors, perfumes, foodstuff, gift items, electronics and appliances, household items, footwear, clothing, beverage, health and beauty aids, tires, cigars and cigarettes. At that time fuel distribution to Mexican clients was a substantial part of the zone's commercial

activity. Also taking place were light industries such as the manufacturing of compact and optical disks, CD ROMs, plastic bottles; brooms, and mops.

The transit of Mexican vehicles to the CFZ in 2000 increased 30% in the first six months compared to the same period in 1999, stated the Mexican Customs Administrator at Subteniente Lopez. This represented an amount of 642,096 automobiles, including some that came from as far as the states of Campeche, Yucatán, Chiapas, Veracruz, and Tabasco. He stated that from Monday to Friday, an average of 3,304 vehicles crossed the border per day to shop at the CFZ; on Saturdays and Sundays there was an increase to 3775 vehicles. He recorded approximately 1 million vehicles to have crossed the border towards the CFZ in 1999 with at least 3 occupants that went shopping for food items, clothing, shoes, gasoline and electric appliances. (Notimex, 31st July 2000).

Taking into account the large amount of “walk over” customers, it was estimated that some 10 to 12 thousand Mexicans patrons entered the CFZ daily to shop in the growing number of establishments.

Reduced prices for gasoline and commodities kept attracting Mexican consumers to the CFZ. In 2000 a total of 14,743,175 gallons of gasoline were imported to the CFZ, shared among five gas stations for a value of \$44,084,893.62 Bz. This was approximately 28% of the total volume of commerce of the CFZ.

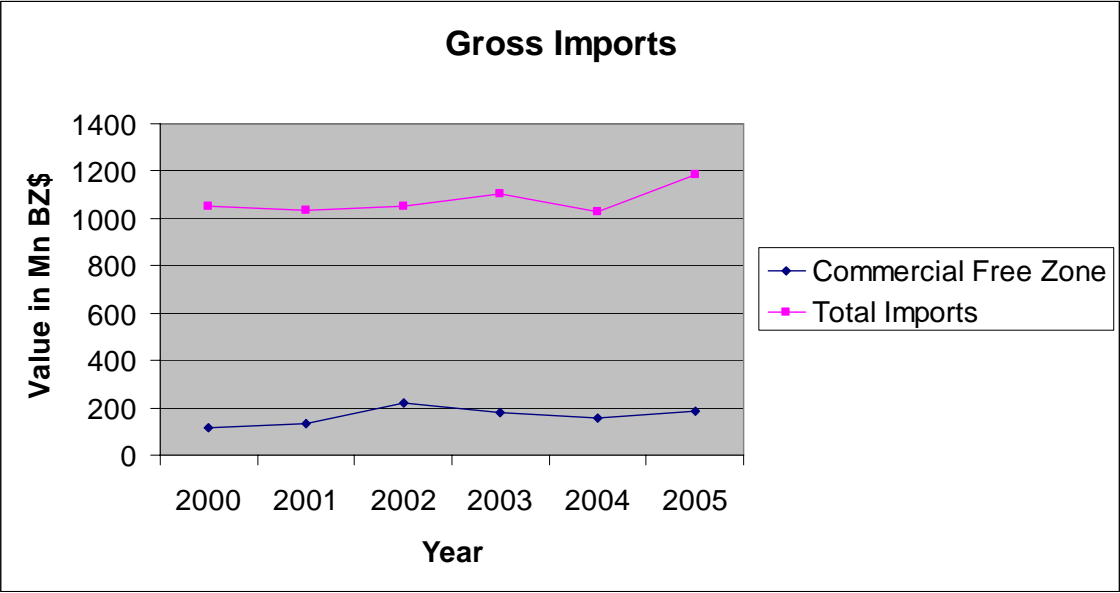


*2001 is from January to July

Source: Information and Statistical Office, CFZMA

All this activity at the CFZ meant an increase in imports registered in Belize. The graph below shows gross total imports and the amount that corresponds to the

CFZ from 2000 to 2005. Imports to the CFZ increased from 2000 to 2002 and fell slightly in 2003, and more so in 2004. Total imports also show a reduction in that same year. Part of the decline of the CFZ imports in 2004 may be the result of the opening in Chetumal of the first mall and a department store. These took away part of the CFZ market. From that date to the present, businesses at the CFZ have suffered reduced sales. The only attractiveness remaining is the casinos and a recently opened night club.



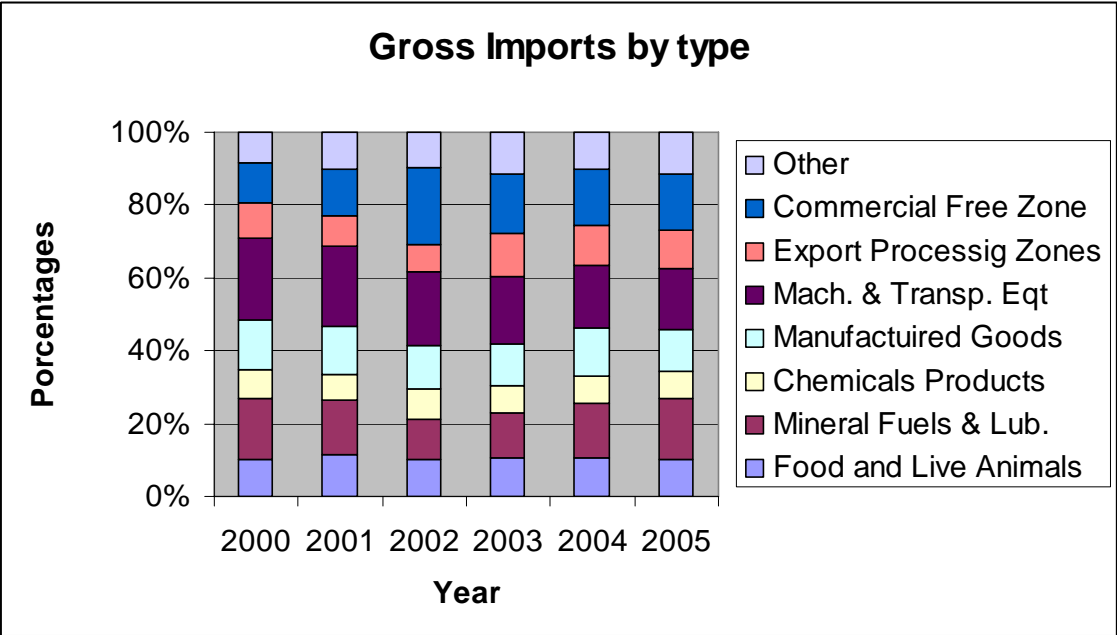
Source: Abstracts of Belize 2005, CSO

The year 2002 was a good year for the CFZ since it registered the largest amount of imports. The following years show a reduction of imports. The year 2004 also showed a reduction of total imports. “Gross imports (f.o.b.) contracted by Bz\$83.2 million, with respective decline of Bz\$58.7 million and Bz\$24.5 million for goods imported into the customs’ territory and the CFZ” (Central Bank of Belize, 2004).

In 2004 re-exports declined by 10.7% to Bz\$232.4 million, reflecting reductions in sales from the CFZ and the customs’ territory of 7.6% and 42.6% respectively. Cross-border sales at the CFZ fell as customs’ regulations at the northern border further tightened and fuel prices in the Mexican border town of Chetumal remained lower than that in the CFZ (Central Bank of Belize, 2004).

The CFZ has impacted on the import structure of Belize. As shown below, we can see that importation to the CFZ is second in importance only after machinery and transport equipment. This infers important sales that should be vital in keeping employment and business activity. However, it is not known how much of these imports to the CFZ go back into the territory of Belize and how much to Mexico. These pieces of information are significant to measure the real impact of the CFZ in the border region.

A social cost was introduced at the CFZ imports of 1.5% on the aggregate value of general merchandise and 10% on fuel. This social cost was to finance research and infrastructural wear and tear in the country, as a result of the roads used to transport goods from Belize to the CFZ. Since the implementation of the cost, nothing has been said of the use of these monies, nor of the total amount collected to date. Further studies into the economic impact of the CFZ are needed, for there are many aspects of it that are not yet known.



Source: Abstracts of Belize 2005, CSO.

The CFZ Performance

The CFZ is a trap and is not a viable solution to economic development. Employment and increased incomes are needed, but dependency on one activity predominantly is dangerous. The delicate situation of the activities at the CFZ is exacerbated because of its border location. All borders are focal points where the concerned governments must have in place proper control on all types of trafficking for the benefit of the population at large.

The objective of the CFZ was to compete with the Miami International Free Zone and the Colon Free Zone in Panama with regards to the amount of imports and reexports. The retail business in the CFZ was important, but not to the extent of becoming the main activity⁷. This retail business created various problems for the CFZ: first, the amount spent by Mexican consumers was limited to US\$50, which is

⁷ The retail business was implemented as a complementary activity (taken from the Chilean model) since the main activity at the Free Zones in the world are movement of great volumes of imports and reexports.

the franchise for international border regions, according to the customs law of Mexico. Second, the migration situation required shopper to have the proper migration documents to leave the country. Most Mexicans did not possess such documents. Soon the Immigration Office in Chetumal had long queues of citizens filing to acquire a border pass, and this occurred to such an extent that the solution of exempting them from this requirement was soon reached. Third, an infrastructural problem resulted from the traffic jams at the international bridge. These were caused by the numerous busses and private Mexican cars from central and southern Mexican territories, and pedestrians going toward Belize and the busses and the private vehicles, and pedestrians from Belize entering Mexico. Fourth, numerous security problems for vehicles and persons existed since many vehicles were damaged or hampered with and the insurance companies did not respond because the CFZ territory was considered in neither Mexico nor Belize. The CFZ was not prepared; eventually some of these problems were addressed with the implementation of security guards at the gates and the expansion of the CFZ territory allowing another gate to be opened.

As part of the expansion of the CFZ, the migration and customs offices at the Santa Elena border have had to relocate. Plans are also on way to build another bridge over the Rio Hondo to provide for a more fluid vehicle pass.

[Effects on employment, investment, and growth in general](#)

The CFZ has generated the much needed employment for inhabitants of the northern districts. Direct employment has been as shop keepers, attendants, and casino employees. Indirect employment occurs in companies and industries such as trucking, mechanics, retail stores, car rental agencies, insurance brokers, and construction material vendors. People work as contractors, masons, electricians, plumbers, engineers, architects, accountants, and landlords, among others.

In 2000, there were a total of 1,709 direct employees at the CFZ of which 307 are foreigners who are primarily administrative and technical personnel.

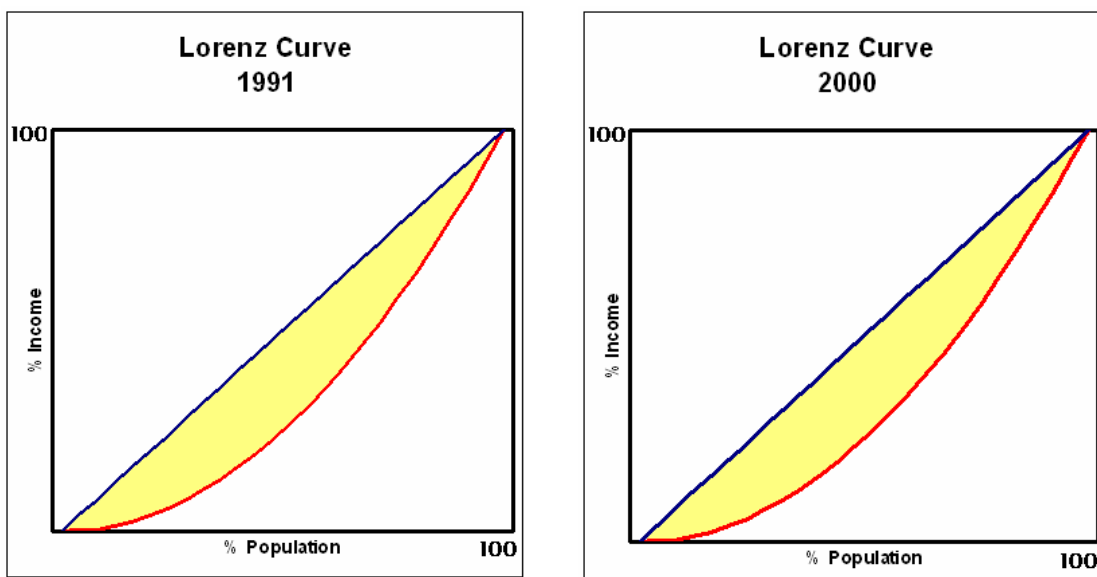
As stated above, more detailed studies need to be conducted to analyse the impact on direct and indirect employment, its effects on the growth and development of the border region, the growth of the CFZ businesses, its competitiveness and its prospective. Some claims of low paying jobs and labour exploitation have been made by CFZ employees. These allegations were made public on some of the national radio stations. Some would argue that a badly paid job is better than none, but there are laws and regulations in Belize and at the CFZ, although the latter does not provide duration of work per day and wage level.

Improved income is evident in Corozal since new shops and hotels are flourishing. There is a certain degree of improvement in incomes demonstrated by the economic activity; however, there is still much needed to recover the economic activity of the 70s.

The way forward

The District of Corozal is part of a broader territory; therefore, its economic performance is largely dependent on the national economic policies and programs. As we have seen, Corozal has gone from a buoyant economy when sugar cane cultivation was booming, to a state of depression due to the loss of jobs as a result of the closure of the sugar factory. There is a slight recovery, basically due to the operation of the CFZ. There are, however, other activities that need to bring the desired diversification to the economy; agriculture products with viable markets, papaya is on the way; tourism, which needs proper attention, the refocusing of the CFZ to compete in volume and value with the major free zones of the hemisphere, and most importantly of adequate government policies. Poverty has become a daily debate among the sufferers and the policy makers. The perception that the Belizean society is divided among the poor and the wealthy is accurate. This socio-economic stratification existed previously, but the gap was not as wide during the pre-independent period, at least not among native Belizeans. Although Corozal is not on the lower end, it does reflect the need for the national government to take the out districts into serious consideration in their planning process⁸.

Calculation of Gini and the Lorenz Curve for the District of Corozal



Gini = 0,640086049

Gini = 0,580970874

Source: Central Statistical Office

⁸ This paper did not take into consideration social topics such as drugs, education, housing, medical care among others, but they all play an important role in the economic performance of every region.

The Lorenz curve and the Gini index are measures of income distribution. The Lorenz curve gives an indication of income distribution inequality with respect to a perfect distribution (45 degree) curve.

The Gini index measures the level of income concentration; the index varies between 0 (equal distribution) and 1 (greater concentration). The graph above indicates that for the year 2000, there is less concentration, although for both years, 1991 and 2000, the indices are very high, indicating a stronger tendency towards concentration. Further studies should be done to determine if the impact of the CFZ might have caused the Gini index to show a better position for 2000.

Given the above analysis, I think that the prosperity and “answer to our prayers” that the CFZ was supposed to be is an illusion

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