

Opportunities in Central America

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The countries of Central America have long been overlooked as a market for U.S. forest products. Any shipments that have occurred have been small short-term purchases of softwood lumber and panel products, mainly as a result of military procurement. However, after many years of civil war and military dictatorships, economic and political stability has returned to the region bringing with it the potential for expanded growth for U.S. wood products. In addition, several countries in the region, most notably Guatemala, Nicaragua, and Honduras, have suffered a great deal of damage to both the commercial and residential sectors from hurricanes.

Of all the countries in Central America, Guatemala holds the greatest potential as a purchaser of U.S. wood products. It is the largest economy in the region and, after 36 years of civil war, finally has a stable democracy committed to a free market economic strategy. Several other factors illustrate this potential. First, Guatemala, like many developing countries, has a severe housing shortage. The Government of Guatemala (GOG) estimates the country is short 536,000 housing units. Present construction rates indicate that as many as 45,000 units will be constructed annually over the next 4 years. While most Guatemalans have the traditional, negative attitude toward wood-frame construction as seen in nearby markets such as Mexico, they have already begun to use wood for specific purposes such as roofs, walls, and floors. Value-added products such as wooden doors and windows have also begun to catch on. Additionally, builders are increasingly turning to Medium-Density-Fiberboard (MDF) for use in cabinetry and interior doors.

A second factor that could lead to increased sales to Guatemala are the various environmental regulations now in place to protect the vast expanses of forest. The regulations currently in place are the strictest in Central America. While enforcement is often lax, the regulations have helped to significantly curb illegal logging operations. Because of this, wood specifiers in Guatemala will be forced to turn to alternative sources of supply. The superiority of U.S. wood products coupled with our close proximity could influence their decision.

A third and final factor that could contribute to higher wood sales to Guatemala is the emergence of manufacturing industries. While much of the economy of Guatemala is based in agriculture, a growing number of small and medium-sized manufacturing companies are beginning to operate. Most important to the forest sector is the furniture industry, specifically the manufacturing of cabinetry. Several companies have started manufacturing cabinetry for both domestic and foreign consumption. Most of the cabinetry is constructed of domestically manufactured MDF. However, domestic supply can not keep up with demand and the quality of the domestic MDF is much lower than that of U.S. MDF.

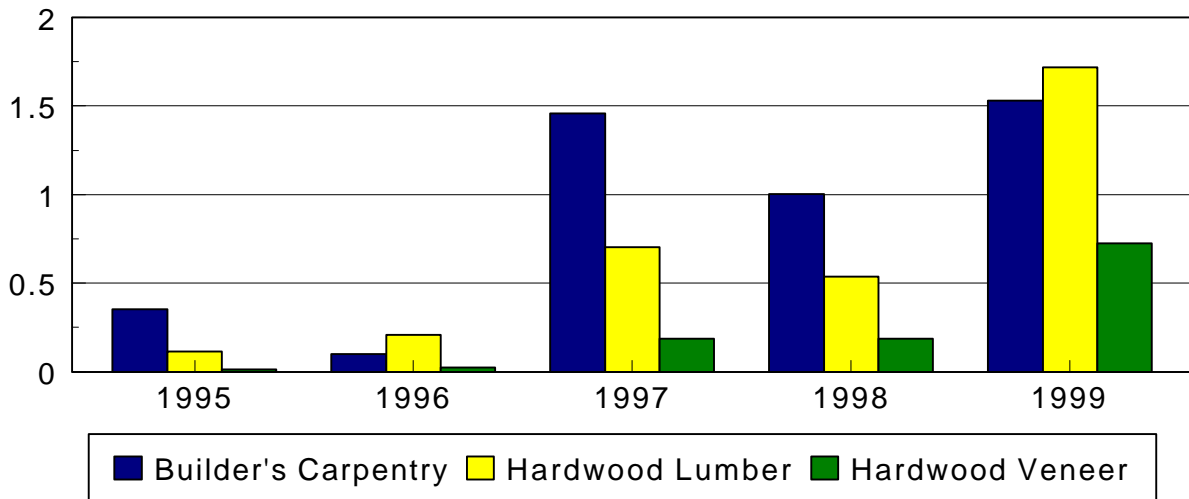
Costa Rica is another country in the region that has the potential to be an important buyer of U.S. wood products. Costa Rica has the longest tradition of democracy in the region. While economic growth rates over the past few years have not matched the rates of the early-to-mid 1990's (they have averaged around 3 percent from 1997 to 1999), growth rates are positive with conditions set for continued economic expansion. In addition, Costa Rica has the highest per capita Gross

Domestic Product in the region. While reliable government statistics are not available, Costa Rica is believed to have a housing shortage of at least 150,000 units. Additionally, expansion of both the tourism and manufacturing sectors presents opportunities for U.S. wood products. It should also be noted that Costa Rica is the main competitor to the U.S. in supplying MDF to the countries of Central America. Production facilities are fairly modern and capable of producing sufficient volumes to allow exporting.

As the statistics for Guatemala clearly illustrate, some U.S. wood exporters, as well as exporters in competitor nations have already recognized the potential for growth. For example, between 1996 and 1998 the total value of forest products purchased from the rest of the world increased from \$5 million to \$10 million. The value of U.S. forest products sold in Guatemala increased from \$1.3 million in 1996 to \$2.5 million in 1998. However, overall U.S. market share dropped from 26 percent in 1996 to 25 percent in 1998. U.S. exports of hardwood lumber have shown consistent growth and solid demand, over the period 1995-1999. In addition, demand for builders carpentry has also increased in recent years.

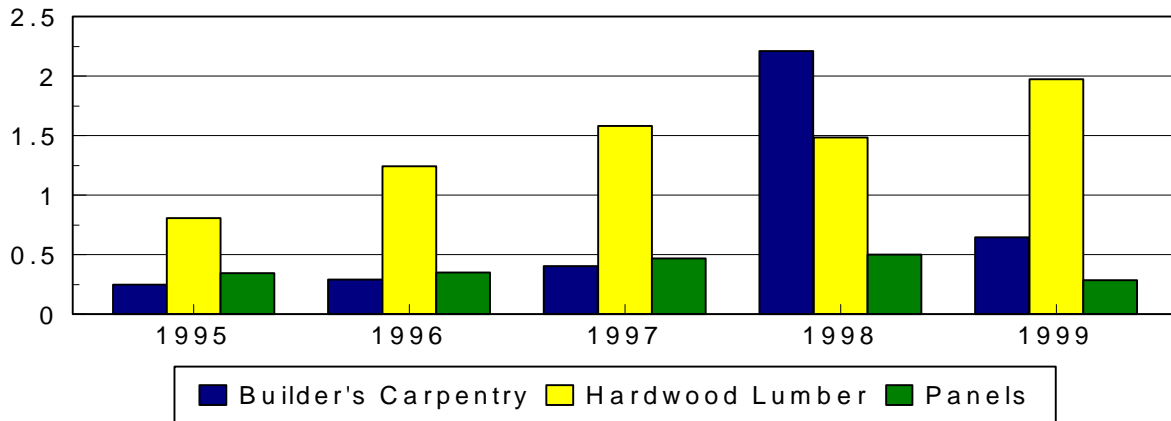
U.S. Exports to Costa Rica

Millions of U.S. Dollars



U.S. Exports to Guatemala

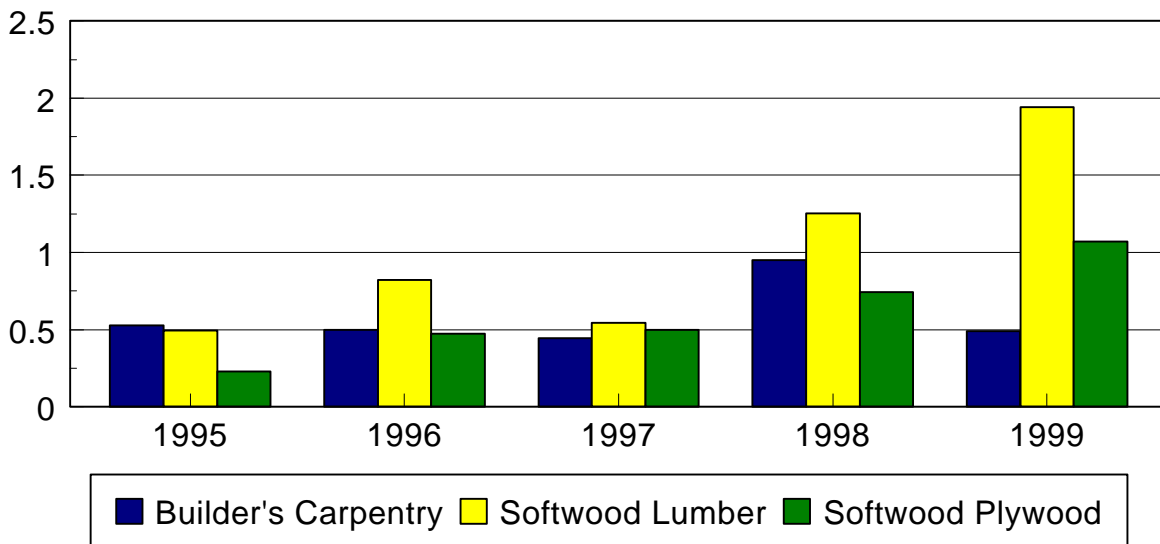
Millions of U.S. Dollars



Major construction projects are expected in Guatemala, Honduras and Nicaragua to repair hurricane damage. In addition, the GOG is in the process of negotiating with the International Monetary Fund (IMF) and other international lending institutions to secure funding for the construction of low-income housing. The plan calls for up to 45,000 units to be constructed annually over the next 4 years. While most of these houses will be of cement or block, there is a great potential for panel products in roofs and walls and for MDF in doors. In both Costa Rica and Guatemala the tourism industry is expected to grow significantly. Construction of hotels, restaurants, and other types of tourist infrastructure are expected to expand. The proximity of these markets and the familiarity many of these countries have with the United States presents an excellent opportunity for American wood exporters.

U.S. Exports to Panama

Millions of U.S. Dollars



Sources: U.S. Trade Database and FAS Voluntary Report GT005, Guatemala