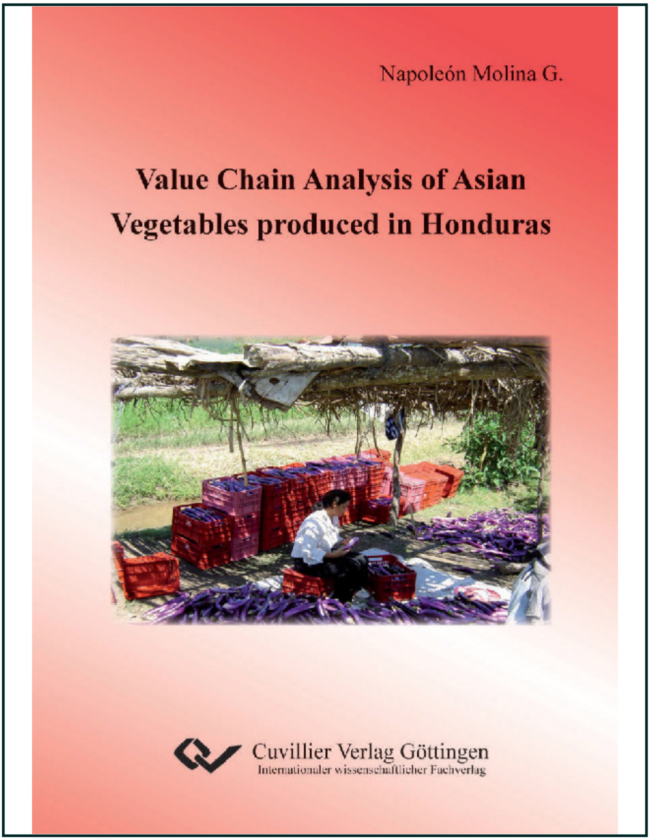
Napoleón Molina (Autor)

Value chain analysis of Asian vegetables produced in Honduras



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1. THEORETICAL BACKGROUND

The selected review of literature explores critically the interconnectedness of different factors influencing the participation of local actors, particularly producers, in the value chain of Asian vegetables sourced from Honduras to U.S. In light of this, five areas of the related literature were selected and critically reviewed. These areas include: i) the horticultural sector in Honduras; ii) value chain approach focusing on theory of value chain governance; iii) transaction costs economics theory; iv) resource dependence theory; and v) social capital theory.

A review of the literature on the horticultural sector in Honduras provides an understanding of the history, context and structure under which local actors operate. The value chain approach is reviewed to describe what is distinctive about this type of analysis and then theory of value chain governance is reviewed to understand the predominant type of chain (network) governance in the value chain of Asian vegetables produced in Honduras. Since emphasis is given to local actors, transaction costs economics theory is reviewed to provide a framework for understanding the configuration of contractual relations between producers and exporters. Resource dependence and social capital theories are reviewed to satisfy two gaps identified in transaction costs analysis. Resource dependence theory is reviewed to understand the role of power and social capital theory to understand the role of trust in the relationship between producers and exporters.

Finally, building on the critically reviewed literature, combined with the researcher´s own insights a theoretical framework for the design and conduct of this study is presented.

2.1 Development Strategies and their Effect on Horticultural Production

Within the framework of the Import Substitution Strategy adopted by the government between the 60s and 80s (Hernández Chávez, 2005: 112; Falck, 1995: 151), the agricultural sector policy was in general oriented to control the prices of agricultural products through cost reduction, based on a subsidy program[4] marked primarily by low interest rates, free technical support, and reduced tariff for imported inputs (Falck, 1995: 152). In general, the result was the exclusion of subsistence producers concentrated in rural areas (Ibid). However, these policies, together with certain market incentives, provided a stimulus for agricultural sub-sectors more targeted to upper and middle class segments of the population, in local urban markets and also destined to supply the relatively small

[4] For more detail see: Falck, 1995: 152-3.

processing agro-industry in the country. This included sub-sector fruits and vegetables, made up principally by medium size and no subsistence small producers. Moreover, in the mid 70s the government urged all agro-industries to purchase part of their raw materials from outgrowers, instead of cultivating entirely in their own farms (Glover 1987: 447).

In the 80s, as a result of the profound social and economic imbalances affecting the country and under the sway of the United States, the government of Honduras embarked in a policy reform process designed to correct that situation. This led to the modification of the government interventionist role, via stabilization policies[5] promoting export-led growth based on the restitution of free market principles (Hernández Chávez, 2005: 110-1; Noé Pino et al., 1992: 19-20 and 42). Certainly, these stabilization policies were the prelude in the emergence of a new development strategy, known as Structural Adjustment Program. Falck (1995: 151) distinguishes this as a transition period characterized by the encouragement of non-traditional exports.

The integration of Honduras in the Caribbean Basin Initiative (CBI) is a highlight of this phase. The CBI is a regional broad temporary program initiated by the U.S. in 1983 whose major goal was to expand foreign and domestic investment in non-traditional sectors through the diversification and expansion of exports in signatory Caribbean and Central American countries (US Department of Commerce, 2000: 1). The CBI provided beneficiary countries certain benefits such as duty free entry to the United States market for a wide spectrum of agricultural, semi manufactured and manufactured products as well as technical assistance to the exporters (Rosset, 1991: 31). The incipient dynamics exhibited by the horticultural sector during past decades was boosted in this period, including as the most successful horticultural products cucumbers, pumpkins, gherkins, tomatoes[6], jalapeño pepper, melons, pineapples, and others. According to Merrill (1995) the US$23.8 million export revenue derived from non-traditional fruits and vegetables in 1990 represented almost the double compared to 1983, consequently the contribution of non-traditional agricultural crops to the total value of exports grew from 2.8 percent in 1983 to 4.8 percent in 1990.

[5] For more detail see: Hernández Chávez 2005: 13-16 & 105-11.
[6] However, in 1989 Honduras stopped exporting tomatoes to the U.S. (See Imbruce, 2008: 72).

During the 90s and up to the current decade, the government of Honduras continued determinedly its course to liberalize the economy with the intention of achieving a better insertion of the country in the world economy.

The adoption at the beginning of the 90s of the anticipated Washington Consensus-supported Structural Adjustment Strategy[7], which can be seen as the culmination of the policy reform process initiated in 1980, spurred trade liberalization efforts. Morley et al. (2008: 2) points out that in 1990 Honduras had the highest tariffs in Central America and five years later were the lowest in the region.

In the particular case of the agricultural sector, the Law for Modernization and Development of the Agricultural Sector (Ley para la Modernización y Desarrollo del Sector Agrícola)[8] was conceived as the sectorial instrument of the Structural Adjustment Strategy (Noé Pino et al., 1992: 26; Baumeister and Wattel, 1996: 57; Jansen et al., 2006: 11). The fundamental purpose of this sectorial policy was to increase competitiveness through the intensification and diversification of the sector to increase foreign currency in the national economy and thus leading to higher incomes and decrease rural poverty (Rosset, 1991: 31; Baumeister and Wattel, 1996: 59; Jansen et al., 2005: 18; RUTA, 2006: 31; Paunovic and Rivas, 2007: 8). Accordingly, production of fresh vegetables and contractual relations between national producers and export companies, among other modalities, were promoted (Baumeister and Wattel, 1996: 59).

Besides, the country returned to the process of Central American economic integration and trade relations with extra regional countries were promoted; also notorious is the adhesion of Honduras to General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) in 1994 (Núñez, 1994: 105-7; IICA, 2006: 3).

In the second half 2001, the Poverty Reduction Strategy (PRS[9]) was implemented as the new long-term national strategy. This strategy was prepared by the government of Honduras through a participatory process involving civil society and other partners, including the World Bank and the

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[7] For more detail see: Baumeister and Wattel , 1996.
[8] For more detail see: Noé Pino et al., 1992 and Baumeister and Wattel , 1996.
[9] In general, the fundamental objective of the strategy is to reduce poverty significantly and sustainably, based on accelerated and sustained economic growth. Under this framework several targets have to be accomplished by year 2015 based on five broad strategic guidelines. For more detail see World Bank, 2001: Honduras Poverty Reduction Strategy Paper.

International Monetary Fund. Thus, the PRS constitutes the new framework that guides the allocation of public resources, including those coming from external sources (World Bank, 2001: 1). In other words, it defines the policies, programs and projects that need to be prioritized by the country.

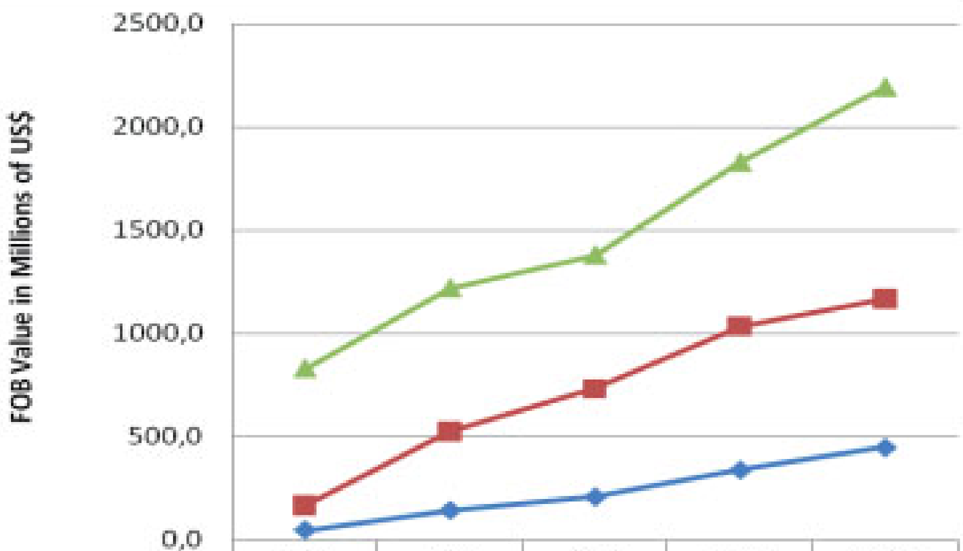
On April 1, 2006 the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA[10]) took effect. DR-CAFTA is a free trade agreement with no expiration date, encompassing the United States, five Central American countries[11] and the Dominican Republic. Because of its indefinite time duration, the DR-CAFTA is seen as the way to consolidate the temporal benefits granted by the United States under the CBI and the Generalized System of Preferences (Medvedev, 2008: 1; Rosales, 2004: 145). In agriculture, almost all products will eventually be eligible for duty-free treatment, including vegetables crops and other non-traditional agricultural products (Medvedev, 2008: 1; Rosales, 2004: 148; Hernández Chávez: 2005: 258). Even when DR-CAFTA does not have the status of national development strategy, some authors as Hellin et al., (2007: 9) stress that this treaty more than any national policy will define the future for many horticultural producers in the country.

Almost simultaneously and together with the rest of Central American countries, Honduras has made efforts to move further away from Central American Common Market (CACM[12]) to a customs union (ECLAC, 2006: 140; Osterlof, 2004: 27), which agreement is currently in the process of ratification by the respective National Congresses (SIECA, 2008: 5). Additionally, Honduras has established Trade Agreements with Mexico since 2001; Dominican Republic since 2001; the Republic of China (Taiwan) since 2008; Panama since 2009; one is under ratification with Chile; and others are still in negotiation with Canada, Colombia and the European Community (SIECA, 2009: 16-22).

Under this scenario the patterns of production in the agricultural sector were clearly altered. As can be noticed, within this new productive structure, the expansion of non-traditional agricultural

[10] After one year of negotiations, Honduras signed the DR-CAFTA agreement on May 2004, and its National Congress ratified it on March 2005. In the case of the U.S., its Congress ratified the free trade agreement on July 2005 (Jansen et al., 2006: 4).
[11] Panama negotiated separately.
[12] Established in 1960 by Central American countries to facilitate regional economic development through free trade and economic integration (SIECA, 2009: 1), to which Honduras returned in 1992.

products, including vegetables, continued to be favored. Participation of non-traditional exports in total exports has increased significantly: in 1990 they represented 20 percent of total exports and by 2007 they reached more than 50 percent (Figure 2.1.). The same tendency applies for non-traditional agricultural exports; in 1990 the most important crops reported revenues of almost US$50 million while in 2007 they accounted for almost US$450 million, representing an estimated annual average growth of 11 percent during that period (Figure 2.1.).



	1990	1995	2000	2005	2007
Selected Agricultural Exports	47,8	143,8	208,7	339,8	449,3
Total Non Traditional Exports	168,9	526,2	734,0	1.035,0	1.167,7
Total Exports	831,0	1.220,2	1.380,3	1.829,2	2.192,3

Figure 2.1. Value of non-traditional agricultural exports

Note: Selected Non Traditional Agricultural Exports include: cultivated shrimp, tilapia, melons, pineapples, palm oil, vegetables and prepared fruits and vegetables. 2005 and 2007 include preliminary data.

Source: Own elaboration based on data of Central Bank of Honduras, 2008

Exports of vegetables including fresh and prepared/preserved also reacted positively and continue showing dynamics. In 1994 they reported revenue of 4.5 US$ millions while in 2007 it increased to almost US$ 50 millions, registering an estimated annual average growth of 15 percent (Figure 2.2). In 2007, exports of vegetables accounted for 2.2 percent of total export. Trade of vegetables is particularly intense with the U.S. and with other Central American countries such as Guatemala, El Salvador and Nicaragua.