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A NATIONAL EXPORT PLAN FOR GUATEMALA:
"GUATEMALA MIL MILLONES"

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

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and
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Prepared by: *SRI International*
1611 North Kent Street
Arlington, VA 22209

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Preface

This document is a "National Export Plan" for Guatemala. It is presented to the National Council for the Promotion of Exports (Conapex) and the U.S. Agency for International Development Mission to Guatemala. The work was conducted by the International Policy Center of SRI International and Mr. Wesley Boles, Consultant to Ernst & Young, under contract to Ernst & Young, as part of the Private Enterprise Development Support II Project (Project Number 940-2028.03).

The Project team consisted of Kathleen Vickland, Senior International Economist at SRI International and Team Leader, Frank T. Neider, Senior International Economist at SRI International, and Wesley Boles, Consultant to Ernst & Young. After conducting initial research from international sources in Washington, D.C. the team made a two-week field visit to Guatemala in June/July 1989 to conduct field interviews and collect additional data. A draft report was submitted in July 1989 in English, and in August 1989 in Spanish. Comments were received in December 1989, and this Final Report in English is being presented in January 1990. The Final Report in Spanish will be sent to the USAID Mission in Guatemala upon completion of the translation, in approximately one month.

This report is intended to guide Guatemala toward sustained growth in exports. The authors wish to thank the many individuals in the Guatemala government who provided invaluable assistance in the preparation of this document, especially Lic. R. Ricardo Curruchiche S. and Lic. Willy Zapata Sagastume of the Central Bank of Guatemala; Ing. Agr. Rodolfo Estrada Hurtarte, Minister of Agriculture, Lic. Juan Francisco Pinto C., Vice Minister of Public Finance; Lic. Antonio Blanco Gomez, Vice Minister of Economy; Ing. Francisco Javier Godoy Arriaza, Vice Minister of Communications, Transport and Public Works; and Lic. Carlos Leiva Barrientos, Personal Advisor to the Minister of Economy for Foreign Trade. We would also like to thank Lic. Willy Rodriguez of the Business Council (CAEM) and Licda. Fanny de Estrada of the Non-traditional Exporters' Guild, as well as Mr. Felipe Manteiga of the USAID Mission to Guatemala, for their assistance and insights. Any errors, however, are solely the responsibility of the authors.

I. EXECUTIVE SUMMARY

It is the aim of this effort to draft an export plan that is truly "national" in scope and authorship, as opposed to a plan which presents the narrower views of individual public institutions or economic subsectors. The National Export Plan's goal is steady growth in traditional exports, and a substantial increase in the growth rate of nontraditional exports. The National Export Plan will lay the foundation for Guatemala to reach US$ 1 billion in nontraditional exports in 1995, and therefore the Plan is named "Guatemala Mil Millones."

The Plan is based on extensive work conducted by numerous government and private organizations, each of which made a valuable contribution. Lists of people interviewed in the course of drafting this Plan, as well as documents reviewed, are presented in Annexes A and B. The role of the team of foreign experts was to provide objective assessments of the export constraints and proposed activities.

The National Export Plan was designed specifically to fit fully and coherently into Guatemala's existing macroeconomic (see Section II, "The National Export Plan in the Context of Guatemala's Macroeconomic Policy Context," p. 9) and financial contexts (see Section II, "The National Export Plan in the Context of Guatemala's Financial System," p. 10). The move on November 3, 1989 to adopt a freely floating exchange rate system is a very significant positive step, and is expected to provide impetus to private sector capital repatriation, exports, and foreign investment. However, additional macroeconomic, policy, regulatory, and infrastructure measures need to be undertaken. These measures are presented in this National Plan.

Before drafting the National Export Plan, the team undertook a diagnosis and trend analysis of both traditional and nontraditional exports (See Section II, "Export Diagnosis and Trends," p. 13).

The Plan contains 45 specific short-, medium-, and long-term recommendations to increase Guatemalan exports, presented, in abbreviated form, after this Executive Summary, and in its entirety, beginning on p. 44. Each of the recommendations is based on a careful analysis of what has worked in other countries around the world (see Section III, "Summary of Successful Export Promotion," as well as analysis of the unique Guatemalan context (see Section III, "Analytical Synthesis of Existing Research," p. 29; "Sectoral Analysis of Constraints," p. 30; and "Prioritization of Recommendations," p. 33). The Plan is summarized in table form following the Executive Summary.

The strategy of the plan is to gradually reduce the current anti-export bias inherited from several decades of import-substitution polices, and to achieve equal treatment for export activities. While equal treatment is being approached, the plan calls for several programs to counteract the negative effects on exports of some current policies and economic institutions that cannot be changed rapidly. These programs include special lines of credit for exporters to offset the hesitancy of financial institutions to lend to non-traditional exporters, effective and transparent duty-drawback and free-zone programs to ensure access of inputs at competitive prices and reduce costly bureaucratic procedures, as well as a prioritized program of infrastructure improvements to facilitate transport and communication with world markets.

Macroeconomic recommendations, because they affect all economic sectors and all exports, play a preeminent role in the

National Export Plan. Shortly after the first draft of the National Export Plan was circulated, on November 3, 1989, the nation took one of the most positive steps toward increasing exports by moving to a market-determined exchange rate. The resulting devaluation of approximately 25 - 30 percent has stopped the outflow of Bank of Guatemala reserves and attracted private sector capital repatriation at a rate of US$5.8 million per week throughout November. The challenge now is to maintain the flexible, market-based system over time so as to reassure the business community and provide sufficient incentive for large-scale export-oriented investments.

Several important macroeconomic adjustments still need to be made. The National Export Plan calls in the short term for initiating a gradual reduction of tariff levels and a system of flexible, market-oriented interest rates. These measures are critical to shifting price signals away from import-substitution activities towards encouraging greater investment in and production of exports. In the medium and longer term, the Plan emphasizes the importance of maintaining a stable, outward-oriented macroeconomic framework, including continued gradual reduction of effective protection rates.

Because it was identified as a key constraint to exporting across the board, regardless of industry, the provision of financing has also been given a key role in the National Export Plan. The Plan mandates the implementation of FODEX to provide pre-export financing, and the facilitation of exporters' access to official lines of credit. Beginning in the mid 1990s, the Plan calls for the establishment of a system of domestic letters of credit based on confirmed export orders, revision of the Banking Law, and the development of domestic sources of longer-term investment capital.

Telecommunications and transport infrastructure were the next most commonly cited bottlenecks to exporting. The National Plan addresses each of these issues, urging, in the next three years, increased investment in telephone exchanges and lines, improved port administration, the private provision of refrigerated storage at the La Aurora airport, increased cargo and passenger air transport capacity, and implementation of the existing plan to convert a warehouse at the airport from use by importers to use by exporters. In the medium and longer term, the Plan outlines additional port infrastructure improvements, such as upgrading the bulk handling facilities at Puerto Barrios, used for the export of bananas, and an increased role for the private sector in funding infrastructure improvements in general. In addition, the plan call for the provision of additional secondary roads to open up the interior of Guatemala to export markets.

The National Plan also calls for, in the short-term, the promulgation of transparent free zone regulations and the provision of adequate support to the office charged with implementing the new free zone law.

In spite of numerous comparative advantages, Guatemala has fallen behind other countries in attracting foreign investment. The National Plan proposes concrete measures to rectify this situation. The Plan mandates the formation in the next three years of two groups, one private and one public, to promote Guatemalan trade, investment and tourism overseas. It also calls for a comprehensive review of foreign investment legislation, for passage of the Forestry Law, and improvements in the Minerals Exploitation law and regulations. To simplify the investment approval process, the Plan recommends the creation of a "Ventanilla Unica" for granting investment approvals.

Another key area for improvement is the provision of economic and market information to the public and other government agencies. The National Plan outlines the creation of a new government information service in each Ministry, to provide much-needed data to inquirers.

To increase its exports, Guatemala must gain greater international recognition for its products and producers. The National Plan stipulates an increased emphasis on export promotion, and continued work on raising awareness of the benefits of exporting. In recognition of the important role tourism plays in the national economy, the Plan calls for increased tourism promotion in high-potential markets.

In acknowledgement of serious deficiencies in the provision of timely, efficient Customs services, the National Plan calls for reorganization and professionalization of Customs.

Lastly, the National Plan demonstrates a renewed commitment to education as an essential means to a well-qualified workforce, capable of filling the jobs of tomorrow.

The National Export Plan is outlined in the following figure, which indicates activities, responsible entities, monitorable outputs, and the page number of a detailed discussion of the activity. Activities have been selected for implementation in the short term (1989 - 1992), medium term (1993 - 1996), and long term (1997 - 2000).

Each activity detailed in the Plan has been judged to be of significant importance in catalyzing export growth. Therein lies the importance of strict adherence to target dates and measurable outcomes. If the activities in this plan go unrealized, if the obstacles to Guatemalan export growth remain, our future economic and societal development is threatened. This plan must not be simply a plan on paper, but must receive the full support and commitment of each of the entities identified as crucial to export growth and economic development. To aid in assuring and monitoring compliance with the National Plan, Section V of this document contains lists of expected actions for each responsible entity, recommendation on how to modify activities should the need arise, a discussion of potential obstacles to Plan implementation, and discussion of specific, practical activities to undertake to reduce the risks of falling behind on the implementation of the Plan.

NATIONAL EXPORT PLAN

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Maintain a competitive exchange rate.	Bank of Guatemala	No significant shift in real effective exchange rate away from competitive level.	46
Gradually reduce tariff levels and replace quantitative restrictions with tariffs.	Ministry of Economy	Gradual declines in average tariff levels.	47
Establish system of flexible, market-oriented interest rates and concomittantly limit use of administrated credit controls.	Bank of Guatemala	Gradual raising of interest rate ceilings and removal of ceilings by December 1990.	49
FINANCE:			
Begin operation of FODEX, an official line of credit for pre-export financing to be operated independently of Bank of Guatemala procedures.	Bank of Guatemala and private bank	Flows of pre-export financing from FODEX and other sources.	52
Facilitate exporters' access to official lines of credit especially for medium and other longer term credits.	Bank of Guatemala, private banks, Camara de Finanzas	Reduction in time of review process by Bank of Guatemala.	54
TELECOMMUNICATIONS:			
Invest in additional exchanges and speed installation of additional lines.	Guatel	Number of new exchanges and lines in service. Call completion rate.	57
TRANSPORT:			
Improve administration of Puerto Santo Tomas de Castillo.	Ministry of Finance	Reduction in loading and unloading time.	59
Allow private businesses to construct refrigerated storage at Aurora airport.	Director Generalship of Civil Aeronautics	Director Generalship of Civil Aeronautics should announce by Dec. 31, 1989 that is accepting competitive applications to build and operate refrigerated storage space at Aurora airport.	60
Grant landing rights to all serious applicants.	Ministry of Finance and Director Generalship of Civil Aeronautics	Increase in rate of approval of applications for landing rights at Aurora International airport.	61
Proceed with plans to convert 1 warehouse at Aurora airport from importing to exporting.	Ministry of Finance and Director Generalship of Civil Aeronautics	Warehouse is to be in service for exporters by December 31, 1989.	62

NATIONAL EXPORT PLAN
(Continued)

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
EXPORT, IMPORT, DRAWBACK AND FREE ZONE REGULATIONS:			
Promulgate free zone regulations that are transparent and will expedite investment in free zones.	Ministry of Economy	Publication of regulations.	64
Provide staff and budget to Dir. Gen. of Industrial Policy to expedite approval of free zone investments.	Ministry of Economy	Office fully staffed and equipped. Length of time required to process application.	64
ATTRACTING INVESTMENT:			
Conduct a comprehensive review of Guatemala legislation and regulations regarding foreign investment.	Ministries of Finance and Economy, Bank of Guatemala	Preparation of document reviewing legislation. Proposals for modifications. Implementation of modifications.	67
Proceed with the creation of the Investor Service Center within the Empresarial Chamber (CAEM).	CAEM	Office staffed and equipped. Number of leads generated. Number of firms which invest and number of jobs created.	68
Select, train, and support investment, trade and tourism information specialists in overseas Embassies.	Ministries of Foreign Affairs and Economy	Selection of personnel. Design and offer training. Monitor number of leads provided by each foreign commercial representative.	70
Pass proposed Forestry Law.	Congress	Passage of law.	71
Expedite minerals exploitation through simplification of law and regulations.	Ministry of Minerals and Petroleum	Modifications in law and regulations. Implementation of modifications.	71
ECONOMIC AND MARKET INFORMATION:			
Gradually develop overseas trade and investment officers within the Non-traditional Exporters Guild and the Empresarial Chamber.	Nontraditional Exporters Guild and CAEM	Send only 3, not 5 promotion officers overseas in 1989/90.	73
Designate at least one person in each Ministry to answer questions and provide trade and economic data in response to questions from the public and from other agencies.	All Ministries, Central Bank, and Ventanilla Unica	Designation of staff members to information positions. Public announcement of new service. Number of inquiries answered per year.	74

NATIONAL EXPORT PLAN
(Continued)

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
EXPORT PROMOTION:			
Continue to support export promotion efforts.	Nontraditional Exporters Guild	Increase level of funding for Guild.	76
Promote incoming tourism among high-potential market segments.	Inguat	Increase in promotional budget. Increase in tourism volume.	77
Continue to develop awareness of the benefits of exporting.	Industry Guilds, CAEM	Seminars, ad campaign.	78
CUSTOMS:			
Professionalize Customs to make operations more efficient and transparent. Audit operations and remove causes of irregularities.	Ministry of Finance	Personnel changes. User surveys. Reduction in paperwork.	80
HUMAN RESOURCES DEVELOPMENT:			
Industry Guilds should assess specific training needs, raise funding from employers, and contract for courses through INTECAP and other institutions.	Industry Guilds	Number of courses paid for outside of state-sponsored program. Number of people trained. Satisfaction surveys of course graduates and employers.	82

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Medium-term Activities (1993 - 1996)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Deepen macro-economic policies supportive of export-led growth, including: (1) maintenance of a competitive exchange rate (2) continued general reduction of effective protection rates and of the variation in tariff rates.	Bank of Guatemala, Ministry of Economy and Ministry of Finance	Stable real effective exchange rate. Reduction of tariff ceiling to 25 percent and increase in tariff floor to 10 percent by 1995.	84
FINANCE:			
Establish a system of domestic lines of credit.	Private Banks, Bank of Guatemala, FODEX	Amounts of domestic letters of credit issued for production of eventual exports.	85
Fundamental reform of financial sector, including revision of 1946 Banking Law.	Bank of Guatemala, Camara de Finanzas	Reduced proportion of each bank's lending to individuals and businesses associated with industrial group that owns the bank.	86
Develop domestic sources of longer-term investment capital.	Private Financial Sector Bank of Guatemala and Ministry of Finance	Establishment of new sources of investment capital, including venture capital clubs, investment banking and increased flows of longer-term loans and private bonds.	88
TRANSPORT:			
Use pragmatic criteria when assigning budgetary and management responsibilities between the gov't and the private sector for the modernization of Aurora airport.	Ministry of Communications, Transport, and Public Works	The assignment of the management and/or ownership of one or more of the modernization activities to the private sector.	89
Upgrade physical facilities at Puerto Santo Tomas de Castillo.	Ministry of Finance	Completion of port physical infrastructure needs assessment in close collaboration with private sector. Seek funds and implement improvements.	90
Relocate customs facility at San Jose to Puerto Quetzal.	Ministry of Finance	Announcement of relocation. Completion of relocation.	91
Authorize sugar producers to proceed with investment in bulk landing facilities at Puerto Quetzal.	Ministry of Transport, Communications and Public Works	Granting of authorization. Completion of improvements.	91
Authorize and encourage Guatemalan Railway company to seek private investors to upgrade bulk landing facilities at Puerto Barrios.	Ministry of Finance	Announcement of authorization. Preparation of physical improvement plan. Implementation of plan.	92

NATIONAL EXPORT PLAN

Medium-term Activities (1993 - 1996)
(Continued)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
ATTRACTING INVESTMENT:			
Create a "Ventanilla Unica" for granting investment approvals.	Ministry of Economy	Creation of "Ventanilla Unica" for investment approvals. Reduction in length of time and number of steps in approval process.	93
ECONOMIC AND MARKET INFORMATION:			
Create non-lending reference libraries in each Ministry to serve public and other gov't agencies.	All Ministres and Central Bank	Opening of reference libraries.	94
EXPORT PROMOTION:			
Inventory forestry resources and establish program to control cutting, reforest, and provide alternative fuels to firewood.	Ministry of Agriculture	Completion of forest inventory. Acreage replanted. Reduction of acreage subject to slash and burn agriculture.	95

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Long-term Activities (1997 - 2000)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Continue to provide a stable and sound macroeconomic framework supportive of export led growth.	Bank of Guatemala, Ministries of Economy and Finance	Competitive exchange rate	97
Reduction of tariff ceiling to 20 percent.	Ministry of Economy	Tariff ceiling of 20 percent	97
TELECOMMUNICATIONS:			
Keep pace with technological advances to provide Guatemalan businesses with the full range of telecommunications services, including cellular phones, computer data transmission, and other services.	Guatel, Private Businesses	Range of telecommunications services available	98
TRANSPORT:			
Create Blue-Ribbon National Air Transport Needs Committee.	Dir. Gen. of Civil Aeronautics	Creation of commission in late 1990s, and submission of "Air Transport Plan for 2000"	99
Construct additional secondary roads to penetrate interior and increase market access.	Ministry of Transport, Communications, and Public Works	Miles of secondary roads	100
ELECTRICITY GENERATION:			
Continue to plan for power generation capacity that will meet the growing industrial demand. Improve regularity of service and maintain reasonable price structure.	INDE	Power sufficient to meet demand. Absence of power interruptions.	101
EXPORT PROMOTION:			
Conduct export promotion campaigns in large markets outside of Western Hemisphere, including Japan and the EEC.	Non-traditional Exporters Guild, Ministry of Foreign Affairs	Increased non-traditional export sales to Far Eastern and European markets.	102

NATIONAL EXPORT PLAN

Long-term Activities (1997 - 2000)
(Continued)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
HUMAN RESOURCES DEVELOPMENT:			
Commit sufficient national and local resources to elementory, secondary, university, and vocational education to assure a high quality workforce.	Ministry of Education	Growth in per-capita real spending on education	103
INSTITUTIONAL DEVELOPMENT:			
Consider creating a Ministry of International Trade.	President	Review of pros and cons of creating new Ministry.	104

II. BACKGROUND OF THE NATIONAL PLAN EFFORT

Goals of the National Export Plan

The goal of this plan is to promote growth in exports to provide an impetus and foundation for growth of the economy as a whole. Export growth will reduce unemployment, generate needed foreign exchange, stabilize the value of the Quetzal, and attract new technology, both technical and managerial, and diffuse it throughout the economy. For too long, our economy has waxed and waned depending on the vagaries of our limited internal market and the Central American Common market. For future growth, we must look outward toward world markets.

Economic Context of National Export Plan

Throughout most of the 1960s and 1970s, Guatemala enjoyed relatively rapid economic growth, as the high tariff barriers of the Central American Common Market gave Guatemalan entrepreneurs an expanded protected market for which to produce. As the largest economy in Central America, Guatemalan producers had a relative comparative advantage, due to greater economies of scale. From 1960 to 1980, economic growth averaged over 5.5 percent, while non-traditional exports grew from less than $30 million to almost $700 million, of which two-thirds went to Central American nations.

Since 1980, the logic of this import-substitution policy has been shattered by the collapse of demand from Central America as the economies of Nicaragua and El Salvador have deteriorated due to civil strife, and, in the case of Nicaragua, misguided economic policies. Between 1980 and 1986, exports to Central America declined by over 60 percent, or almost 3 1/2 percent of GDP. For strategic purposes it is clear that Guatemala cannot plan on an improvement in the economic situation of Central American neighbors. To continue with an import-substitution strategy without the boost of demand from Central America is not a viable option, because the domestic demand of Guatemala alone is not sufficient to a support growing and technologically-advancing economy.

While regional and domestic demand are not sufficient to propel the Guatemalan economy, world demand is. If Guatemala can shift the orientation of its economy more towards export production, the huge potential world demand can give Guatemala the boost it needs to fuel a rapidly growing economy.

It is expected (see discussion of Export Trends and Analysis) that non-traditional exports to non-Central American markets have the greatest potential for rapid growth, as the rapid expansion of traditional exports is severely limited by quotas and stagnant world demand, and Central American markets will probably remain stagnant throughout the medium term. Non-traditional exports to non-Central American markets currently total around $200 million, or about 3 percent of GDP. While this is a small base upon which to build an export-led growth strategy, the potential for rapid growth is great. Nontraditional exports can very rapidly make a significant contribution to the overall economy.

It should be noted that most of the countries which have successfully practiced export-led growth strategies, also had a very small non-traditional export base when they first initiated their outward-oriented economic policies. In Korea in 1960, for example, non-traditional manufacturing exports totalled only 1 percent of total exports. By 1975, these non-traditional exports totalled 75 percent of total exports, and contributed over one-third of total economic production. Real GDP grew by almost 10 percent per year during this period, fueled primarily by the extremely rapid growth of non-traditional exports.

The National Export Plan in the Context of Guatemala's Macroeconomic Policy Context

The National Export Plan was designed in its entirety to be consistent with and compatible with the nation's macroeconomic context. The National Plan explicitly takes into account the scarcities of financing and foreign exchange which dominate the macroeconomic landscape, and does not put undue pressures on these limited resources. To the contrary: The National Plan aims to reduce the overall burden of export promotion by equitably and rationally distributing roles and responsibilities for policy change, infrastructure, and promotion, between the public and private sectors.

In reality, the National Export Plan will affect not only the export sector but the economy as whole. This national export plan details the steps Guatemala should take to achieve the consistent rapid export growth necessary to propel the economy as a whole. While this document sets forth a new national export plan, its recommendations are consistent with and support the basic thrust of national economic policy since the mid-1980s, of a more market-based and outward oriented economic strategy.

The plan calls for prudent monetary and fiscal policies and other macroeconomic policies, especially exchange rate and tariff policies, supportive of export-led growth. Rapid export growth will require the maintenance of the recently established competitive exchange rate, as well as gradual reduction of effective protection to encourage investment in and production of exports.

The plan does not isolate exports from the rest of the economy, but is designed to engage more of the economy in export activity, and to spread the direct and indirect benefits from export expansion broadly throughout the economy.

The strategy of the plan is to gradually reduce the current anti-export bias inherited from several decades of import-substitution polices, and to eventually achieve equal treatment for export activities. Before equal treatment is achieved, the plan calls for several programs to counteract the negative effects on exports of some current policies and economic institutions that cannot be changed rapidly. These programs include special lines of credit for exporters to offset the hesitancy of financial institutions to lend to non-traditional exporters, effective and transparent duty-drawback and free-zone programs to ensure access of inputs at competitive prices and reduce costly bureaucratic procedures, as well as a prioritized program of infrastructure improvements to facilitate transport and communication with world markets.

The National Export Plan in the Context of Guatemala's Financial System

Under Guatemala's current financial and banking system, non-traditional exporters find it extremely difficult to get access to either adequate short-term or investment financing. This poor access to financing severely limits the expansion of the productive base of non-traditional exports and the operations of existing firms. Without better access to capital, many potentially successful non-traditional export projects cannot be established, or if they are they tend to be highly undercapitalized. Being undercapitalized, and with limited access to short-term credit, they are unable to withstand short-term shocks, such as a temporary drop-off in demand for their products or delays in payment. In short, the current financial and banking system is a key constraint on non-traditional export growth and reform of the system is a key component of the National Export Plan.

The primary reason for non-traditional exporters' limited access to financing is that most banks and financieras, the major sources of financing in Guatemala, tend to channel their credit resources to firms associated with the industrial group which controls the financial institution, to the exclusion of firms and individuals not associated with the controlling group. Almost all the private banks and financieras are controlled by specific industrial groups, and accordingly there are few other institutions to which firms or individuals not associated with an established group can go for their financing needs. As non-traditional exporters tend to be newly established firms, they are rarely part of an established industrial group, and therefore they have great difficulty in obtaining credit. Until recently, the major industrial groups have not sought to establish non-traditional export projects because the country's import substitution policies discouraged these type of export projects.

Current financial policies and regulations, especially low interest rate ceilings and credit controls, encourage this type of behavior by banks, which are by far the dominant financial institutions in the Guatemalan financial system. Under the current policy environment, there is little incentive for banks to attempt to sharply expand their client base. Interest rate ceilings do not allow them to charge higher rates to compensate for the potentially higher risks associated with new clients and less-well established firms. Credit controls limit how much banks can lend, and therefore even if they have sufficient financial resources to expand lending, they often cannot. In this type of environment, banks naturally channel resources to their most established and probably less risky clients.

Financieras operate under much less restrictive regulations than banks. Indeed, they are designed primarily to avoid banking regulations. However, due to the fact that they must compete for funds in the limited financial market outside of the formal banking sector and that interest on their deposits are taxable, their cost of funds is double that of banks. To cover these costs, the rates they charge on loans are at least twice that of banks for loans of equal term and risk. With this artificially high interest rate structure, firms solely dependent on financieras for financing will have a difficult time competing in international markets, as their financing costs will be considerably higher than most competitors. Even with higher interest rate costs, financieras also tend to loan to firms and individuals associated with the group that owns the institution. Financieras do not rely on formal collateral, but depend on the financial health of borrower and his/her goodwill in ensuring repayment. This system reportedly keeps non-payment rates low, but also discourages financieras from extending credit to newly established firms that have no ties with the controlling group. Finally, as financieras operate in a segmented financial market, their financial resources are much more limited than banks, and therefore by themselves could not meet the credit and financial service needs of a rapidly expanding non-traditional export sector.

Potentially financieras could play an important contributory role in meeting the financial needs of non-traditional exporters, especially before needed fundamental financial reforms are implemented. Financieras could be the source of higher cost financing for higher risk non-traditional export projects, which banks currently will not finance. To do so, financieras should broaden their services to meet the international needs of exporters. For example, financieras should attempt to establish lines of credit with domestic and international banks which in turn they can channel to non-traditional exporters.

In addition to the problems caused by the institutional structure and policy framework of the Guatemalan financial institutions, non-traditional exporters, as well as all other new entrepreneurs, also suffer from a lack of sources of longer term financing, especially equity capital. To assist in the development of new enterprises, more sources of longer term investment capital should be developed, such as investment banks, venture capital firms and formal capital markets for both debt and equities. With fundamental financial system reform, financieras could develop into firms specializing in the provision of investment capital.

Export Diagnosis and Trends

Guatemala exports peaked in 1981 at US$ 1.5 billion, and have fallen substantially below that figure in the years since. The Bank of Guatemala reported exports in 1987 of US$ 987 million, an eleven year low. Export rose slightly in 1988, to US$ 1.022 billion. Considering that exports are valued in current dollars, the present purchasing power generated by Guatemalan exports has fallen sharply from that of 1980. Exports account for approximately 14% of GDP.

Traditional products of which coffee is the most important single product, account for nearly 60% of Guatemala's exports. Of the non-traditional exports, the ratio of manufactured or processed goods to agricultural products is three to one. Of all non-traditional products, nearly 60% go to other Central American countries, principally El Salvador and Costa Rica. The leading nontraditional exports are apparel, valued at US$75 million in 1988 to the U.S. market alone, and tourism, which generated an estimated US$124 million in 1986, according to Inguat.

Guatemala traditionally has been an agrarian country for which exports have not represented a large proportion of the gross domestic product. In the 1960's the creation of the Central American Common Market helped produce an increase of Guatemalan exports at a rate greater than growth in the GDP. In 1963, merchandise exports of US$ 153 million represented 12% of the country's GDP. Ten years later, in 1972, exports had grown to US$ 336 million, or 16% of GDP.

The major factor in export growth during this period was non-traditional exports, principally manufactures destined to other members of the CACM. Traditional products which had accounted for 81% of Guatemala's 1963 exports grew slowly in nominal terms and in 1972 had dropped to 62% of Guatemala's total exports.

During the next decade exports continued to grow rapidly, peaking in 1980 at US$ 1,520 million, over 19% of Guatemala's GDP. Since 1980, exports declined sharply, due to both weak export prices for traditional goods in several years, and more importantly, adverse political and consequently economic developments in major Central American trading partners. Between 1980 and 1983, traditional exports fell 30%, while non-traditional exports fell 15% with the latter representing slightly more than half of Guatemala's reported export earnings. Traditional exports strengthened from 1983-86, but have fallen below the US$ 600 million level for both 1987 and 1988.

Exports to CACM fell by over 55 percent, or $250 million between 1980 and 1986. In 1980, nontraditional exports to CACM represented over two-third of total nontraditional exports, while by 1988 they totalled only approximately one-half. Almost all of this decline is due to drops in demand in El Salvador and Nicaragua. Exports to El Salvador fell by $140 million, or over 70 percent, while exports to Nicaragua fell by $90 million, or over 90 percent. Political unrest, and, in the case of Nicaragua, misguided economic policies motivated by ideological concerns, are the principal reasons underlying the collapse of demand in these countries. As these conditions are unlikely to change soon, Guatemala cannot expect a resurgence in CACM demand.

Guatemala exports are probably approximately one-quarter to one-third higher than reported. Export figures compiled by the Bank of Guatemala reflect the amount of foreign exchange obtained by the Bank. A comparison of U.S. import statistics with industry estimates of export destinations by proportion of total export sales suggests that the official figures understate actual results in the range of 25 to 30%. In other words, Guatemala's actual 1988 export earnings were probably around US$ 1,400 million. The difference reflects several things. For re-exports Guatemala records only the value added. In addition, there are widespread reports of undervaluing documents presented to the Bank of Guatemala, clandestine transhipment of traditional products through neighboring countries and failure of customs officials to record all shipments.

TRADITIONAL EXPORTS: Guatemala's principal export products - the "traditional" exports of coffee, sugar, bananas, cotton, cardamom, beef and crude petroleum - represented 58% of the 1988 value recorded for exports. These products will remain a major element in Guatemala's export earnings, but as the brief commentary below suggests, their potential for export growth is limited, largely as a result of world market conditions.

Coffee - Guatemala's single most important export, its relative value has fallen from two-thirds of all exports in years past to about one-third in 1988. The recent decision of the International Coffee Organization to suspend quotas for the next two years will result in a windfall of foreign exchange this year as Guatemalan producers will be able to move their reserve stocks into the market. It is expected that even with sharply lower prices, the suspension of quotas will produce an additional US$ 150 million in 1989, However, it is unclear that Guatemala will be able to maintain an increase in coffee earnings in subsequent years, although higher earnings are predicted in 1990, due to expectation of an extraordinary crop. While Guatemalan coffee is considered of excellent quality, this advantage may not be enough to counteract the price depressing effects of increased production as a result of the lifting of the quotas. A reasonable long term strategy regarding Guatemala's coffee production would be to increase productivity per unit of land so as to maintain current volumes of coffee production, and to increase income to the producers by using freed-up land for alternative crops.

Sugar - Guatemala's export earnings from sugar have been volatile in recent years. In a peak year, 1983, sugar exports of $US 127 million represented 11% of total exports, but in recent years annual sugar exports have been at around $50 million, or 5% of exports. Exports in 1988 of over US$ 70 million represented an increase over the previous year, with the industry expecting yet another modest increase in 1989. Sugar exports are still highly dependent upon world market conditions which in turn are strongly impacted by protectionist measures undertaken both by the United States and the European Community.

Bananas - The past ten years have seen a gradual increase in Guatemalan export earnings from bananas, from US$ 20 million a year in the late 1970's to approximately $US 60 - 70 million a year in recent years. Official banana exports for 1988 of US$ 62 million are probably understated since the U.S. import figure for the year was over US$70 million, and the U.S. market traditionally has represented about 70% of Guatemala's total market for bananas. Despite these increases, Guatemala is a minor factor in the world supply of bananas from Latin America, holding only about a 7% share. To increase Guatemala's participation in this market will require port improvements.

Cotton - At the beginning of this decade, cotton was second only to coffee as an export crop. Cotton exports which had reached US$ 189 million in 1979, dropped to a low of less than US$ 18 million in 1987. An improvement in world market prices led to exports of US$ 40 million recorded in 1988 but the world market remains subject to volatile price changes. Decreases in productivity and the increasing cost of fertilizers and pesticides needed for land which has been in continuous cotton production for over twenty years makes Guatemala a relatively high cost producer. A better strategy might well be to diversify into other crops.

Cardamom - Representing an early and very successful crop diversification for coffee growers, cardamom exports exceeded US$ 50 million in two years, 1980 and 1984. Since 1985, however, the earnings trend has been downward with exports in 1988 recorded at US$ 34 million. The market is limited essentially to the Middle East and South Asia and appears inelastic. Thus, increases in production lead to sharply lower prices. Unless the world's largest cardamom market as well as producer, India, were to shift from a policy of self-sufficiency to one of allowing cardamom imports, future prospects for growth in Guatemalan exports are poor.

Beef - An important export in the late 1970's with annual levels of up to US$ 40 million, Guatemala's beef sales nearly disappeared in the mid-80's, hitting a low of US$ 4 million in 1986. Beef exports have come back in the past two years with 1988 exports of over US$19 million. Sales are still highly dependent on the state of the U.S. economy and of conditions in the U.S. livestock industry. Strong beef producers like Australia and Argentina are also factors in the world market. Significant growth beyond the current level in beef exports would appear difficult to achieve.

Petroleum - Guatemala's exports of petroleum have been hit by two problems, a decline in world market prices and a decline in Guatemalan production. Daily production has dropped from over 6,000 barrels to something over 3,000 barrels. Export earnings which had peaked at US$ 60 million in 1983 are now running at about US$ 15 million annually. There are efforts to enhance production in the existing producing field, but no new significant sources of crude have been found as yet. Guatemalan petroleum tends to be heavy and to have a high sulfur content so its price will fall at the low end of the spectrum. It is unlikely that there will be any significant exploratory activity in the short term. Guatemalan exports will most likely continue to decline in volume, if not in price, for the next three to five years.

NONTRADITIONAL EXPORTS: By definition, products other than the seven listed above are "non-traditional". For purposes of this paper, non-traditional products have been divided into agricultural products, and manufactures and tourism.

Non-traditional Agricultural Products - Exports of unprocessed non-traditional agricultural products peaked in 1981 at US$123 million, or 10% of total exports. Although detailed figures for 1988 are not available, preliminary numbers suggest that these exports approached the 1981 total, and represent 11 to 12% of total exports. Despite high hopes for "non-traditional" agricultural products, over the past eight years exports of these products have not grown appreciably either relative to other Guatemalan exports or in terms of dollar earnings. A significant amount of these exports stay within Central America; in 1987 about $22 million, or 21% of the total, including virtually all exports of garlic, onion, tomatoes, potatoes and corn were to Central American countries. Central America also absorbs substantial amounts of Guatemala's exports of fruits, vegetables and natural rubber. Principal agricultural exports outside of the region include shrimp, lobster and fish; fruits; vegetables; spices; sesame seed; honey; natural rubber, cacao, bulbs and seeds and flowers and foliage.

Viewed from the point of U.S. imports, it would appear that Guatemala's non-traditional agricultural exports have plateaued, with little overall difference between 1987 and 1988. The plateau reflects more a limit on Guatemalan productive capacity than on the ability of the market to absorb product. Consumption of fresh fruits and vegetables in the U.S. has increased 20 - 30 percent since 1975, and continued strong growth is expected. The duty-free access granted by the Caribbean Basin Initiative to fresh fruits and vegetables gives Guatemala an advantage over other non-CBI producers.

In the agroindustry area, Guatemala appears to have made progress in developing non-traditional exports, but imports of these items into the U.S. in 1988 were essentially the same as in 1987. Major items are shrimp ($14 million), vegetables ($17 million), melons ($5.5 million), tobacco ($8 million), oilseeds ($4 million), natural rubber ($3 million), seeds ($3.5 million), live plants ($2 million) and cut flowers ($2 million). U.S. imports of processed agricultural products from Guatemala are not extensive. A leading item is chewing gum ($2.7 million), but there are also soups ($400 k), prepared fruit ($800 k) and a variety of vegetable-based extracts, dying products, etc. ($2 million).

Nontraditional agricultural production is an area in which Guatemala has a comparative advantage, and the sector deserves appropriate government support. Further production probably requires significant investment: for land, irrigation or deep wells, better roads, warehousing and transport facilities, refrigeration as well as seeds and technology.

Manufactures - Guatemalan exports of manufactured products - in which are included shrimp, lobster and fish - declined steadily from 1983's nearly US$ 400 million to $US 229 million in 1986, primarily as a result of the economic decline of major Central American countries. Exports have risen in the last two years, but are still below US$ 300 million. Two-thirds of these manufactured goods exports go to other Central American countries. Several product categories which are significant items for the Central American trade, e.g. electrical appliances, plastic articles, automotive batteries, tires, soaps and detergents, agricultural chemicals and processed foods are scarcely exported outside the region. A few, like shrimp, essential oils and molasses are exported only outside the region.

Guatemala could expand production of cultivated shrimp as well as its fish catch from off its coasts, but both of these activities require fairly substantial capital investment in such things as ponds, boats and processing facilities.

To replace lost Central American business and to expand sales via exports outside the region, Guatemalan industry in general will need to modernize, expand capacity and lower production costs. For those industries heavily dependent upon imported raw materials, it may not be economically feasible to export finished product to the industrialized countries. Where Guatemalan raw materials are used as in furniture, latex products, some textile items and biological products such as enzymes, opportunities for expanding exports exist but will require investment in productive capacity and adequate technology.

The most likely area for rapid expansion is in light manufactures, especially assembly of finished products from imported components. Since 1986 there has been a very rapid increase in exports of apparel, much of it assembled under "draw-back" arrangements. U.S. statistics show imports of apparel from Guatemala of US$75 million in 1988 and this number could well reach US$ 100 million in 1989. Other product areas which could provide potential exports for Guatemala include electronic and electrical components and assemblies, automotive parts and sub-assemblies, assembly of meters and measuring instruments, footwear, toys and sporting goods.

The most dynamically growing non-traditional export industry in Guatemala, far dwarfing in foreign exchange growth any other, is the apparel industry. U.S. imports of apparel from Guatemala in 1988 nearly doubled as compared to 1987, going from US$ 38.6 million to US$ 75.8 million. Apparel is now the second most important U.S. import from Guatemala and might well become the single most important item in 1989.

U.S. customs figures for the twelve months ending April 30, 1989 show imports of all textile items - yarn, fabric, apparel and made-up goods, valued at US$ 105 million. The equivalent figure of imports of these items from Guatemala for the year ending April 30, 1988 was US$ 62.2 million. While impressive numbers relative to Guatemala's size, the country ranks only 20th as an apparel supplier to the U.S., with imports from Guatemala representing less than 0.8% of the total value of U.S. apparel imports. Nevertheless, Guatemala has become the largest <u>uncontrolled</u> supplier to the U.S. market in two MFA (Multifiber Arrangement) categories, mens and womens cotton slacks, trousers and shorts. The U.S. Government has called the GOG to enter into consultations leading to the imposition of import restraints in both these categories: negotiations are currently in progress.

Of total U.S. imports from Guatemala of textile products, apparel represents nearly 89% of the value. Of this amount, some 57% enters the U.S. under the provisions of Section 807 which means that apparel items assembled in Guatemala under duty drawback provisions are running at an annual rate something in excess of US$ 50 million by value. With the possible exception of foreign tobacco imported into Guatemala to be blended with local leaf prior to reexport, I doubt that there are any other products being assembled under duty drawback provisions of any significance. This is particularly likely to be true in the absence of legislation permitting privately owned industrial park free trade zones. The one existing zone was, as of a year ago, only partly utilized, and that for apparel operations. Enabling free trade zone legislation, similar to that in effect in the Dominican Republic, reportedly is under active consideration in the Guatemalan Congress and may be passed in the near term.

The fact that Guatemala has reached trade levels in two apparel categories which have led the U.S. to suggest quotas should not discourage Guatemala from continued expansion of textile and apparel exports. Although the current U.S. apparel market is considered to be "soft", there is still substantial room in numerous other MFA categories for additional product assuming Guatemala's costs are competitive. The Guatemalan industry needs to diversify its product mix and deserves full support from the Government in terms of negotiating maximum access to the U.S. market with minimal impediments to the industry. The development either of efficient duty drawback mechanisms and/or of free trade zones in heavily populated urban areas could also prove helpful, particularly in job creation where the need is most urgent.

Recent political events may represent even further opportunities for the Guatemalan apparel industry and, at a minimum, reduce some of the world competitive pressures. The current consensus in the trade is that foreign investors in apparel production in China will be reluctant to increase their investment and may consider disinvesting so as to spread the political risk even if shifting locations results in somewhat higher production costs. China is at the moment no longer viewed as politically "stable". Another major apparel supplier where the investment climate is even more unsettled is Hong Kong. U.S. imports of apparel from China currently are running at over US$ 600 million annually, from Hong Kong at more than US$ 900 million.

Imports of pharmaceuticals seem to be growing, but from a small base. Total 1988 U.S. imports of biological products and those destined for the cosmetic trade were nearly US$1.8 million.

Imports of wood based products fell from $9 million to $7.5 million as increased shipments of secondary wood products didn't cover a $3 million drop in lumber exports.

In non-traditional manufactures, the value of U.S. imports from Guatemala is quite modest. An area which has shown good growth, but again on a very small base, has been what I assume are artisanry-based products. These would include handbags, flatgoods and luggage made from textile materials, earthenware articles for the house and costume jewelry, imports of which reached US$2.1 million in 1988, compared to $424,000 in 1987.

Another sharp increase, again relative to a small base, has been leather footwear and a variety of rubber and plastic products such as gloves. Imports went from $2.9 million in 1987 to $5.6 million in 1988.

A broad area in which Guatemala seems not to be involved at all is that of electrical and electronic products. U.S. statistics show no imports from Guatemala of switches, resistors, wiring devices or any of the wide variety of components commonly assembled offshore.

Tourism - Guatemala welcomed 400,000 tourists in 1986, the most recent year for which good data are available. According to the Camara de Turismo, tourists spent US$124 million in Guatemala that year, making tourism one of the nation's most important non-traditional exports. Very little of the tourism spending in Guatemala "leaks out" in the form of imported inputs, because the nation is able to produce most, if not all, of what tourists consume. Tourism has just recently regained the levels its reached in 1979/1980, because the civil unrest in the early 1980s precipitated an abrupt drop in tourism revenue to one-tenth of its peak levels.

Guatemala has a number of attributes that will attract even greater numbers of tourists in the near future, assuming that peace prevails in the countryside and in the region. World travellers are increasingly seeking adventurous, highly participative, and authentic destinations, and Guatemala has much to offer along these lines.

Guatemala is currently promoting tourism only in Europe but not in the United States, a large, high-potential, "natural" market because of its proximity. Serious promotion in the United States, beginning with such low-key promotion as the inclusion of a toll-free number in press articles about Guatemala, and perhaps including an ad campaign in selected journals, is likely to elicit a large influx of tourism in a relatively short time at reasonably low cost. However, hotels are allegedly operating at 85 percent occupancy rates, so that substantial growth in tourism will require additional investment in accommodations.

In sum, tourism has been and will continue to be a significant nontraditional foreign exchange earner for Guatemala, and the sector merits support in the National Export Plan.

III. ANALYTICAL METHODOLOGY FOR PLAN DEVELOPMENT

The Guatemalan National Export Plan was designed to take advantage of the most recent advances among the policy community regarding export promoting policies. The Plan takes into account the successful and unsuccessful strategies employed by other countries around the world, and is designed to make maximum use of those policy tools which successfully promote broad-based, long-term export growth, while avoiding pitfalls and mistakes made by others.

Summary of Successful Export Promotion Policies from Around the World

A review of world economic performance clearly indicates the importance of outward-oriented policies in supporting and sustaining economic growth. According to World Bank data on forty-one developing economies, growth in manufacturing is highest in the strongly outward-oriented group, and lowest in the strongly inward-oriented group (10.0 versus 3.1 percent during 1973 - 1985). The recent upheavals in Eastern Europe highlight the understanding throughout all levels of society that private enterprise, unconstrained by interventionist government policies, can guide nations to attain and maintain adequate standards of living.

The shift to an outward-oriented economy from an inward-oriented one, which is the challenge currently facing Guatemala, can best be accomplished through macroeconomic, trade, and regulatory reforms. Major economic liberalization policies in the Republic of Korea, which have together resulted in stunning, steady growth in exports, include the reduction of nontariff barriers, the introduction of direct export incentives, devaluations and exchange rate unifications, liberalization of domestic financial markets, liberalization of foreign capital transactions and reduction of price controls.

Chile provides a second instructive example of the power of liberalization. Trade liberalization policies implemented in the mid-1980s catalyzed healthy annual growth in GNP during a period in which other indebted Latin American economies floundered. The liberalization policies included tariff reform, reduction of nontariff barriers, devaluation, liberalization of the financial sector, divestiture of state-owned enterprises, reform of labor laws, and reduction of the budget deficit.

Reacting to the decline in oil revenues and the ensuing balance of payments pressure, Indonesia implemented fundamental economic reforms beginning in 1986, placing the nation firmly on an outward-oriented growth path. The reform package consisted of a significant devaluation of the currency, liberalization of the import and export regimes, terminating import monopolies, significant reductions in price controls, establishment of a securities market, movement toward a more flexible, market-based interest rate structure, and streamlining of customs procedures. These measures resulted in a swift and dramatic 40 percent increase in nontraditional exports from 1986 to 1988.

Case studies of success in promoting exports have been taken into account in designing the Guatemala National Export Plan. The policy measures outlined in the National Export Plan are those measures which, in the best judgement of the Export Promotion Working Group and the consultant team, will guide Guatemala to sustained export growth. The analysis of case studies was complemented by analysis, described below, of the Guatemalan context.

The team utilized a three-step analytical process to design the Plan. The process is illustrated in Figure 1.

Analytical Synthesis of Existing Research

In the last three years, more than two dozen documents have been prepared by various government, international, and private organizations in Guatemala containing analyses and recommendations for stimulating export growth. Annex B contains a complete list of the documents reviewed by the team. The documents vary widely in scope and quality. In order to identify and utilize the best aspects of each document in this plan, the reports were carefully reviewed, utilizing the following criteria to select appropriate recommendations:

1. Relevance. Several reports were written in the mid-80s, and while their analysis and recommendations were appropriate at that time, significant improvements in exchange rate policy and export procedures have since taken place. Other recommendations are still valid.

2. Quality of Analysis. Several of the reports contained analysis which, in the working group's view, was superior to several others. The working group rated more highly those recommendations which were supported with clear evidence, whether the evidence was from a single or multiple sectors, as opposed to vague recommendations without a clear need.

3. Feasibility. While the majority of the recommendations were feasible, some were not. Some were overly optimistic about the ability of government institutions to bring about rapid reforms. In other instances, changes were assigned to the government which are more appropriately the domain of the private sector, or vice versa.

Based on these criteria, the working group identified those aspects of the reports, including pieces of analysis and selected recommendations, which were timely, appropriate, and feasible.

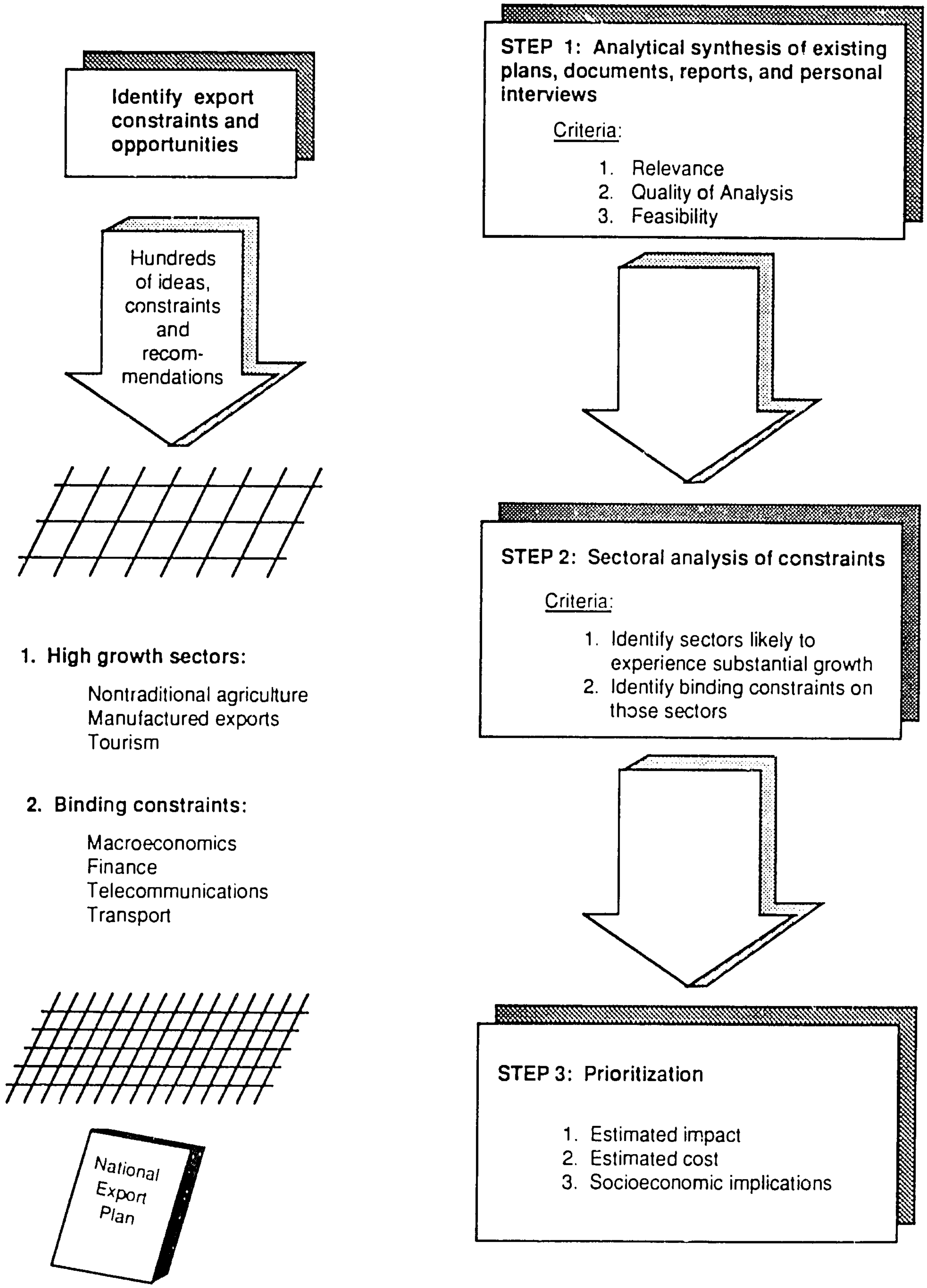

FIGURE 1 ANALYTICAL METHODOLOGY FOR PLAN DEVELOPMENT: RATIONALE FOR PRIORITIZATION

While this analytical synthesis screened out a number of recommendations as not desirable, the working group was left with an unworkably large number of recommendations, and it became clear that further prioritization was required.

Sectoral Analysis of Constraints

In order to identify the binding constraints to growth in Guatemalan exports, and devise recommendations to remove them, the working group conducted a sectoral analysis of export bottlenecks. Existing documents were supplemented with interviews where necessary, in order to detect the most important obstacles to rapid export growth.

The appropriate degree of disaggregation was problematical. More disaggregation, for example to a product-specific level, would allow more accurate detection of binding constraints, but the resulting recommendations might not have the scope appropriate to a national plan. Equally importantly, product- or industry-level disaggregation would not point out obstacles to growth in new products and new industries in which Guatemala is not yet involved.

After discussion, the working group selected four categories of exports for analysis: All exports; traditional agricultural exports; nontraditional agricultural exports; and manufactured exports and tourism and other services. This level of disaggregation allowed the variations in export experience to become apparent, while still identifying constraints and recommendations of national scope and importance.

Table 1 summarizes the sectoral analysis of constraints. Several constraints affect all sectors. Several decades of import-substitution policies have left the Guatemalan economy

Table 1

SECTORAL ANALYSIS OF EXPORT CONSTRAINTS

Sector:	All Exports	Traditional Agricultural Exports Coffee Cotton Sugar Banana Cardamom Meat
Constraints:	Limited access to investment and working capital. Anti-export Bias: High import barriers encourage production for local market. Limited capability of some government institutions	Quotas Stagnant world demand Environmental degradation Limited available land Deficiencies in port administration and facilities
Recommendations:	Tariff reform to reduce effective rates of protection Maintain competitive exchange rates. Establish special lines of credit for exporters. Insurance or gurantee program to reduce risk of lending to exporters. Technical assistance to government agencies.	Diversify Increase productivity Increase bulk handling capacity at P. Barrios Improve secondary road network to penetrate interior

SECTORAL ANALYSIS OF EXPORT CONSTRAINTS
(Continued)

Sector:	Nontraditional Agricultural Exports Flowers Fruits Vegetables Rubber Spices Processed Foods Wood Fish and Shrimp	Nontraditional Manufactured Exports and Tourism Apparel and Textiles Plastics Metal Manufacturing Furniture Electro-mechanical Latex products Artisanry Tourism
Constraints:	Lack of refrigerated storage at airport Lack of adequate int'l phone service Lack of knowledge of new technology Lack of knowledge of markets, esp. health and sanitary regulations Limited current capacity Lack of credit to finance long production cycles Lack of international reputation Conservativism	Lack of adequate int'l phone service Lack of credit Limited current capacity Onerous export procedures Lack of knowledge of foreign markets Lack of knowledge of new technology Import substitution policies have encouraged local manufacturers to focus on local market High priced transportation Outmoded equipment.
Recommendations:	Provide refrigerated storage at airport Improve international phone service Provide technical assistance in new tech. Further develop contract farming Promotion of Guatemalan products in key markets. Further develop trading companies Further develop cooperatives Provide training on U.S. health and sanitary regulations	Improve international phone service Provide credit for exporters Promote foreign investment Provide incentives for free zones Develop subcontractor capability Liberalize landing rights Facilitate drawback systems Provide tech. assistance in new tech. Simplify export procedures

with a strong anti-export bias. High effective rates of protection discourage investment in and production of exports. The current relative price structure still encourages businesses to direct productive capacity toward the protected but limited domestic market. The high cost of inputs at the current exchange rate levels keep potentially important exports from being cost-competitive in international markets. Lack of market information is a systemic problem that affects all sectors, and especially affects smaller, newer firms.

Several other constraints were identified by each of the sectors as critical bottlenecks. Specifically, poor international telephone service, lack of credit, limited knowledge of foreign markets, and high-priced, poor quality transport infrastructure were highlighted by government and industry leaders in each of the sectors. Because of their broad scope, these constraints should receive high-priority attention in any national plan. This is the first conclusion of the sectoral analysis.

A second conclusion of the sectoral analysis is that the constraints to growth in traditional agricultural exports are for the most part on the demand side, not on the supply side. Quotas on coffee and sugar, (although the International Coffee Organization quotas were suspended July 3, 1989 for two years) and stagnant world demand for cotton and cardamom, are the binding constraints on export growth of these commodities. With the exception of bananas, in which substantial export growth is likely, actions by the Guatemalan government or private sector to stimulate supply are not appropriate in the face of limited demand. Thus, it is necessary for the national export plan to focus its efforts on increasing exports in the two remaining sectors, nontraditional agricultural goods and manufactured products and tourism.

One somewhat surprising result of the sectoral analysis is the degree to which constraints are sector-specific, that is, affect one sector but not the other two. Probably the most striking example of this result is transport deficiencies. While transport is an oft-mentioned problem for several sectors, the specific nature of the constraint varies greatly. Producers universally cite high freight rates compared to competitor countries. Unfortunately, this is not a variable which can be addressed directly by the either the government or private sector in Guatemala (although good negotiations with the shipping cartels are a must). The National Export Plan aims to solve this critical problems, which affects producers of both traditional and nontraditional products, by increasing the overall export volume, thus engendering more competition among shippers, and resulting in lower freight rates.

In general however, availability of transport is not a constraint on traditional agricultural products. Over time, sufficient road, rail, and sea infrastructure has been developed to serve the crop-producing areas of the country. The only serious transport deficiency affecting traditional exports which should be addressed in the short term is the administration of the Puerto Santo Tomas de Castillo.

In contrast, the lack of refrigerated storage at the Aurora airport, and the low air cargo capacity, has been identified as a constraint on nontraditional agricultural exports. Manufactured exports suffer from a different transport bottleneck, namely the high price of maritime transport, and limited container (as opposed to bulk) storage and handling facilities at Puerto Tomas de Castillo.

Prioritization of Recommendations

The last analytical technique applied in the preparation of the plan was to prioritize the recommendations and determine their appropriate placement in a timeframe for action. In a complex world, it is difficult to assess accurately the impact on export growth of changing either a single or several variables. In addition, the cost estimates made for the recommendations are just that, estimates.

While it was not possible to conduct full-scale cost-benefit analysis of each recommendation, the team did attempt, through document review and sectorial analysis, to select those actions which offer the greatest potential for breaking down constraints on exporting, at a reasonable cost.

Careful attention was also paid to social equity implications of the recommendations. A main thrust of many activities within the National Export Plan is to increase nontraditional exports, both agricultural and manufactured. Growth and development of these two sectors will improve the living standards of two of the most disadvantaged groups in Guatemalan society: the rural indigenous peoples, and the urban unemployed or underemployed, respectively.

The activities included in the National Plan represent the best effort of the many experts consulted regarding which actions are likely to catalyze export growth in the near future, as well as which actions can be implemented without undue strain on the national budget.

It is important to note that strengthening the nation's exports does not currently occupy the same prominence in the national budget that it does in the speech and plans of the many government organizations. This is a result of many factors, including inertia from the years when import substitution was the predominant engine of economic growth, indecisiveness regarding the correct course of action, and the many high-priority items competing for scarce governmental resources. However, this situation cannot continue. If Guatemalans are to export successfully to competitive international markets, it is supremely important that Guatemala invest the necessary resources to clear away existing obstacles and facilitate international commerce.

IV. ACTIVITIES COMPRISING THE NATIONAL EXPORT PLAN

Summary

The recommendations that have been selected as the highest-priority are those that have the greatest power to increase Guatemalan exports. The activities listed below are neither new nor surprising. The basic deficiencies limiting Guatemalan exports have been apparent in some cases for several years. However, in contrast to past, isolated efforts, this National Export Plan represents a national, consensus view about the measures that must be implemented.

This National Export Plan is in a very important sense apolitical. The Plan is apolitical because the constraints underlying stagnating exports are apolitical. The bottlenecks keeping Guatemala from exporting transcend political boundaries. Successfully removing the export constraints merits the complete support of everyone, regardless of political orientation. Implementation and maintenance of key export promoting measures will extend from the current administration into the next several administrations and into the next century. The Plan contains recommendations for the short-term that will be implemented over the period from 1989 - 1992, for the medium-term, 1993 - 1996, and for the long-term, 1997 - 2000.

The activities in the National Export Plan are summarized in table form on the following several pages, and then presented in full.

Macroeconomic recommendations, because they affect all economic sectors and all exports, play a preeminent role in the National Export Plan. The National Export Plan mandates the establishment of a system to maintain a competitive exchange

NATIONAL EXPORT PLAN

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Maintain a competitive exchange rate.	Bank of Guatemala	No significant shift in real effective exchange rate away from competitive level.	46
Gradually reduce tariff levels and replace quantitative restrictions with tariffs.	Ministry of Economy	Gradual declines in average tariff levels.	47
Establish system of flexible, market-oriented interest rates and concomittantly limit use of administrated credit controls.	Bank of Guatemala	Gradual raising of interest rate ceilings and removal of ceilings by December 1990.	49
FINANCE:			
Begin operation of FODEX, an official line of credit for pre-export financing to be operated independently of Bank of Guatemala procedures.	Bank of Guatemala and private bank	Flows of pre-export financing from FODEX and other sources.	52
Facilitate exporters' access to official lines of credit especially for medium and other longer term credits.	Bank of Guatemala, private banks, Camara de Finanzas	Reduction in time of review process by Bank of Guatemala.	54
TELECOMMUNICATIONS:			
Invest in additional exchanges and speed installation of additional lines.	Guatel	Number of new exchanges and lines in service. Call completion rate.	57
TRANSPORT:			
Improve administration of Puerto Santo Tomas de Castillo.	Ministry of Finance	Reduction in loading and unloading time.	59
Allow private businesses to construct refrigerated storage at Aurora airport.	Director Generalship of Civil Aeronautics	Director Generalship of Civil Aeronautics should announce by Dec. 31, 1989 that is accepting competitive applications to build and operate refrigerated storage space at Aurora airport.	60
Grant landing rights to all serious applicants.	Ministry of Finance and Director Generalship of Civil Aeronautics	Increase in rate of approval of applications for landing rights at Aurora International airport.	61
Proceed with plans to convert 1 warehouse at Aurora airport from importing to exporting.	Ministry of Finance and Director Generalship of Civil Aeronautics	Warehouse is to be in service for exporters by December 31, 1989.	62

NATIONAL EXPORT PLAN
(Continued)

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
EXPORT, IMPORT, DRAWBACK AND FREE ZONE REGULATIONS:			
Promulgate free zone regulations that are transparent and will expedite investment in free zones.	Ministry of Economy	Publication of regulations.	64
Provide staff and budget to Dir. Gen. of Industrial Policy to expedite approval of free zone investments.	Ministry of Economy	Office fully staffed and equipped. Length of time required to process application.	64
ATTRACTING INVESTMENT:			
Conduct a comprehensive review of Guatemala legislation and regulations regarding foreign investment	Ministries of Finance and Economy, Bank of Guatemala	Preparation of document reviewing legislation. Proposals for modifications. Implementation of modifications.	67
Proceed with the creation of the Investor Service Center within the Empresarial Chamber (CAEM).	CAEM	Office staffed and equipped. Number of leads generated. Number of firms which invest and number of jobs created.	68
Select, train, and support investment, trade and tourism information specialists in overseas Embassies.	Ministries of Foreign Affairs and Economy	Selection of personnel. Design and offer training. Monitor number of leads provided by each foreign commercial representative.	70
Pass proposed Forestry Law.	Congress	Passage of law.	71
Expedite minerals exploitation through simplification of law and regulations.	Ministry of Minerals and Petroleum	Modifications in law and regulations. Implementation of modifications.	71
ECONOMIC AND MARKET INFORMATION:			
Gradually develop overseas trade and investment officers within the Non-traditional Exporters Guild and the Empresarial Chamber.	Nontraditional Exporters Guild and CAEM	Send only 3, not 5 promotion officers overseas in 1989/90.	73
Designate at least one person in each Ministry to answer questions and provide trade and economic data in response to questions from the public and from other agencies.	All Ministries, Central Bank, and Ventanilla Unica	Designation of staff members to information positions. Public announcement of new service. Number of inquiries answered per year.	74

NATIONAL EXPORT PLAN
(Continued)

Short-term Activities (1989 - 1992)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
EXPORT PROMOTION:			
Continue to support export promotion efforts.	Nontraditional Exporters Guild	Increase level of funding for Guild.	76
Promote incoming tourism among high-potential market segments.	Inguat	Increase in promotional budget. Increase in tourism volume.	77
Continue to develop awareness of the benefits of exporting.	Industry Guilds, CAEM	Seminars, ad campaign.	78
CUSTOMS:			
Professionalize Customs to make operations more efficient and transparent. Audit operations and remove causes of irregularities.	Ministry of Finance	Personnel changes. User surveys. Reduction in paperwork.	80
HUMAN RESOURCES DEVELOPMENT:			
Industry Guilds should assess specific training needs, raise funding from employers, and contract for courses through INTECAP and other institutions.	Industry Guilds	Number of courses paid for outside of state-sponsored program. Number of people trained. Satisfaction surveys of course graduates and employers.	82

NATIONAL EXPORT PLAN

Medium-term Activities (1993 - 1996)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Deepen macro-economic policies supportive of export-led growth, including: (1) maintenance of a competitive exchange rate (2) continued general reduction of effective protection rates and of the variation in tariff rates.	Bank of Guatemala, Ministry of Economy and Ministry of Finance	Stable real effective exchange rate. Reduction of tariff ceiling to 25 percent and increase in tariff floor to 10 percent by 1995.	84
FINANCE:			
Establish a system of domestic lines of credit.	Private Banks, Bank of Guatemala, FODEX	Amounts of domestic letters of credit issued for production of eventual exports.	85
Fundamental reform of financial sector, including revision of 1946 Banking Law.	Bank of Guatemala, Camara de Finanzas	Reduced proportion of each bank's lending to individuals and businesses associated with industrial group that owns the bank.	86
Develop domestic sources of longer-term investment capital.	Private Financial Sector Bank of Guatemala and Ministry of Finance	Establishment of new sources of investment capital, including venture capital clubs, investment banking and increased flows of longer-term loans and private bonds.	88
TRANSPORT:			
Use pragmatic criteria when assigning budgetary and management responsibilities between the gov't and the private sector for the modernization of Aurora airport.	Ministry of Communications, Transport, and Public Works	The assignment of the management and/or ownership of one or more of the modernization activities to the private sector.	89
Upgrade physical facilities at Puerto Santo Tomas de Castillo.	Ministry of Finance	Completion of port physical infrastructure needs assessment in close collaboration with private sector. Seek funds and implement improvements.	90
Relocate customs facility at San Jose to Puerto Quetzal.	Ministry of Finance	Announcement of relocation. Completion of relocation.	91
Authorize sugar producers to proceed with investment in bulk landing facilities at Puerto Quetzal.	Ministry of Transport, Communications and Public Works	Granting of authorization. Completion of improvements.	91
Authorize and encourage Guatemalan Railway company to seek private investors to upgrade bulk landing facilities at Puerto Barrios.	Ministry of Finance	Announcement of authorization. Preparation of physical improvement plan. Implementation of plan.	92

NATIONAL EXPORT PLAN

Medium-term Activities (1993 - 1996)
(Continued)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
ATTRACTING INVESTMENT:			
Create a "Ventanilla Unica" for granting investment approvals.	Ministry of Economy	Creation of "Ventanilla Unica" for investment approvals. Reduction in length of time and number of steps in approval process.	93
ECONOMIC AND MARKET INFORMATION:			
Create non-lending reference libraries in each Ministry to serve public and other gov't agencies.	All Ministres and Central Bank	Opening of reference libraries.	94
EXPORT PROMOTION:			
Inventory forestry resources and establish program to control cutting, reforest, and provide alternative fuels to firewood.	Ministry of Agriculture	Completion of forest inventory. Acreage replanted. Reduction of acreage subject to slash and burn agriculture.	95

NATIONAL EXPORT PLAN

Long-term Activities (1997 - 2000)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
MACROECONOMIC POLICIES:			
Continue to provide a stable and sound macroeconomic framework supportive of export led growth.	Bank of Guatemala, Ministries of Economy and Finance	Competitive exchange rate	97
Reduction of tariff ceiling to 20 percent.	Ministry of Economy	Tariff ceiling of 20 percent	97
TELECOMMUNICATIONS:			
Keep pace with technological advances to provide Guatemalan businesses with the full range of telecommunications services, including cellular phones, computer data transmission, and other services	Guatel, Private Businesses	Range of telecommunications services available	98
TRANSPORT:			
Create Blue-Ribbon National Air Transport Needs Committee.	Dir. Gen. of Civil Aeronautics	Creation of commission in late 1990s, and submission of "Air Transport Plan for 2000"	99
Construct additional secondary roads to penetrate interior and increase market access.	Ministry of Transport, Communications, and Public Works	Miles of secondary roads	100
ELECTRICITY GENERATION:			
Continue to plan for power generation capacity that will meet the growing industrial demand. Improve regularity of service and maintain reasonable price structure.	INDE	Power sufficient to meet demand. Absence of power interruptions.	101
EXPORT PROMOTION:			
Conduct export promotion campaigns in large markets outside of Western Hemisphere, including Japan and the EEC.	Non-traditional Exporters Guild, Ministry of Foreign Affairs	Increased non-traditional export sales to Far Eastern and European markets.	102

NATIONAL EXPORT PLAN

Long-term Activities (1997 - 2000)
(Continued)

Activity	Responsible Entity	Monitorable Output	Page # of Detailed Discussion
HUMAN RESOURCES DEVELOPMENT:			
Commit sufficient national and local resources to elementory, secondary, university, and vocational education to assure a high quality workforce.	Ministry of Education	Growth in per-capita real spending on education	103
INSTITUTIONAL DEVELOPMENT:			
Consider creating a Ministry of International Trade.	President	Review of pros and cons of creating new Ministry.	104

rate. It calls in the short-term for gradually reduced tariff levels, and a system of flexible, market-oriented interest rates. These measures are critical to sending the right price signals to the Guatemalan business community to encourage greater investment in and production of exports. In the medium and longer term, the Plan emphasizes the importance of maintaining a stable, outward-oriented macroeconomic framework for growth.

Because it was identified as a key constraint to exporting across the board, regardless of industry, measures to ensure exporters' access to credit and other forms of capital play a key role in the National Export Plan. In the short-run, the Plan calls for the rapid implementation of FODEX to provide preexport financing, and the facilitation of exporters' access to existing official lines of credit. In addition, the Plan recommends that a system of flexible, market-level interest rates be established and the use administrative credit controls of be reduced, to give exporters better access to private credit facilities.

Telecommunications and transport infrastructure were the next most commonly cited bottlenecks to exporting. The National Plan addresses each of these issues, urging, in the next three years, increased investment in telephone exchanges and lines, improved port administration, the private provision of refrigerated storage at the La Aurora airport, increased cargo and passenger air transport capacity, and implementation of the existing plan to convert a warehouse at the airport from use by importers to use by exporters. In the medium and longer term, the Plan outlines additional port infrastructure improvements and an increased role for the private sector in funding improvements.

The National Plan also calls for, in the short-term, facilitation of regulations regarding draw-back, the promulgation of transparent free zone regulations, and the provision of adequate support to the office charged with implementing the new free zone law.

In spite of numerous comparative advantages, Guatemala has fallen behind other countries in attracting foreign investment. The National Plan proposes concrete measures to rectify this situation. The Plan mandates the formation in the next three years of two groups, one private and one public, to promote Guatemalan trade, investment and tourism overseas. It also calls for a comprehensive review of foreign investment legislation, for passage of the Forestry Law, and improvements in the Minerals Exploitation law and regulations. To simplify the investment approval process, the Plan recommends the creation of a "Ventanilla Unica" for granting investment approvals.

Another key area for improvement is the provision of economic and market information to the public and other government agencies. Both the public and private sectors have important roles to play in providing information to businesses. The National Plan calls on the public sector to take two important steps toward providing more information to the business community. First, the Plan outlines the creation of a new government information service in each Ministry, to provide much-needed data to inquirers. Ministries and private business groups such as the Camara Empresarial and the Gremial of Nontraditional Exporters should review the following list of "Sources of International Market Information" and purchase journals and databases as appropriate, in order to assist the business community.

SOURCES OF INTERNATIONAL MARKET INFORMATION

The following publications contain useful market information for Guatemalan exporters. Complete ordering information is included.

Apparel Market Information

BOBBIN MAGAZINE
Subscriptions
Bobbin Media Corporation
1110 Shop Road
P.O. Box 1986
Columbia, SC 29202
(Phone: 803-771-7500)
(Overseas Subscription Rates: $50.00/one year, $90.00/two years, $130.00/three years, for airmail, add $120.00 per subscription per year)

807 MART UPDATE
Subscription Department
6414 Topeka Drive
Reseda, CA 91335
(Phone: 818-881-3051)
(Overseas Subscription Rate: $125.00/one year plus additional postage of $25.00 for airmail, orders must be prepaid in U.S. currency)

NOTIVEST - LA REVISTA LATINOAMERICANA PARA LA INDUSTRIA DEL TEJIDO Y LA CONFECCION
Subscription Department
Denyse & Company Inc.
6414 Topeka Drive
Reseda, CA 91335
(Phone: 818-881-3051)
(Telex: 182682 Denyse LSA)
(Write for Subscription Information)

Caribbean Basin Market Information

CARIBBEAN BUSINESS
Subscription Department
1700 Fernandex Juncos Avenue
Stop 25
San Juan, Puerto Rico 00909
(Foreign Subscription Rate: $46.00/one year)

CARIBBEAN UPDATE
Mr. Kal Wagenheim, Editor/Publisher
52 Maple Avenue
Maplewood, NJ 07040
(Phone: 201-762-1565)
(Subscription Rate: $120.00/one year to corporations, government agencies, and libraries, $60.00/one year to academics, other individuals)

CBI Business Bulletin
Subscription Department
Caribbean Basin Information Center
H3203
U.S. Department of Commerce
International Trade Administration
Washington, DC 20230
(Phone: 202-377-0703)
(Subscription Rate: Free)

Electronics Market Information

ATLANTIC TECH
Subscription Department
P.O. Box 957
2626 Van Buren Avenue
Valley Forge, PA 19482
(Phone: 215-666-1888)
(Write for Subscription Rates)

ELECTRONIC BUSINESS
Circulation Department
44 Cook Street
Denver, CO 80206
(Phone: 303-388-4511)
(Write for Subscription Rates)

ELECTRONIC MANUFACTURING NEWS
Attn. Mr. Robert McNally
44 Cook Street
Denver, CO 80206-5800
(Phone: 303-388-4511)
(Write for Subscription Rates)

ELECTRONIC NEWS
Subscription Services
P.O. Box 1051
Southeastern, PA 19398
(Phone: 215-630-0951)
(Subscription Rate: $190.00/one year foreign air speed)

Footwear Market Information

AMERICAN SHOEMAKING
Subscription Information
Shoe Trades Publishing Company, Inc.
P.O. Box 198
56 Creighton Street
Cambridge, MA 02140
(Phone: 617-491 2387)
(Overseas Subscription Rate: $38.00/one year)

FOOTWEAR NEWS MAGAZINE
Subscription Department
Fairchild Publications
7 East 12th Street
New York, NY 10003
(Phone: 212-741-4320)
(Write for Subscription Rates)

WORLD FOOTWEAR
Subscription Department
P.O. Box 198
Cambridge, MA 02140
U.S.A.
(Subscription Rate: $35.00/per year surface mail, $70.00/per year airmail)

General Market Information

BUSINESSWEEK
Circulation Offices
McGraw-Hill Building
1221 Avenue of the Americas
New York, NY 10020
Telephone: 212-512-2000
International Telex: 232365
(Write for Subscription Rates)

ECONOMIC INDUSTRY REPORTS, INC.
Ordering Department
1 Links Court
Huntington, NY 11743
(Phone: 516-367-9788)
Reports Available:
- U.S. Lighting Fixtures Market, 1987 Edition ($450.00 per copy)
- U.S. Wiring Devices & Supplies Market ($395.00 per copy)
- U.S. Household Furniture Market ($495.00 per copy)
- U.S. Office Furniture Market ($395.00 per copy)

- U.S. Surgical & Medical Instruments Market ($495.00 per copy)
- U.S. Surgical, Orthopedic, Prosthetic, Safety, and Hearing Appliances Market ($395.00 per copy)
- U.S. Cosmetic & Toiletry Products Market ($495.00 per copy)
- U.S. Pharmaceutical Products Market ($495.00 per copy)
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- U.S. Computer & Office Machine Market ($495.00 per copy)
- U.S. Carpet & Rug Market ($450.00 per copy)
- U.S. Toy & Game Market ($395.00 per copy)
- U.S. Dinnerware Market ($295.00 per copy)
- U.S. Ceramic Tile Market ($350.00 per copy)
- U.S. Candy Market ($450.00 per copy)

THE ECONOMIST
Subscription Department
P.O. Box 14
Harold Hill
Romford, Essex RM3 8EA
United Kingdom
Phone: (Outside U.S.) 303-447-9330
(Write for Subscription Rates)

FORBES
Forbes Subscriber Service
60 Fifth Avenue
New York, NY 10011
Phone: 1-800-772-9200, ext. 338
(Overseas Subscription Rate: $105.00/one year, $153.00/three years)

FORTUNE
Customer Inquiries
P.O. Box 60001
Tampa, FL 33660-0001
Phone: 1-800-541-1000
(Subscription Rate for Guatemala: $106.00/one year)

IMPORTING INTO THE UNITED STATES
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402
Phone: 202-275-3054
(Write or call for Subscription Rates)

Tourism Market Information

LATIN AMERICA & CARIBBEAN HOTEL INDUSTRY 1988
Horwath & Horwath International Headquarters
919 Third Avenue
New York, NY 10022
(Phone: 212-980-3100)
(Write or call for copy of publication)

TRAVEL & LEISURE'S WORLD TRAVEL OVERVIEW 1988/1989
American Express Publishing Corporation
1120 Avenue of the Americas
New York, NY 10036
(Phone: 212-382-5600)
(Write or call for copy of publication)

Second, the Plan calls on all government employees to view the business community as their client. The mission of government agencies should be to provide accurate, up-to-date information to businesses to assist businesses to assess domestic and international markets, and to export. Thus, the Plan calls both for a programmatic change, and an attitudinal change.

To increase its exports, Guatemala must gain greater international recognition for its products and producers. The National Plan stipulates an increased emphasis on export promotion, and continued work on raising awareness locally of the benefits of exporting. In recognition of the important role tourism plays in the national economy, the Plan calls for increased tourism promotion in high-potential markets.

In acknowledgement of serious deficiencies in the provision of timely, efficient Customs services, the National Plan calls for reorganization and professionalization of Customs.

Lastly, the National Plan demonstrates a renewed commitment to education as an essential means to a well-qualified workforce, capable of filling the jobs of tomorrow.

Short-term Activities

(1989 - 1992)

Macroeconomic Policies

<u>Recommendation: Maintain the newly implemented market-determined exchange rate system.</u>

<u>Problem:</u> Experiences in other countries, perhaps most recently the Dominican Republic, have shown that pressures sometimes build to reimpose government-controlled exchange rates once reforms have been implemented. High inflation in comparison to key trading partners, recurrent balance of payment deficits, and speculatory pressures can sometimes drive some currencies to levels that governments decide are "intolerable." This occurred in the Dominican Republic in 1988, when the dollars were selling for approximately 9 Dominican pesos, and the Central Bank imposed an exchange rate of RD Pesos 6.3 = US$1.00. In the absence of sound macroeconomic and financial management and favorable market conditions, pressures can build to reimpose anti-export policies.

<u>Analysis:</u> There are several important steps which can reduce upward pressures on the Guatemalan Quetzal, and thereby minimize support for returning to the old exchange rate regime or a similar, anti-export variant. Inflation must be kept low, through restrained monetary policies. However, the full burden of a stable exchange rate should not be placed on the monetary system. That would leave policy makers with limited options, especially when external or political shocks put pressure on the currency.

Therefore, appropriate monetary caution should be combined with a policy of flexible and market-oriented interest rates. With market-related interest rates, there will be greater incentive to hold financial savings in Guatemala, and therby restrict pressure on the currency.

With sound macroeconomic policies and low inflation, Guatemala's flexible exchange rate system will not nescessarilty lead to continuous devaluation against the dollar, but in fact could appreciate, as it did in November after an initial drop in value.

It should be noted that countries that have successfully achieved rapid export growth utilized some type of flexible exchange rate system. Policymakers in Korea and Taiwan, and, some have argued, in Mexico as well, intervened to undervalue their currency. This policy restricted domestic consumption in the short to medium-term, but also was key in promoting rapid export growth.

<u>Responsible Institution:</u> Bank of Guatemala

<u>Budgetary Cost:</u> $0 - Cureent staff with the assistance of officials from international financial institutions can work to maintain competitive exchange rate system.

<u>Monitorable Output:</u> No movement backwards toward dual and/or fixed exchange rate systems.

Recommendation: **Gradually reduce of tariff levels and replace quantitative restrictions with tariffs.**

Problem: Guatemala's current import protection system results in a strong anti-export bias in the economy. The protection provided by high tariffs and quantitative restrictions encourages the production of and investment in activities in which Guatemala is not efficient. This harms the process of rapid export growth in two ways.

First, this system uses resources that could be used in the production of exports. Entrepreneurs reacting to the price signals created by this system concentrate on the protected but limited domestic and Central American market, instead of the much larger international markets.

Second, this highly protected system results in higher cost domestic inputs reducing the competitiveness of Guatemalan exports. Although the import duty drawback system does provide some exporters with a limited means to overcome the higher costs created by the protection system, import duty drawbacks can be used only by enterprises that are almost exclusively export oriented and in only a limited way by suppliers to exporters. Using the duty drawback system exclusively to counteract the effects of high import protection limits the proportion of the domestic economy that can be propelled by export demand, by allowing high cost domestic industries to continue with no or little incentive to become more efficient.

Analysis: It is expected that the government will begin soon a program of gradually reducing the highest tariffs to a ceiling of 40 percent over the next three years. This reform will begin the process of both reducing the level of and differences between tariffs. The actual effects are expected to be small. With a small 2 percent real devaluation accompanying these tariff reductions, the World Bank has estimated that imports would be reduced by less than 1 percent and tariff revenues by about 4 percent or less than 1/2 percent of government revenues.

This current program should be viewed only as first step in reforming Guatemala's trade system. Entrepreneurs must be convinced that the level of protection will be gradually reduced to give them both the incentive and time to adjust to a more competitive environment. The government should make very clear its intentions to continue to reduce the anti-export bias of the current trade system into the medium-term.

The fiscal effects of tariff reduction are not as great as many critics argue. Indeed, tariff reform could be used as a vehicle to increase government revenues. If the tariff floor was raised to 10 percent, while reducing the ceiling to 30 percent, the World Bank estimates that tariff revenues would actually increase by almost 15 percent. If the ceiling was reduced to only 20 percent, tariff revenues would still increase by over 3 percent.

Responsible Institution: Ministry of Economy

Budgetary Cost: $0 - current staff with advice of international financial institutions and technical assistance provided by them should be capable to draft and implement tariff and trade reform without additional budgetary outlays.

Monitorable Output: Gradual declines in average tariff levels and diferences between rates.

Recomendation: Establish a system of flexible and market-oriented interest rates, and concomitantly reduce use of adminstrated credit controls to limit credit expansion.

Problem: Under the current system of regulated interest rate ceilings and credit limits, non-traditional exporters get squeezed from the limited amount of credit available. With only limited credit available, banks tend to lend only to their most favored customers, forcing the less well established to get credit from higher cost financing companies both regulated and unregulated. With limited financing available for non-traditional export activities, where growth potential is greatest, export growth itself is restrained.

In addition to restricting exporter access to credit, the lack of a system of flexible and market-oriented interest rates also discourages saving in Guatenala as opposed to foreign countries where yields are greater and uncertainty less. With market-based rates, savings in Guatemala would increase, creating a larger pool of funds for investment in export activities.

Finally, a more flexible and market-oriented interest rate system would facilitate exchange rate policy, as the higher interest rates would reduce market pressure on the Quetzal.

Analysis: With movement towards a system of flexible and market-oriented interest rates the sharp differential between the banking and the financera sectors should dissolve. Market forces should act to push interest rates to some level between the current rates charged by financeras, 20 to 30 percent, and the current bank interest rate ceiling of 16 percent. For most non-traditional exporters, these changes will translate into lower cost credit, as they have had limited access to bank credit.

It should be noted that with market-based interest rates, the Central Bank should not have to use administrative credit controls to limit credit expansion. Rather, the cost of credit will work to reduce demand. By influencing the market rate of interest through intervention in bond markets or changes in reserve requirements, the Central Bank can influence credit and monetary expansion in a manner which allows credit to be distributed more efficiently.

To lessen the shock of this move, it would be helpful to move towards flexible and market-based interest rates and the removal of fixed credit controls in a phased manner. Interest rate ceilings should be raised in steps, until the ceiling is no longer binding, and then removed. Finally, this interest rate reform should be but the first step of a comprehensive financial sector reform to create a more competitive financial sector.

Responsible Institutions: Central Bank and Private Financial Sector.

Budgetary Cost: $0 - the current staffs of the responsible institutions should be able to design and effectively implement these needed interest rate reforms, without additional budgetary support.

Monitorable Outputs: Gradual raising of interest rate ceilings and removal ceilings by December, 1990. Administratively controlled credit ceilings should be removed by the same period.

Finance

Recommendation: Proceed quickly to establish FODEX to provide an assured source of working capital for non-traditional exporters. If FODEX works well, its capitalization should be expanded considerably with additional funds from the World Bank or other donors in order to increase the amount of working capital available to non-traditional exporters.

Problem: Non-traditional exporters have great difficulty in obtaining working capital to finance their operations. This problem is due to a combination of factors: (1) the structure of the Guatemalan financial system, where banks tend to direct most of their lending to firms and individuals connected with the industrial group that owns the bank; (2) financial policies, especially credit controls and regulated interest rates, which work to further encourage banks to direct their limited and low-cost credit to their most established customers, who are rarely the less established non-traditional exporters; and (3) stiff collateral requirements, which are difficult for newly established non-traditional export firms to meet.

Analysis: There is a pressing need to provide a source of working capital for non-traditional exporters, as it is unlikely that significant financial sector reform to address the aforementioned structural problems will be implemented soon. Until tight administrative credit controls are lifted, non-traditional exporters will need a special official line of credit that could be provided outside of administrative credit controls.

The planned line of credit and export finance agency, FODEX, to be established as part of the World Bank Export Sector Loan would meet many of these needs. Unlike other official lines of credit, FODEX funds would be administered by an entity separate from the Central Bank to avoid burdensome bureaucratic practices. Moreover, with FODEX, banks that take part would face limited risks, as exporters would have confirmed orders with stand-by letters of credit from importers. This limited risk and the opportunity to lend outside of credit control limits should act as an important incentive for banks to participate.

It should be noted that the establishment of FODEX has been under discussion for over three years. A large part of this delay has been the lengthy negotiations with the World Bank. Once the World Bank loan is approved, FODEX should be ready to begin operations. Simply legally establishing FODEX is not sufficient. Key personnel decisions should be made, offices selected, operating procedures established and banks informed about the operation, all before actual funds are provided to the entity, to ensure that exporters are able to gain access to working capital credits as soon as possible.

Moreover, as banks gain experience with pre-export financing under FODEX, they should become more willing to provide pre-export financing to exporters with stand-by letters of credit.

When credit controls are lifted, they should provide these credits directly. Until then, more should be willing to search out foreign banks willing to lend credit to them to be on-lent to exporters. These type of on-lent credits should not be counted against a bank's credit expansion limits.

Responsible Institution: Bank of Guatemala and private banks.

Budgetary Cost: $0 - FODEX should be self-financing. Initial capitalization of the agency will come from funds provided under the World Bank Export Sector Loan.

Monitorable Output: Flows of pre-export financing from FODEX and other sources.

Recommendation: Facilitate exporters' access to official lines of credit from the Central Bank, especially for medium- and longer-term credits.

Reform the review process of the Central Bank: (1) Provide incentives for banks to conduct thorough project analyses before applications are submitted, by grading banks. Applications from banks with a record of good project review, would be judged solely on eligibility requirements. Applications from other banks would continue to be reviewed closely based on project feasibility standards. (2) Encourage quicker project review by the Central Bank, by establishing a two-week review deadline by which the project must be approved or a specific reason for rejection provided. (3) Renegotiate agreements with donors to encourage disbursement based on eligibility requirements to qualified intermediaries.

Conduct workshops on project review for analysts from both the Central Bank and private banks to increase skills of both and ensure that both agree on evaluation criteria.

Officials from the Bank of Guatemala and private banks should jointly conduct workshops for entrepreneurs to explain the requirements for lending from official lines of credit, especially the more detailed requirments of a proposal for project lending. This material should also be made available in easily understood printed materials.

Problem: Exporters, as well as other Guatemalan entrepreneurs, lack access to sources of investment capital, either in the form of medium to long-term credits or sources of equity capital. Without investment capital, non-traditional exporters tend to be undercapitalized, which leaves them extremely vulnerable to short-term downturns, and more importantly strongly inhibits the development of new and expansion of existing non-traditional export enterprises.

For non-traditional exporters the only significant current source of investment capital is from official lines of credit of the Central Bank. However, access to these credits is extremely difficult. Projects, regardless of size, require an expensive feasibility analysis conducted by a registered industrial engineer or economist, which is reviewed by the credit office of the Central Bank. Private banks through which the loan is conducted rarely have experienced and qualified project analysts due to the limited amount of project lending they conduct, and the fact that they know the Central Bank will review the project closely. As a result, borrowers have little or no assurance that once their project is accepted by a bank, that it will be accepted by the Central Bank. The lack of communication between the real reviewers of the project, the Central Bank, and the borrower, leads to extensive delays. Finally, the donors of official lines of credit, such as the Inter-American Development

Bank and the World Bank, add their own regulations to the process which further complicates and restricts access.

Analysis: The scarcity of investment capital for new entrepreneurs is a function of the family nature of most businesses, a history of rapid and variable inflation and financial sector policies that discourage long-term lending or equity investments. Providing investment capital through official lines of credit is only a partial solution to the problem. To effectively address the problem, fundamental financial sector reforms should be conducted to encourage the development of market sources of investment capital. (See medium term recommendations for proposals to encourage the development of sources of investment capital.)

Responsible Institution: Bank of Guatemala, private banks and the Camara de Finanzas.

Budgetary Cost: $0 for procedural reforms. $20,000 for workshops.

Monitorable Output: Reduction in time of credit application review by Central Bank; Change in review procedures to focus on eligibility rather than complete project review.

Telecommunications

Recommendation: **Mandate upgrading of international phone service through increased investment in international exchanges and lines. Speed implementation of existing plans to install additional lines.**

Problem: An inability to place and recieve international telephone calls was named as the highest-priority obstacle to exporting by a number of heads of private firms, especially in the maquila sector.

Analysis: GUATEL is to be commended for its recent investment in new circuits and lines, which has improved the call completion rate from 20 percent in the mid 1980s to 40 percent in 1989. GUATEL has also made significant efforts, which have been praised by Guatemala's business community, to facilitate access to the limited number of new lines to exporters.

Nonetheless, telephone service remains deficient. The capacity problem must be addressed, beginning immediately. At this time, it is felt that long-distance as well as local phone service should remain in the hands of the regulated government monopoly. However, delays in improving service are no longer acceptable (GUATEL's 1984-87 investment program is running three years behind schedule).

GUATEL should address the problem on two fronts: By setting and meeting objectives for installing new lines, and by procuring and installing additional international exchanges and lines as needed. For example, work teams should be assigned quantitative goals (number of lines per period of time) and incentives should be granted to those teams which meet or exceed their goals.

Several alternative sources of funds exist to finance the investment, estimated at US$20 million, required to increase the Guatemalan call completion rate to 50-55 percent, the completion rate currently achieved by Costa Rica. Reinvestment of profits, loans from multi-lateral agencies, redirection of funds from other goals (such as the US$5 million budgeted for facilitating computer data transmission), and a redirection of funds from dividends paid to the central government toward increased investment each represent potential financing mechanisms.

Responsible Entity: GUATEL

Estimated Budgetary Cost: US$ 20 million over 3 years from Guatel's budget. No cost to central government.

Monitorable Outputs: Number of new exchanges and new lines in service; Call completion rate

Transport

Recommendations:

The Ministry of Finance should lead an effort to reorganize the administration of the Puerto Santo Tomas de Castillo, upgrading key personnel and installing a coordinated and unified administration for the Port.

The renovated Port management should be given full support of the Government in the needed effort to overcome internal labor strife, rationalize and improve the training of the labor force. Personnel measures such as, for example, not replacing personnel in certain categories when vacancies occur, should be implemented in order to bring the work force in line with requirements.

Problem: Puerto Santo Tomas de Castillo is the principal port for the shipment of Guatemalan exports. The port lacks modern facilities including refrigerated storage, adequate container handling equipment and paved yards for the storage and movement of trucks and containers. Average ship turn around time is twice that of Puerto Cortes, Honduras' major port. Before improvement can be made in the physical facilities, however, major changes must be made in the coordination and quality of the port's management and the labor force needs to be rationalized and better trained and managed.

Analysis: Guatemala's exports are handicapped by relatively high transport costs. Improvement of the efficiency of Santo Tomas de Castilla leading to reduced unit shipping costs can only help the competitiveness of Guatemalan exports. It is also unlikely that without improvement the port will be unable to handle any significant increase of traffic over its current level. Since this port is the single most important gateway for Guatemalan trade, its problems should have the highest priority.

Responsible Entity: Ministry of Finance

Estimated Budgetary Cost: Reorganization should entail few or no costs over budgeted levels. Labor force reorganization may involve severance allowances.

Monitorable Outputs: Reduction in loading and unloading time, and in average ship turn-around time.

Recommendation: **Allow privately owned businesses to ease the severe shortage of refrigerated storage space at the Aurora International Airport by constructing the required facilities.**

Problem: Refrigerated storage space at the airport has not kept pace with the marked increases in exports of perishable fruits and vegetables. The current budgetary restrictions have made it impossible for the government to finance the construction of the needed facilities.

Analysis: In the current problematic macroeconomic situation, a pragmatic approach must be taken to financing needed infrastructure. Past assumptions that governments should fund all "public goods" have receded in importance in today's restrictive economy. The Guatemalan private sector has shown both the will and the desire to construct the refrigerated storage facilities, and it is the function and duty of government to lay the groundrules within which the private sector can flourish.

Responsible Entity: Director Generalship of Civil Aviation

Estimated Budgetary Cost: $0. Dir. Gen. employees will need to be assigned to review proposals and oversee construction and operations of storage space.

Monitorable Output: The Director Generalship of Civil Aviation should announce by December 31, 1989, that it is accepting competitive applications to build and operate refrigerated storage facilities at the Aurora International Airport.

Recommendation: **Allow the necessary expansion in air cargo service by granting landing rights to all serious applicants.**

Problem: Air cargo capacity is not keeping pace with increased demand on the part of Guatemalan exporters. The deficit is not large: in general, exporters are finding that "transport is growing as exports grow." Nonetheless, the high capacity utilization rate with which air cargo is operating is resulting in burdensome delays, especially for perishable goods.

Analysis: The market mechanism is the best way to assure that air cargo capacity serving Guatemalan exporters will continue to be sufficient. Individual companies, both domestic and foreign, must be allowed to make their own determinations of the benefits of serving our exporters. In this way, high demand, either constant or at peak times, will be translated into additional supply. Applications for landing rights should be accepted unless severe mitigating circumstances apply.

Responsible Entity: Director Generalship of Civil Aviation and the Ministry of Finance

Estimated Budgetary Cost: Air cargo and possibly passenger revenue from Aviateca is likely to fall in the face of increased capacity. Estimate of size of decrease not available. Increase in landing rights revenues and fees will offset some of the decrease.

Monitorable Output: Increase in the rate of approval of applications for landing rates at Aurora International Airport.

Recommendation: **Proceed with plans to convert one on-site warehouse from receiving imports to holding exports.**

Problem: Airport facilities must keep pace with growth in exports, and provide adequate pre-shipment facilities for goods to be exported.

Analysis: Cognizant of the profound changes taking place in the national economy, the Ministry of Finance and the Civil Aviation Department undertook analysis of the best way to utilize current warehouse facilities at the Aurora International Airport in Guatemala City. A decision was made to convert a warehouse currently used to store imports to store pre-export goods instead.

Responsible Entity: Ministry of Finance and the Director Generalship of Civil Aviation

Estimated Budgetary Cost: Already included in budget. No additional outlays expected.

Monitorable Output: The warehouse is to be in service for exporters by December 31, 1989.

Export, Import, Drawback, and Free Zone Regulations

Recommendations:

Legislation and implementing regulations authorizing the creation of Zona Francas should be passed as soon as possible and in a reasonable form. Current drafts of proposed legislation appear satisfactory assuming that the implementing regulations are not overly burdensome. Key areas of concern are: that the authorization process assigned to the Ministry of Economy be carried out reasonably and quickly; that the Customs Service in fact allow the expeditious duty free entry of goods and equipment into the designated free zone areas; and, that the Bank of Guatemala in establishing a special foreign exchange regime for the zones do so in as liberal manner as possible. Time should be allowed for review and comments from the private sector on the proposed regulations.

The Directorate General of Industrial Policy within the Ministry of Economy, charged with approving free zone investments, should receive the staff and budgetary resources needed to fulfill its new responsibilities in an efficient and timely manner.

Problem: Guatemala will only be successful in attracting sufficient drawback and free zone investment if the implementing regulations for these two programs facilitate growth. The enormous improvement in processing export approvals that has been accomplished by the "Ventanilla Unica" should serve as a model for both drawback and free zone regulations.

Analysis: Expansion of off-shore assembly industries, especially into electronic and electrical assemblies, automotive parts, footwear and other light manufactures is probably the best means to generate additional employment and foreign exchange earnings for Guatemala in the short term. Guatemala is only one of several countries competing in the United States market for this type of activity. Unless the conditions offered are as good or better than those offered elsewhere, few industries outside of the apparel trade will be attracted. The apparel business is very much motivated by non-economic considerations, principally the existance of import quotas in the industrially advanced nations. Other products, such as electrical components, face no quotas and minimal import duties. Attracting such industry then is a question of costs and, importantly, the ease of carrying out the operation.

Some form of free trade zone is required, but in addition, it is very important that the government establish an effective and workable regulatory regime. Delays in clearing entry and exit of goods, excessive paperwork, excessive duty bonding requirements and unrealistic foreign exchange regulations for the free trade zones can severely limit the possibility of developing in Guatemala a dynamic off-shore assembly industry.

A key role in approving free zone investments has been assigned to the Ministry of Economy, particularly the Directorate

General for Industrial Policy. Unfortunately, this agency has not been given resources adequate to carry out its tasks effectively. With the passage of a new law governing export incentives and draw-back procedures, there is a real risk that the required applications and other documentation will not be processed in a timely or effective manner.

A second complication from the government side is that implementation of the laws governing export incentives and draw-back is assigned to the Customs Service, a dependency of the Ministry of Finance. At present, there appears to be limited coordination or exchange of information between Customs and the Directorate for Industrial Policy.

To foster further expansion of light industry, particularly for light manufactures other than apparel, Guatemala requires legislation permitting private sector involvement in the development and management of special export processing zones, the so-called _Zonas Francas._ Delay in passage of such legislation further delays the generation of new sources of employment and foreign exchange earnings.

Responsible Entity: Ministries of Economy and Finance

Estimated Budgetary Cost: No budgetary costs attached to passing legislation. Substantial Ministry of Economy time should be spent drafting regulations. Substantial resources may be needed to staff and equip Dir. Gen. of Industrial Policy.

Monitorable Outputs: The passage of enabling legislation for free zones. Reduction in the amount of time and cost involved in importing and reexporting goods brought in for assembly operations. Volume of exports generated by drawback and free zone operations.

Attracting Investment

Recommendation: **The Ministries of Finance, Economy and the Bank of Guatemala together with the Chambers of Industry and Finance, CAEM, and the Industry Guilds, should proceed with the current review of Guatemalan legislation and regulations with regard to foreign investment.** If the current regime is found inadequate or unlikely to attract needed investment, consideration should be given to new legislation to improve the climate for foreign investment.

Problem: Many of the obstacles to exporting can be eased by attracting foreign investment. Foreign investors have their own sources of funds and market contacts. They often bring new technology which can then be transferred to local industries.

Analysis: As this national plan is implemented, many of the constraints that currently face Guatemalan entrepreneurs will be lessened and removed. In time, exports will rise. In the short term, access to needed technology, capital, and markets can come from foreign investment, either direct, mixed or through the licensing of products and/or technology. Foreign investment is a proven vehicle for generating exports and jobs.

Foreign investment will alsdo bring new technologies to Guatemala, especially high productivity manufacturing, quality control, materials handling, cost accounting and related skills. For processing Guatemalan raw materials, there should be a higher level of capital investment, but again the major technologies will relate to quality, both in the raw material, e.g. properly seasoned lumber or standard sizes and ripeness of a fruit or vegetable, and in the manufacturing process, design and presentation as well as productivity standards, cost accounting, inventory and financial management.

Responsible Entity: Ministries of Financy and Economy, Chamber of Industry and Finance, CAEM and Industry Guilds

Estimated Budgetary Cost: No additional cost expected, since review is underway.

Monitorable Outputs: Submission of report reviewing current legislation. Drafting new legislation if needed. Implementation of improved legislation. Increase in foreign investment inflow.

<u>Recommendation:</u> **Proceed with the creation of the Investor Service Center within CAEM, providing the new institution with the budgetary and staff resources necessary, as well as with promotional materials to use for marketing.**

<u>Problem:</u> Both public and private sectors in Guatemala confront a shortage of funds for investment.

<u>Analysis:</u> The single most important factor in attracting investment is an economic and social environment in which invested capital is believed to be relatively safe and on which the return is higher than for alternative investments in the United States or elsewhere. The rate of return can be enhanced by selected incentives such as exemption from income tax on profits earned from exports. However, absent adequate social and economic conditions, incentives will not be enough.

With the return to democratic government and with the dimunition of the insurgency problem, Guatemala is now in a position to promote investment actively, but in a manner commensurate with its limitations in infrastructure and other resources. Promotional activity can be divided into three broad areas: institutional promotion, i.e., increasing knowledge overseas about Guatemala enhancing its image positively; identification and attracting specific foreign investors; and, handling interested investors visiting Guatemala in an effective and positive manner.

At Guatemala's present level of economic development it would make no sense to mount an expensive campaign abroad to attract large numbers of investors: there are insufficient facilities and opportunities to handle large numbers. Accordingly, a general campaign to increase positive awareness of Guatemala overseas would seem a valid first step and one which might result in increased tourism with attendant benefits in terms of foreign exchange and job creation.

Specific investment promotion overseas should probably be tied-in initially to attracting investors or clients for free trade zone industrial parks. Activities could subsequently be broadened to include investors interested in agricultural production, food processing or other activities related to Guatemala's resource base.

Attempting to divide investors into those interested in direct investment from those interested in joint ventures or contract manufacturing seems unwieldy and not very practical since prospective foreign investors may not divide easily into these categories. Licensing or contract manufacture may well be the first step along a continuum in which the foreign investor, satisfied with the first phase, moves into a joint venture and, perhaps, ultimately into a direct investment. Particularly in free zone promotion a first step may well be contract manufacturing or a "shelter" arrangement followed if successful by direct investment on the part of the foreign manufacturer.

Responsible Entity: CAEM

Estimated Budgetary Cost: No additional resources needed. Costs of Center have already been budgeted, and funds made available.

Monitorable Outputs: Staffing and training of new personnel. Number of investors assisted. Number of investments attracted and jobs created.

Recommendation: **Provide budgetary support to the Ministries of Foreign Affairs and Economy to undertake an upgrading of commercial and tourism representation within the consular and diplomatic service.** Select from among current and prospective officers those suited for this function and to provide them with necessary training, funds and equipment and "home office" support to promote investment, trade, and tourism.

Problem: Guatemala's foreign commercial representation is presently limited to those few diplomatic or consular officials assigned abroad who have taken an interest in promoting their country's commercial interests. There appears to be no effective "home office" support for such people and no regular liaison between such overseas staff and either the Ministry of Economy or any of the private institutions concerned with promotion of trade, tourism or investment.

Analysis: To expand exports and investment Guatemala needs to project a positive image abroad and to seek tourism and investment actively. Potential buyers of Guatemalan exports need to have access to lists of suppliers, goods, and prices.

<u>Responsible Entity:</u> Ministries of Foreign Affairs and Economy

<u>Estimated Budgetary Cost:</u> $300,000 per year.

<u>Monitorable Outputs:</u> Select personnel. Design and offer training. Monitor number of export, investment, and tourism leads generated by each foreign commercial representative.

Recommendations:

The Ministry of Minerals and Petroleum should take the lead in securing amendments to the current Minerals Exploitation Law to reduce the difficulty and costliness in applying for minerals concessions.

The Government should undertake to have the proposed Forestry Law approved by Congress.

Problem: Weaknesses in legislation does not provide sufficient incentives to exploit appropriately Guatemala's rich mineral and forestry resources. Guatemala risks serious deforestation if appropriate controls are not implemented.

Analysis: Currently Guatemalan production and export of minerals is limited to modest quantities of marble and such building materials as talc and calcium carbonate. Significant resources in metal ores, particularly nickel, exist but appear unattractive at present low world prices.

The current Guatemalan law governing minerals exploitation is excessively unwieldy and difficult. The result is that small, Guatemalan firms which might be interested in obtaining concessions to explore and exploit new reserves are blocked by the time - sometimes more than two years - and money required to obtain authorization. Only large transnational firms are likely to have the resources to comply with the current law. Further, given the volatility of world minerals prices, Guatemala has prevented any timely response to what may often be limited opportunities to sell a given mineral at good prices.

With respect to forestry resources, a recent ban on the export of logs and rough timber is probably a step in the right direction of conserving Guatemala's forestry resources for such value added industries as furniture. However, the enforcement of such forestry laws as are on the books remains sporadic, and tougher controls are required.

Responsible Entity: Ministry of Mines and Energy

Estimated Budgetary Cost: No additional budgetary outlays will be necessary, but current staff in Ministry of Minerals should be temporarily reassigned to review Minerals Law and regulations and draft and implement modifications.

Monitorable Outputs: A reduction in the length of time required to obtain minerals exploitation concessions. An increase in the number of concessions granted. Passage of the Forestry Law.

Economic and Market Information

Recommendation: **Send only three, not five, trade and investment promotion officers abroad under the auspices of the Nontraditional Exporters' Guild and the Empresarial Chamber.** A larger cadre would strain the ability to provide effect "back-office" support.

Problem: Guatemala has no overseas investment promotion office to seek out potential investors and inform them of the benefits of investing in Guatemala.

Analysis: A proposal has been made to recruit commercial and tourism representatives for service at five Guatemalan diplomatic or consular locations, three in the United States, one in the Caribbean and one in Europe. Selection and support of these individuals is proposed to come from a technical unit of the Coordinating Council of the National Export Promotion Council, the technical unit representing the Directorate General for Foreign Trade of the Ministry of Economy and the Non-Traditional Products Exporters Guild.

There are two problems with the current proposal. It will be difficult to integrate the newly appointed representatives with the existing physical and human resources of Guatemala's consulates and embassies. In addition, the technical capabilities are limited to provide adequate support to and to disseminate the resulting opportunities. Given the endemic shortage of qualified staff, funds and equipment, the new representatives will confront problems in their overseas locations and "home office" support will fall heavily on the Guild and CAEM, even assuming full cooperation from the Ministries of Economy and Foreign Relations.

Responsible Entity: Nontraditional Exporters Guild, CAEM

Estimated Budgetary Cost: Savings will result from reduction in number of overseas representatives.

Monitorable Output: Number of overseas representatives; Number of leads generated, Value of exports generated from leads.

Recommendations: **Designate at least one person in each Ministry to provide trade and economic data in response to questions and requests from the public and other agencies.**

Problem: Policy makers, investors and exporters need more and better information regarding economic, financial and industry conditions as well as prices, movements and trends in domestic and overseas markets.

Analysis: The problem divides into three areas:

- access to and diffusion of trade and economic data obtained from abroad;

- collecting, compiling and publishing domestic economic and trade data; and,

- coordination and sharing information among the several data centers.

The Non-Traditional Products Exporters Guild has established a small, but well designed commercial information center, open to the public, which represents a good start towards providing information from foreign sources. The Bank of Guatemala publishes economic and trade data as well as provides data to other groups, such as the Foundation for Guatemalan Development, the Empresarial Chamber, the Chamber of Commerce, etc. which use it in their own publications. Inadequate data collection and a lack of timeliness limit the usefulness of the Bank's data. The Bank's source of data includes the Customs Service, the Ministry of Economy and the National Statistical Center, all of which lack funds, trained staff and modern equipment. Each Ministry has information that is invaluable to other institutions and exporters, but there is no central repository for the information.

Responsible Entity: All Ministries, Central Bank, and Ventanilla Unica

Estimated Budgetary Cost: One additional salaried position per Ministry or organization. Cost can be reduced through use of internal transfers fill new positions.

Monitorable Outputs: Designation of staff members in each Ministry to provide information to public. Public announcement of new information service. Number of inquiries answered per year.

Export Promotion

Recommendation: **Continue to promote Guatemalan goods in foreign markets.**

Problem: Entry to international markets can be prohibitively expensive for small and medium-size firms, and even large firms. In addition, domestic firms need market information and contacts. Working together, exporters can create a positive international image for all Guatemalan products, either in general or in specific industries.

Analysis: The Nontraditional Exporter's Guild has made important strides in organizing the private sector into a number of working groups, each one dedicated to encourage exports in their sector, and increasing Guatemalan presence at important international trade fairs. Their efforts should be supported and strengthened by providing them with additional resources to fund ads in strategic trade journals, additional trade shows, and/or direct mail campaigns as deemed appropriate.

Responsible Entity: Nontraditional Exporter's Guild

Estimated Budgetary Cost: $50,000 - $500,000 depending on the additional activities to be funded.

Monitorable Outputs: Number of export leads generated; Number of export orders generated; Volume and value of exports generated

Recommendation: **Promote incoming tourism among high-potential market segments. Reorient resources away from administrative and local activities toward foreign promotion.**

Problem: Guatemala is not reaching high-potential tourist markets, especially in the United States.

Analysis: One of the fastest ways to increase Guatemalan exports is to increase the inflow of tourists. The turn-around time required from the beginning of promotion to the entry of the foreign exchange can be from just a few days to several months, and the effects will successful promotion will be felt for years. In contrast, the time required to secure an export order can be several months, and that required to attract export-oriented foreign investment can be 3 - 5 years.

While technical assistance from the European Community has greatly assisted INGUAT's ability to target high-potential tourists in Europe, little or no market analysis or marketing has been done in the United States. Funds should be redirected from administrative and domestic activities, and additional funds should be sought from a variety of sources, including the donor community, to identify high-potential market segments and market Guatemala as a vacation destination to those niches.

Responsible Entity: Guatemalan Tourism Institute (INGUAT)

Estimated Budgetary Cost: Market Analysis, $50,000; Promotion Campaign, $250,000 - $1.5 million depending on amount of funds available and scope of campaign

Monitorable Outputs: Completed market segmentation study; Promotional plan; Implementation of promotional campaign

Recommendation: **Continue to develop awareness of the benefits of exporting.**

Problem: Historically having focussed on domestic sales and the Central American Common Market, local manufacturers have little understanding of the many export opportunities.

Analysis: Through the efforts of the Nontraditional Exporters Guild, the CAEM, various Government Ministries and others, the Guatemalan business community is gradually becoming aware of the benefits of exporting. Seminars, conferences, press releases, and ad campaigns have all proven to be effective means of increasing public awareness. These effort should continue in the short term, to reach additional business people and to reinforce the message that "Exporting is Progress."

Responsible Entity: Nontraditional Exporters' Guild, CAEM

Estimated Budgetary Cost: No additional cost. Funds for campaigns are already programmed in each institution's budget.

Monitorable Outputs: Number of conferences, seminars, press releases, and ads placed.

Customs

Recommendation: **Proceed as rapidly as possible with the plan to professionalize Customs and make its operations more efficient and transparent.** Resources should be made available as needed to support this important effort. Specific measures implemented should include the following:

1) Conduct an audit of Customs inspections to verify compliance with regulations. Expose irregularities and terminate employees in violation of regulations.

2) Increase salaries and benefits of qualified employees in order to encourage compliance with regulations.

Problem: Lack of transparency in Customs operations increases the costs of importing and exporting, increases uncertainty, and represents an obstacle to increasing Guatemalan exports.

Analysis: The Ministry of Finance is to be commended for its efforts to reorient Customs toward a customer-service organization. Under its "Sistema de Apoyo al Comercio Exterior" (SACE) plan, a strategy has been created to improve the operations of Customs. The stategy involves training, reorganization, and computerization, among other activities. Each element in the stategy is important. What is needed now is not more planning, but effective implementation of the SACE plan to improve Customs.

Responsible Entity: Ministry of Finance

Estimated Budgetary Cost: Figure not available. Increasing employee salaries could result in substantial increased costs, and should be implemented jointly with a program to reduce excess labor.

Monitorable Outputs: Completion of audit. Personnel movements resulting from publication of audit results. Periodic surveys of selected Customs users every 6 months will indicate if internal improvements are improving efficiency and transparency. Reduction in paperwork (both number and length of forms) can also be monitored.

Human Resource Development

Recommendation: Industry guilds should, where appropriate, negotiate agreements with private industry and Intecap for joint training programs in which specific companies or industries provide space and equipment so that Intecap staff can undertake training for the employees within a specific industry or manufacturing process. Free zone owners could offer a training building in each free zone for use by tenants.

Problem: Guatemala has an adequate supply of unskilled, but trainable labor. In terms of basic assembly labor, or agricultural labor, Guatemalans have a good reputation for ability to learn and willingness to work. Generally low productivity in many Guatemalan industries and in agriculture has more to do with the quality of management and the level of capital investment than with the basic quality of the labor force. For skilled labor, however, and for management functions there appears to be a significant shortage.

Analysis: Development of industry requires an array of support skills and services, such as mechanics who can install and repair machinery, electricians, tool makers, inventory specialists, cost analysts, quality control analysts, experienced production line supervisors, etc.

Most of these skills can be taught within the industries concerned, but a shortage of skilled personnel available locally and the time needed for training may well act as a constraint to rapid growth, particularly in the assembly industries, and lead to the need to bring in expatriate skilled personnel which adds substantially to the costs of operation. One of Intecap's major constraints is the lack of equipment and space to expand much beyond the approximately 50,000 trainees it can work with in any year. Therefore, industrial free zone owners and industry guilds should complement Intecap's efforts by designing and offering technical courses, supported by the employers of those being trained.

Responsible Entity: INTECAP

Estimated Budgetary Cost: No additional central funds are required. Training should be paid for by employers.

Monitorable Outputs: Number of individuals trained.

Medium-term Activities

(1993 - 1996)

MACROECONOMIC POLICIES:

Recommendation: Deepen macro-economic policies supportive of export-led growth.

Maintain exchange rate at competitive level.

Continue tariff reform to reduce effective protection rates and to reduce anti-export bias and encourage greater investment in export activities. Over medium term, reduce tariff ceiling 25 percent, while increasing floor to 10 percent.

Problem: Even by 1992 the Guatemalan economy will still suffer from its legacy of import substitution policies that leave a strong anti-export bias.

Analysis: To encourage a broad based shift towards and a rapid expansion of export production, realtive prices in Guatemala must be oriented towards export activities away from inefficeint import-subsitution activities. A competitive exchange rate and reduced tarrif levels are the most powerful instruments available to policymakers to implement this shift. If exports are to propel the growth of the Guatemalan economy, then the basic economic incentives to export must be agressively turned in favor of exports. To do so efficiently, tariff levels and their dispersion should be reduced and their dispersion, and the exchange rate be maintained at a very competitive level. In order to encourage the broad based shift of resources, businesses must be convinced that macro-economic policies supporting export-led growth will be maintained.

Responsible Institution: Bank of Guatemala, Ministry of Economy, and Ministry of Finance.

Budgetary Cost: $0

Monitorable Outputs: Stable real effective exchange rate; continued reduction of tariff ceiling and increase in tariff floor.

<u>Recommendation</u>: Establish a system of domestic lines of credit to provide indirect exporters and suppliers to exporters with pre-export (working capital) financing.

Based on a confirmed order and stand-by letter of credit provided by the bank of the importer to the exporter, a domestic letter of credit would be issued by the bank of the exporter to the exporter's suppliers. The bank would be guaranteed payment once the goods were delivered to port. Based on the assured payment by the importer, a chain of credit reaching back to the suppliers can be constructed.

<u>Problem</u>: Indirect exporters and suppliers cannot get access to pre-export financing because they are not direct exporters. Accordingly, they lack resources to expand production and the incentive to direct their production towards exports.

<u>Analysis</u>: A system of domestic letters of credit provides needed working capital to all the levels of production of export goods. Domestic letters of credit encourage backward linkages of the production process, encouraging a greater part of the total economy to share in benefits of export demand.

Domestic letters of credit also facilitate the development of export trading companies. With an ability to translate confirmed export orders into working capital for suppliers, export trading companies can assist suppliers in obtaining access to needed credit which will help to ensure more assured deliveries and higher quality. With scarce managerial resources, producers can concentrate their energies on production, while allowing trading companies to focus on marketing. With domestic letters of credit, this division of labor does not disrupt the flow of credit to the producers.

Most developing countries with successful export programs, such as Korea and Taiwan as well as Columbia, have established systems of domestic letters of credit. It is expected that FODEX will work to establish such a system in Guatemala.

<u>Responsible Institutions</u>: Private Banks, Bank of Guatemala and FODEX.

<u>Budgetary Cost</u>: $40 thousand for studies to design system for Guatemala and workshops and promotional materials to teach banks how to implement system and borrowers how to use it.

<u>Monitorable Output</u>: Amounts of domestic letters of credit issued for production of eventual exports.

Recommendation: Fundamental reform of financial sector.

Reform should focus on creating a more competitive and less segmented financial sector. Measures should be taken to encourage financial institutions, especially banks, to serve financial needs of broader elements of the Guatemalan economy, including non-traditional exporters, rather than focussing on the needs of businesses and individuals associated with owners of the banks. Increased competition will also require improved supervision of financial institutions to ensure that they remain financially sound to meet their obligations to depositers.

Reform will require revisions in the Banking Law of 1946.

Problem: Non-traditional exporters, who are expected to be the most important source of export growth, find it extremely difficult to get access to credit and other financial services because they are rarely closely associated with the industrial groups that control most Guatemalan banks and important financeras. In the current system, banks tend to focus their services towards serving the needs of businesses and individuals with close ties to their controlling groups. These clients are usually well established,

Current financial policies and regulations, especially low iterest rate ceilings and credit controls, encourage this behavior, as banks cannot easily expand to take on a greater customer base.

In the current system banks are not organized nor do they have strong economic incentives to serve the different needs of new entrepreneurs, such as non-traditional exporters.

Analysis: With signficant growth of the non-traditional export sector, it is possible that the leaders of these industries could pool resources to establish a bank to serve their needs. Similarly, as macro-economic policies supportive of export-led growth are maintained more established businesses will become involved, and banks would be expected to serve these new needs of their established clients. However, these changes would only partially solve the finance problems of non-traditional exporters.
Through the medium-term most non-traditional exporters will remain outside of the large established industrial groups. Moreover, only a minority of the very largest will have surplus resources to establish a new bank. Accordingly, without fundamental financial sector reform, financial insitutions will continue to ignore the needs of the potentially most important sector of the economy.

Responsible Institutions: Bank of Guatemala, Private Financial Institutions.

Budgetary Cost: $ 500,000 for: technical assistance to conduct studies to design reform and to train supervisory personnel, upgrading of resources for superviory functions of Central Bank, and seminars and printed materials to explain reform to financial intermediaries and industrial enterprises.

Monitorable Output: Increase in percentage of banking credits and financial services to non-traditional export enterprises. Reduction of bank asset portfolio dedicated to firms and individuals associated with controlling industrial groups.

Recommendation: **Develop larger and more diversified sources of longer term investment capital.**

Potential sources include:

- **venture capital clubs or funds, institutions where individuals pool resources for investments in new ventures;**
- **private placements of equity shares;**
- **financial institutions devoted to investment banking;**
- **sharply increased levels on longer-term private loans and negotiable private bonds.**

Development of these market innovations will require some changes in financial regulations and tax policy. Most important of these is to change in the tax code which currently taxes dividends at a much higher rate than interest receipts, discouraging equity capitalization. In addition, legislation protecting the rights of minority shareholders and limited partners should be strengthened.

Problem: Sources of longer-term investment capital are extremely scarce in Guatemala, especially for entrepreneurs not closely associated with an established industrial group. Investment capital usually comes from family or close associates. Consequently, projects from individuals or firms without these personal ties find it extremely difficult to raise sufficient long-term investment capital. Non-traditional exporters often are new firms or entrepreneurs, and therefore do not have these necessary connections. As a result they are often undercapitalized leaving them in a financially precarious position in the event of any short-term setback.

Analysis: With greater potential to raise longer-term investment capital, more non-traditional export activities could be established, and have a stronger capital position to withstand periodic downturns. Moreover, with greater amounts of equity capital, enterprises do not have to pay returns on the investment, until the firm is profitable. Equity is therefore an especially appropriate form of capitalization for new ventures. It should be noted that equity investments do not require public stock issuances, but rather can be in the form of limited partnerships or private placement of equity shares.

Responsible Institutions: Private Financial Sector, Ministry of Finance and Bank of Guatemala.

Budgetary Cost: $200,000 to design program to develop more and larger sources of longer term investment capital.

Monitorable Output: Establishment of venture capital clubs/funds, financial firms dedicated to investment banking; Increased flows of private placements of equity capital and limited partner incorporations, as well as longer-term loans and private bonds.

Recommendation: **Use pragmatic criteria when assigning budgetary and management responsibility for modernization of Aurora International Airport to the government and private sectors.**

Problem: Scarce central funding and the high cost of credit may limit government's ability to finance modernization of Aurora airport.

Analysis: Pragmatic, not ideological, reasoning should guide the assignment of public and private sector responsbilities regarding the modernization of the Aurora airport. The managerial talent and resources of the private sector should be tapped as appropriate.

Responsible Entity: Ministry of Transport, Communications, and Public Works

Estimated Budgetary Cost: Not yet announced

Monitorable Output: The assignment of the management and/or ownership of one or more of the modernization activities to the private sector.

Recommendation: **Following the necessary reorganization and administrative improvements recommended for short term action, the physical facilities of Puerto Santo Tomas de Castilla should be modernized** to increase container handling capability and, more importantly, to provide facilities for storage of dry and perishable cargo and for containers.

Problem: The shortcomings of the port were noted in the short term recommendations. Further investment in physical facilities are believed inappropriate pending resolution of the management and labor problems.

Analysis: Reportedly the port of Sto. Tomas de Castilla is operating at close to its current capacity. As a means of increasing efficiency, and thus lowering transport costs, as well as increasing capacity for what is expected to be increasing merchandise trade, greater mechanization, loading area and storage facilities will be needed.

Responsible Institutions: The Ministry of Finance

Budgetary Costs: No estimate at this time, but it is believed that international lenders would be willing to finance capital improvements for the port.

Measurable Output: Tonnage handled and tonnage handled per hour of labor or unit of time.

TRANSPORT:

Recommendation:

The Ministry of Transportation and Communications should promptly authorize the Association of Sugar Producers to proceed with its investment in bulk handling facilities at Puerto Quetzal.

In the medium term, the Ministry of Finance should authorize and direct the Director General of Customs to relocate the Customs facility at San Jose to Puerto Quetzal to facilitate the latter's use as a gateway for Guatemala's trade with the Pacific basin.

Problem: Puerto Quetzal is a relatively new port which remains incomplete in that it has virtually no cargo handling or storage facilities. It is the principal port for Guatemala's exports of sugar, the loading of which is currently slow and inefficient.

Analysis: Guatemala has been able to maintain reasonable levels of sugar exports only because its costs of production remain at or below those of its competitors. The industry is very interested in lowering its shipping costs by installing bulk handling equipment at Puerto Quetzal. The industry has indicated willingness to invest Q 8 million upon receipt of government authorization.

<u>Responsible Entity:</u> Ministry of Transport, Communication, and Public Works

<u>Estimated Budgetary Cost:</u> No budgetary cost to central government. The Sugar Producers Association if apparently willing to fund the needed investment.

<u>Monitorable Outputs:</u> The presence of bulk handling facilities at Puerto Quetzal.

Recommendation: **The Guatemalan Railway Company should encourage private investors to upgrade the bulk handling facilities at Puerto Barrios.**

Problem: Puerto Barrios is a very old port facility still used for the export of bananas. Damage to the docks suffered in 1976 apparently has not been repaired, even though it is the Atlantic terminus of the Guatemalan railroad system. It has been suggested that the railway be relocated to serve the neighboring port, Santo Tomas de Castilla, and that Puerto Barrios be abandoned. Given the current problems at Santo Tomas, such a move at present would most likely have an adverse effect on shipments of bananas if nothing else. Meanwhile Puerto Barrios limited capacity serves in turn to limit exports of bananas from Guatemala.

Analysis: Guatemala has an opportunity to increase production and exports of bananas and upgrading Puerto Barrios could support this opportunity and perhaps provide shipping facilities for other bulk cargos as well. While not as important as the ports of Santo Tomas de Castilla or Quetzal, if private capital could be found to make the necessary investment, improvement of Puerto Barrios would be helpful. Additional port traffic could also provide additional revenues and needed support to the railroad.

Responsible Entity: Guatemalan Railway System

Estimated Budgetary Cost: If private investment can be found, budgetary costs should be minimal.

Monitorable Outputs: Physical improvments in the facilities at Puerto Barrios. Increase in bananas shipments.

Recommendation: **Create a "Ventanilla Unica" for granting investment approvals similar to the "Ventanilla Unica" which approves export applications.**

Problem: Foreign investment is likely to play an important role in increasing Guatemala's export capabilities in the short and medium terms, especially in manufacturing. A complex and unwieldy investment approval process will be a disincentive for investment in Guatemala.

Analysis: Guatemala is a leader in the region in facilitating export approval, and can maintain its preeminence by adopting a similar policy for investment approval. Very few countries can successfully centralize diverse functions in a single office, but Guatemala has shown that it can successfully centralize export approvals, and should do the same for investment approvals. Having a "one-stop investment approval office" will be strong positive element in any overseas marketing. It will allow Guatemala to attract additional investment interest, and to assure that no investments are lost due to bureaucratic delays.

Responsible Entity: Ministry of Economy

Estimated Budgetary Cost: $50,000 - $100,000 per year. Most personnel will be transfers, not new hires.

Monitorable Outputs: Creation of "Ventanilla Unica" for investment approvals. Reduction in length of time and number of steps in approval process.

Recommendation: **Create non-lending reference libraries within each of the Ministries and the Central Bank to serve the public and other government agencies.**

Problem: Information that is critical to public and private sector decision-making is not available in a timely, easily accessible fashion.

Analysis: Accurate, up-to-date data on export trends, prices, and production is important for planning and decision for both the business community and the government. However, government statistics are often unavailable.

Information networks are often proposed to resolve the information gap. This solution is generally unwieldy, expensive, and complex, and often does not disseminate data rapidly.

A more appropriate solution is to create reference libraries within each Ministry. These libraries should be depositories for statistics, plans, and other reference material collected by each Ministry. The material should be well-organized, and each library should be staffed by a knowledgeable individual to guide users to needed sources. Each library should provide copying services at the price required to cover costs and perhaps generate a small profit toward covering the costs of offering the library services.

Responsible Entity: All Ministries and the Central Bank

Estimated Budgetary Cost: $50,000 per Ministry per year

Monitorable Output: Transfer or hire of staff. Physical transfer of library material to central location in each Ministry. Public announcement of new information service. Number of users served.

Recommendation: **Establish programs to inventory current forestry resources, to control cutting, to reforest, and to provide alternative, more efficient fuels in place of firewood.**

Problem: Guatemala is losing much of its forestry reserves to a combination of overcutting and irrational exploitation, conversion of forest land to agriculture, much of it for subsistence farming, and lack of good conservation practices.

Analysis: Forests, particularly of hardwoods, can be a valuable renewable resource. The problems are long term, requiring education, enforcement of good management practices and investment in reforestation and alternative fuels. In the intermediate term, every effort should be made to undertake the necessary analyses and to initiate the array of programs which will be required to preserve and enhance Guatemala's forest resources while providing a steady flow of raw material to Guatemala's woodworking industries.

Responsible Institutions: Ministry of Agriculture

Budgetary Costs: No estimate at this time. Reforestation programs are very expensive, and could cost in the tens of millions of dollars. Private contributions and donor participation will be solicited to support the effort.

Measurable Output: Completion of forest surveys and inventories. Acreage replanted. Reduction of acreage subject to slash and burn.

Long-term Activities

(1997 - 2000)

Recommendation: **Continue macroeconomic policies in support of export led-growth.**

Continue to reduce anti-export bias by continuing progress towards a uniform relatively low tariff rate. By 2000, set tariffs ceiling at 20 percent and tariff floor at 10 percent.

Maintain competitive exchange rate.

Problem and Analysis: To maintain the momentum of rapid export growth into the long-term, supportive macroeconomic policies must be maintained. The real effective exchange rate must be maintained at levels that encourage increased investment in export activities, and in areas requiring more advanced technologies. Similarly, import protection should be reduced to continue to encourage domestic producers to be more efficient, and thereby, increase the international competitiveness of all aspects of the Guatemalan economy.

Responsible Institutions: Ministry of Economy, Ministry of Finance and Bank of Guatemala.

Budgetary Cost: $0

Monitorable Output: Stable real effective exchange rate, reduction in tariff ceiling to 20 percent.

Recommendations: **Guatemala must keep pace with technological advanced in telecommunications to provide Guatemalan businesses with the full range of services including cellular phones, computer data transmissions, and other services.**

Problem: Competing successfully in the international marketplace requires instant communication through a variety of means, including voice and data transmissions from both fixed and mobile locations. Guatemala has been unable to provide the business community with adequate service.

Analysis: In the short term, this Plan mandates notable improvements in telephone service through increased investment in circuits and lines. During the early 1990's, it is also expected that the private sector role in provision of phone service will increase as private service providers enter the cellular market.

If Guatel is unable to implement service improvement in the short and medium term, it will become necessary to explore other options, including joint ventures, public share ownership, or privatization, in order to assure that the nation has access to adequate telecommunications facilities.

Responsible Entity: Guatel and the Ministry of Communication, Transport and Public Works

Estimated Budgetary Cost: No estimate available. Shifting additional service areas to the private sector will lower costs to the central government.

Monitorable Outputs: Range of telecommunication services available

Recommendation: **Near the end of the 1990s, create a joint public-private sector Blue-Ribbon National Air Transport Needs Committee to present a report to Dir. Gen. of Civil Aeronautics regarding the modernization and/or relocation needs of the nation's airports beginning in the year 2000.**

Problem: As exports grow, it is likely that a number of the nation's airports will begin to experience capacity bottlenecks. While the Aurora International Airport is adequate to meet the needs of the nation's exporters in 1989 and 1990, (with the exception of the problem with refrigerated storage, mentioned earlier), and the modernization proposed by the Japanese government should assure adequate capacity throughout the 1990s, capacity limitations are expected in the future.

Analysis: In order to assure private sector involvement in transport planning, any plan should be designed by a joint private/government commission. Members of the Commission should include airport users from a variety of industries, including agricultural and manufactured exports and tourism, and leaders from both the government and private sector. The Commission should be granted one year to study the issue and propose recommendations.

Responsible Entity: Dir. Gen. of Civil Aeronautics

Estimated Budgetary Cost: US$75,000 to cover expenses of commission representatives, secretarial services and report preparation and publication.

Monitorable Output: Creation of Commission, and Air Transport Plan for 2000.

TRANSPORT:

Recommendation: **Construct secondary roads to provide the interior of Guatemala with access to export markets.**

Problem: Fertile lands which could produce for export are inaccessible due to a lack of paved, year-round roads.

Analysis: Increased production of nontraditional agricultural products will mean increased income and employment in several interior regions, and will greatly benefit the local populations. In order to allow this growth, however, the nation must expand the road network to open up currently inaccessible regions to receive important inputs and to send goods out for export.

Guatemala must plan for growth in nontraditional agricultural products by identifying regions with high potential but inadequate road access, and budgeting funds to provide the needed transport infrastructure. The business community and local residents must be carefully consulted on the plan, in order to assure that the roads built offer the greatest opportunities for increasing rural incomes, production, and exports.

Responsible Entity: Ministry of Communication, Transport and Public Works

Estimated Budgetary Cost: Cost of Plan, $100,000; Cost of implementation unknown

Monitorable Outputs: Kilometers of paved roads; Number of hectares opened up for production

ELECTRICITY GENERATION:

Recommendation: **Continue to plan for the power generation capacity that will meet growing industrial demand. Improve regulatity of service and maintain reasonable price structure.**

Problem: In general, Guatemala has successfully planned for and implemented sufficient electrical capacity to support economic development, although in some regions, power shortages are already disrupting orderly industrial output.

Analysis: Careful planning is necessary to assure adequate future power supplies. Experience in other countries has shown the extreme importance of adequate power to attract and retain local and foreign investment in manufactured and processed exports.

INDE's role in Guatemala's future competitiveness is therefore a critical one. Frequent surveys must be undertaken to estimate future power demand, and electrical generating capacity development must proceed at a pace that will not slow economic growth.

Responsible Entity: INDE

Estimated Budgetary Cost: No estimate currently available

Monitorable Output: Frequency of power outages due to insufficient capacity.

Recommendation: Establish export promotion campaigns in large non-Western Hemisphere markets, including Japan and the EEC. Included in campaign should be opening of trade and investment promotion offices in Japan and Europe.

Problem: Most of Guatemala's marketing efforts have focussed on the large and open North American market. However, this singular focus greatly limits potential export sales. The Japanese market is 50 percent the size of the U.S. market and growing much more rapidly, while the EEC economy is the same size of the US market.

By concentrating on the U.S. market the likelihood of US quotas limiting Guatemalan exports increases. By diversifying exports the limiting factor of individual countries' quotas is lessened significantly.

Analysis: European and Japanese markets pose more difficult problems than North American ones. European markets, individually are smaller, but with the economic unification of the EEC in 1992, many of these problems will diminish. Japanese markets, are notoriously difficult to penetrate, but once they have been opened, Japanese are reliable customers and willing to pay premium prices for quality merchandise.

Transport to both markets is not as developed as to the U.S., but there are already several direct flights weekly to Europe, and with connections in Los Angeles or San Francisco, there are good air transport facilities to Japan as well. Moreover, with liberalized access to air and sea facilities, transport to both markets could expand quickly once demand develops.

Responsible Institutions: Nontraditional Exporters Guild, CAEM and the Ministry of Foreign Affairs

Budgetary Cost: $1 million.

Monitorable Output: Increased share of Guatemalan exports to Far Eastern and European markets.

<u>Recommendation:</u> **The nation shall commit sufficient national and local resources to all levels of education to assure a high quality workforce.**

<u>Problem:</u> Lack of education and training will leave large segments of the Guatemalan labor force unprepared for the challenges of new job types and new industries.

<u>Analysis:</u> One of the most important responsibilities of any nation is to educate its citizens. In the past, it was possible to focus inwardly, at our own market and those of our close neighbors. Rapid technological and managerial advances were not necessarily within protected markets.

In the future, however, we will be competing with some of the largest, strongest, and most advanced economies in the world. To compete successfully, we must educate our citizens well, from elementary school through secondary, University, and vocational school. To keep up with rapid advances in management, engineering, agriculture, and manufacturing, we must offer our citizens basic and advanced training.

Guatemala's increased focus on education will emphasize agronomy and biological sciences, engineering and manufacturing, and business administration. These skills will be especially critical to the future economic growth and development of the nation.

<u>Responsible Entity:</u> Ministry of Education

<u>Estimated Budgetary Cost:</u> A substantial redirection of government resources toward education will be necessary, however it is not possible to estimate the cost at this time.

<u>Monitorable Output:</u> Growth in per capital real spending on education. Increase in average years of education per citizen.

Recommendation: **Guatemala shall consider creating a Ministry of International Trade to coordinate the nation's export thrust in a single office.**

Problem: Responsibility for key export-related functions such as tariffs, Customs, free zones, and drawback schemes, is currently divided among a number of different Ministeries. The result is often complex, contradictory policies that do not provide sufficient impetus for exports.

Analysis: Because of the increasing importance of exporting in the national economy and development, it is important to coordinate critical functions and decisions in a single Ministry. It is also important for exports to have a proponent at the highest levels, assisting other Ministries to consider their actions at least partially in the light of their effects on exporting. Several Far Eastern nations, most notable Japan, have successfully utilized a single Ministry to create a pro-export business environment.

Responsibility: President of Guatemala

Estimated Budgetary Cost: The cost of creating an additional Ministry could be substantial. Every effort should be made to keep the staff size small and efficient, and to utilize transfers from other Ministries whenever possible to limit the total budgetary impact.

Monitorable Output: Increased coherence and coordination of policies affecting exports

V. IMPLEMENTATION, FOLLOWUP AND EVALUATION OF NATIONAL EXPORT PLAN

Below, we propose an implementation, follow-up, and evaluation system for the Plan.

Implementation

The successful implementation of a plan with a broad, national scope such as the National Export Plan will depend on building consensus around the plan, gaining commitment from each of the organizations that they will undertake the activities for which they are responsible, and coordinating the implementation of the plan. The most important factors in the success of the Plan will be 1) the accuracy and feasibility of the Plan itself; 2) the ability of Conapex's members to build strong commitment to the plan by each of the key organizations with an important role in the Plan; 3) the availability of the human and financial resources necessary to carry out the activities described in the Plan; and 4) the existence of "sticks and carrots" (that is, incentives and disincentives) to encourage organizations to follow the Plan. Below, we discuss each of these factors in turn.

Preparing an Accurate, Feasible Plan

The importance of this first step is self-evident. The draft plan submitted by the team is based on careful review of documents, extensive interviews with key public and private sector officials, and sectoral analysis of export constraints. Nonetheless, members of the Working Group and Conacoex have an understanding of both the obstacles and the acceptable recommendations that no team could hope to match based on an in-country visit of just a few weeks. Timely but careful review by both the Working Group and by Conacoex will be required to assure that the Plan submitted to Conapex is accurate and feasible. The Plan must represent the consensus Conapex view, and be approved by Conapex. We propose the time table illustrated in Figure 2.

Figure 2

National Export Plan
Implementation Timetable

March 1	SRI team member presents Plan to Conapex in person in Guatemala
Immediately	Conacoex and Working Group members meet with each Conapex member to emphasize support for and importance of Plan.
March 15	Conapex makes public announcement of National Export Plan. Conapex presents each institution with a role to play in the Plan with a timetable indicating activities, target dates, and monitorable outputs. Conapex formally presents the Plan to the President.

Building Commitment to the Plan by the Key Implementing Institutions

Plan approval is not the end of the process, but really just the beginning. Both before and after approval of the Plan by Conapex, individual Working Group, Conacoex, and Conapex members could reap large benefits by staying in close touch with key implementing institutions by memo, phone and in person to emphasize support for plan and remain apprised of progress toward target dates. We proposed that the following actions be seriously considered in order to gain commitment to the Plan by both high-level and technical level individuals within implementing organizations.

1. Appeal to both national and more narrow interests when garnering support for the Plan.

Increasing Guatemalan exports is a goal of the highest priority for some of the organizations which are being asked to participate in the National Export Plan, and a goal of the lowest priority for others. One cannot expect to curry support for the Plan by relying completely on its usefulness in increasing exports. One must identify indirect benefits of the Plan, and emphasize these side-benefits to gain support from those institutions not dedicated to increasing exports. To cite an example (which is truly an example and is not meant to infer anything about the commitment of the Ministry of Agriculture to the Plan), construction of additional secondary roads to increase market access from the interior is a Plan recommendation that would appeal to a Minister of Agriculture, regardless of that Ministry's dedication to export growth. Plan proponents should identify all such indirect benefits of the Plan, and utilize them to gain support for the Plan from sectors which might not otherwise offer support.

2. Encourage direct beneficiaries of actions included in the Plan to contact the implementing agency to show support for the Plan, and to urge fulfillment of commitments in the case of delays.

In addition to the nation-wide benefits of increased exports, many individual groups have much to gain from successful implementation of the Plan. Plan proponents should identify beneficiary groups, and suggest that they contact high-level officials in the implementing agencies via letters in the newspapers, personal letters, and other means to voice their support for the timely execution of the Plan. Below we suggest several of the groups likely to realize significant gains as a result of the Plan, and who are therefore natural allies for Plan proponents.

Nontraditional Agricultural Cooperatives
Exporters' Guilds
Owners of Industrial Parks
Training Institutions
Associations of Transporters (road, sea and air)

3. Keep the national print, TV and radio media fully briefed on the Plan and on implementation progress.

Often called the "fourth estate" in democratic countries, the press in the 20th century is a powerful institution. While press coverage cannot be controlled and can therefore be either positive or negative (and usually varies) nonetheless several important steps can assist in achieving useful coverage garnering popular support for the Plan.

Make sure that the press is fully informed. Provide copies of the Plan as well as clear, concise summaries to the press on the day that Conapex approval is announced. Make sure that the day that Conapex approval is announced. Make sure that people known to be favorably disposed to the Plan are available for individual press interviews. Make the announcement of Conapex support at a visually interesting location, such as at the port or airport, to dramatize the impact and importance of the Plan.

Increase the Availability of Human and Financial Resources to Carry out the Plan

Every attempt has been made to craft a Plan which is feasible given the budgetary restrictions facing the Guatemalan government and private sector. Some of the recommendations have a price tag of $0, but even so will require administrative and technical resources to supervise their implementation.

It would be advisable to circulate the plan among the donor community. Bilateral and multilateral donor agencies are often eager to finance projects which are likely to offer a large developmental payback. Many of the activities included in the Plan will appeal to various donors. In an informal manner, the Plan should be make available to appropriate donors as soon as it is approved, to allow them to review it and perhaps select projects to fund.

Neither donor nor central government funding with be forthcoming for all the important Plan activities. Ministries will be asked to reprogram scarce funds from existing activities which they consider to be high-priority, to the projects outlined in the Plan. Convincing them to do this will be a difficult but important task.

Reward Those Organizations Which Fulfill Their Plan Obligations

The Plan is likely to be more successful if organizations which fulfill their obligations are rewarded, and nonperformers are chided. Conapex and the President of Guatemala should use all of the tools and weapons in their respective possession to encourage cooperation with the Plan. These include budgetary support (or lack thereof) and press exposure of both cooperative and noncooperative organizations.

Conapex may wish to consider offering awards each year to those institutions or organizations which have done the most to develop Guatemalan exports. While the Gremial of Exportadores already offers an award, the Conapex award could be differentiated from the Gremial's, and would carry greater public prestige because of the high level of Conapex.

Followup and Evaluation

To facilitate follow-up of the many separate activities to be implemented by a variety of government and private organizations, appended to the end of this document is the "National Export Plan Implementation Targets." The timetables indicate the target dates for each planned activity, as well as measurable planned outcomes.

The critical importance of export growth in assuring economic recovery and development in Guatemala cannot be overemphasized. The activities planned in this document have as their direct or indirect objective the development and promotion of Guatemalan exports. Each activity detailed above has been judged to be of significant importance in catalyzing export growth, and each has been judged to be the most cost-effective means of achieving growth.

Therein lies the importance of strict adherence to target dates and measurable outcomes. If the activities in this plan go unrealized, if the obstacles to Guatemalan export growth remain, our future economic and societal development is threatened. This plan must not be simply a plan on paper, but must receive the full support and commitment of each of the entities identified as crucial to export growth and economic development.

Critical Activities

Each of the activities listed in the following Implementation Plan Targets is considered critical. Each activity was selected from among hundreds of alternate activities and projects, and each makes a significant contribution to reducing constraints on Guatemalan exports.

The ultimate proof that the National Export Plan has been successfully implemented will be growth in exports. Based on historical growth rates and estimated of export potential that will be unleashed by the Plan, we expect nontraditional exports to reach the US$1 billion mark in 1995. Our growth targets are 23 percent annual growth in non-CACM nontraditional exports, and 5 percent annual growth in CACM nontraditional exports.

However, the vagaries of world markets preclude using export growth as the only measure of success. Recessions in major markets could slow the rate of growth even if the Plan is successfully put in place.

Therefore, Plan success should be measured not only by its outcome (increased exports) but also by its outputs, that is, implementation of the individual activities and fulfillment of the monitorable targets that accompany each activity.

Individuals in public and private agencies designated as responsible, shall be held accountable for their assigned tasks in the National Export Plan. It is expected that the individuals heading up these agencies will successfully implement the tasks detailed in this Plan through effective utilization of scarce human and financial resources. Export growth is considered one of the most important challenges facing the Guatemalan nation, and managers in the public agencies shall be evaluated on their success in placing Guatemala firmly on the path to "Guatemala Mil Millones."

<u>Contingency Plan</u>

In the course of implementing the National Plan, local and international events are bound to force changes in specific activities. In order to keep such events from precluding successful implementation of the Plan, Conapex should create a mechanism for designing contingencies, that is, modifications in the original plan.

The modifications to the National Plan should be designed in the following manner. Each year, on the anniversary of the date the National Export Plan was first presented to the President of the Republic, Conapex should present to the President a brief summary of the progress made in implementing the Plan, highlighting the key accomplishments, and praising the institutions and individuals responsible for them. In addition, Conapex should present to the President any modifications in the Plan that had been necessitated by unforeseen changes during the previous year.

The modifications should be designed in a manner very similar to the way the National Plan itself was originally designed. Utilizing objective technical assistance if necessary, the Working Group of Conacoex should review the Plan for feasibility, discuss alternative activities among knowledgeable members of the public and private sectors, and redraft sections of the National Plan as necessary. The modified Plan is then presented to the President of the Republic along with the summary of the Plan accomplishments during the year.

Obstacles to Plan Implementation

The greatest potential obstacle to successful implementation of the National Export Plan would be a lack of effective leadership. If it exists on paper only, the Plan will not produce the myriad changes necessary in the Guatemalan economy to spur export growth and development. The Plan needs the cohesive, united support of the various government bureaucracies charged with implementing it. Such support will only materialize with strong signals from the Guatemalan government that export growth is indeed the #1 priority, and that all government officials and managers will be evaluated and recompensed based on their efforts and successes in furthering the activities and goals set out in the National Plan.

Conapex plays a critical role in ensuring support for the plan at all levels within the government. Each Conapex member needs to publicly endorse the Plan, incorporate the Plan tasks and goals into each Ministry's annual work plan, and assiduously evaluate progress.

In addition to lack of high-level support and follow-up, a number of other obstacles exist to the successful implementation of the National Plan. As the mini-case studies included in Chapter 3 above illustrate, external market conditions have a strong impact on exporting success. A reduction in world demand or an increase in protectionism could both jeopardize the success of the Guatemalan National Export Plan. Diversification of exports is one of the few steps that can assist countries to weather negative market conditions.

Lack of resources for infrastructure improvements is a third obstacle to export growth. However, conscious effort has been made in designing the plan to exclude costly infrastructure solutions when less costly administrative and managerial solutions can produce benefits. In addition, where practical, infrastructure improvements in the Plan are to be funded at least in part by users.

Assuring Timely Plan Implementation

Earlier in this chapter, we laid out the four criteria for successful, timely plan implementation. If any of the four criteria are not met, implementation is likely to fall behind schedule. The four criteria are:

1) Assuring the accuracy and feasibility of the Plan itself;

2) Assuring the ability of Conapex's members to build strong commitment to the plan by each of the key organizations with an important role in the Plan;

3) Assuring the availability of the human and financial resources necessary to carry out the activities described in the Plan; and

4) Implementing "sticks and carrots" (that is, incentives and disincentives) to encourage organizations to follow the Plan.

These four goals must be met to minimize the risks of falling behind on plan implementation. Specific activities to take to meet the four goals are described earlier in this chapter. To assure Plan success, all activities must be both pro-active, that is, should be taken in advance, before implementation delays could occur, and re-active, that is, should be carefully monitored through project implementation to quickly identify bottlenecks and take rapid action to clear obstacles.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Bank of Guatemala

Period	Activity	Monitorable Output
1989-1992	Maintain a competitive exchange rate.	No significant shift in real effective exchange rate away from competitive level.
	Establish system of flexible, market-oriented interest rates and concomitantly limit use of administrated credit controls.	Gradual raising of interest rate ceilings and removal of ceilings by December 1990.
	Begin operation of FODEX, an official line of credit for pre-export financing to be operated independently of Bank of Guatemala procedures (jointly with private banks).	Flows of pre-export financing from FODEX and other sources.
	Facilitate exporters' access to official lines of credit especially for medium and other longer term credits (jointly with private banks and Camara de Finanzas).	Reduction in time of review process by Bank of Guatemala.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Bank of Guatemala (Continued)

Period	Activity	Monitorable Output
1989-1992 (Cont.)	Designate at least one person in each Ministry to answer questions and provide trade and economic data in response to questions from the public and from other agencies.	Designation of staff members of information positions. Public announcement of new service. Number of inquiries answered per year.
1993-1996	Deepen macro-economic policies supportive of export-led growth, including: (1) maintenance of competitive exchange rates (2) continued general reduction of effective protection rates and of the variation in tariff rates.	Stable real effective exchange rate. Reduction of tariff ceiling to 25 percent and increase in tariff floor to 10 percent by 1995.
	Establish a system of domestic letters of credit (jointly with private banks).	Amounts of domestic letters of credit issued for production of eventual exports.
	Fundamental reform of financial sector, including revision of 1946 Banking Law.	Reduced proportion of each bank's lending to individuals and businesses associated with industrial group that owns the bank.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Bank of Guatemala (Continued)

Period	Activity	Monitorable Output
1993-1996 (Cont.)	Develop domestic sources of longer-term investment capital.	Establishment of new sources of investment capital, including venture capital clubs, investment banking, and increased flows of longer-term loans and private bonds.
	Create non-lending reference libraries to serve public and other government agencies.	Opening of reference libraries.
1997-2000	Continue to provide a stable and sound macroeconomic framework supportive of export-led growth.	Competitive exchange rate.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Economy

Period	Activity	Monitorable Output
1989-1992	Gradually reduce tariff levels and replace quantitative restrictions with tariffs.	Gradual declines in average tariff levels.
	Promulgate free zone regulations that are transparent and will expedite investment in free zones.	Publication of regulations.
	Provide staff and budget to Dir. Gen. of Industrial Policy to expedite approval of free zone investments.	Office fully staffed and equipped. Length of time required to process application.
	Conduct a comprehensive review of Guatemala legislation and regulations regarding foreign investment (jointly with Ministry of Finance and Bank of Guatemala).	Preparation of document reviewing legislation. Proposals for modifications. Implementation of modifications.
	Select, train, and support investment, trade, and tourism information specialists in overseas Embassies (jointly with Ministry of Foreign Affairs).	Selection of personnel. Design and offer training. Monitor number of leads provided by each foreign commercial representative.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Economy (Continued)

Period	Activity	Monitorable Output
1993-1996	Deepen macro-economic policies supportive of export-led growth, including: (1) maintenance of competitive exchange rate (2) continued general reduction of effective protection rates and of the variation in tariff rates.	Stable real effective exchange rate. Reduction of tariff ceiling to 25 percent and increase in tariff floor 10 percent by 1995.
	Create a "Ventanilla Unica" for granting investment approvals.	Creation of "Ventanilla Unica" for investment approvals. Reduction in length of time and number of steps in approval process.
	Create non-lending reference libraries in each Ministry to serve public and other government agencies.	Opening of reference libraries.
	Reduction of tariff ceiling to 20 percent.	Tariff ceiling of 20 percent.
	Continue to provide a stable and sound macroeconomic framework supportive of export-led growth.	Competitive exchange rate.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Finance

Period	Activity	Monitorable Output
1989-1992	Improve administration of Puerto Santo Tomas de Castillo.	Reduction in loading and unloading time.
	Grant landing rights to all serious applicants (jointly with Dir. Gen. of Civil Aeronautics).	Increase in rate of approval of applications for landing rights at Aurora International Airport.
	Proceed with plans to convert one warehouse at Aurora airport from importing to exporting (jointly with Dir. Gen. of Civil Aeronautics).	Warehouse is to be in service for exporters by December 31, 1989.
	Conduct a comprehensive review of Guatemala legislation and regulations regarding foreign investment.	Preparation of document reviewing legislation. Proposals for modifications. Implementation of modifications.
	Designate at least one person in each Ministry to answer questions and provide trade and economic data in response to questions from the public and from other agencies.	Designation of staff members to information positions. Public announcement of new service. Number of inquiries answered per year.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Finance (Continued)

Period	Activity	Monitorable Output
1989-1992 (Cont.)	Professionalize Customs to make operations more efficient and transparent.	User surveys. Reduction in paperwork.
1993-1996	Deepen macro-economic policies supportive of export-led growth, including: (1) maintenance of a competitive exchange rate (2) continued general reduction of effective protection rates and of the variation in tariff rates.	Stable real effective exchange rate. Reduction of tariff ceiling to 25 percent and increase in tariff floor to 10 percent by 1995.
	Develop domestic sources of longer-term investment capital.	Establishment of new sources of investment capital, including venture capital clubs, investment banking and increased flows of longer-term loans and private bonds.
	Create non-lending reference libraries in each Ministry to serve public and other government agencies.	Opening of reference libraries.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Finance (Continued)

Period	Activity	Monitorable Output
1993-1996 (Cont.)	Upgrade physical facilities at Puerto Santo Tomas de Castillo.	Completion of port physical infrastructure needs assessment in close collaboration with private sector. Seek funds and implement improvements.
	Authorize and encourage Guatemalan Railway company to seek private investors to upgrade bulk landing facilities at Puerto Barrios.	Announcement of authorization. Preparation of physical improvement plan. Implementation of plan.
	Relocate customs facility at San Jose to Puerto Quetzal.	Announcement of relocation. Completion of relocation.
1997-2000	Continue to provide a stable and sound macroeconomic framework supportive of export-led growth.	Competitive exchange rate.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Private Banks

Period	Activity	Monitorable Output
1989-1992	Begin operation of FODEX, an official line of credit for pre-export financing to be operated independently of Bank of Guatemala procedures.	Flows of pre-export financing from FODEX and other sources.
	Facilitate exporters' access to official lines of credit especially for medium and other longer term credits (jointly with the Bank of Guatemala).	Reduction in length of review process.
1993-1996	Establish a system of domestic lines of credit (jointly with Bank of Guatemala).	Amounts of domestic letters of credit issued for production of eventual exports.
	Develop domestic sources of longer-term investment capital.	Establishment of new sources of investment capital, including venture capital clubs, investment banking and increased flows of longer-term loans and private bonds.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Dir. Gen. of Civil Aeronautics

Period	Activity	Monitorable Outputs
1989-1992	Allow private businesses to construct refrigerated storage at Aurora airport.	Director Generalship of Civil Aeronautics should announce by December 31, 1989, that it is accepting competitive applications to build and operate refrigerated storage space at Aurora Airport.
	Grant landing rights to all serious applicants.	Increase in rate of approval of applications for landing rights at Aurora International airport.
	Proceed with plans to convert one warehouse at Aurora airport from importing to exporting.	Warehouse is to be in service for exports by December 31, 1989.
1997-2000	Create Blue-Ribbon National Air Transport Needs Committee.	Creation of commission in late 1990s and submission of "Air Transport Plan for 2000"

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Communications, Transport, and Public Works

Period	Activity	Monitorable Output
1993-1996	Use pragmatic criteria when assigning budgetary and management responsibilities between the government and the private sector for modernization of Aurora airport.	The assignment of the management and/or ownership of one or more of the modernization activities to the private sector.
	Authorize sugar producers to proceed with investment in bulk landing facilities at Puerto Quetzal.	Granting of authorization. Completion of improvements.
1997-2000	Construct additional secondary roads to penetrate interior and increase market access.	Miles of secondary roads.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Foreign Affairs

Period	Activity	Monitorable Output
1989-1992	Select, train, and support investment, trade, and tourism information specialists in overseas Embassies (jointly with Ministry of Economy).	Selection of personnel. Design and offer training. Monitor number of leads provided by each foreign commercial representative.
1996-2000	Conduct export promotion campaigns in large markets outside of Western Hemisphere, including Japan and the EEC.	Increased non-traditional export sales to Far Eastern and European markets.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Agriculture

Period	Activity	Monitorable Output
1993-1996	Inventory forestry resources and establish program to control cutting, reforest, and provide alternative fuels to firewood.	Completion of forest inventory. Acreage replanted. Reduction of acreage subject to slash and burn agriculture.
	Create a nonlending reference library to serve public and other agencies.	Opening of reference library.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Minerals and Petroleum

Period	Activity	Monitorable Output
1989-1992	Expedite minerals exploitation through simplification of law and regulations.	Modifications in law and regulations. Implementation of modifications.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Congress

Period	Activity	Monitorable Output
1989-1992	Passed proposed Forestry Law.	Passage of Law.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Guatel

Period	Activity	Monitorable Output
1989-1992	Invest in additional exchanges and speed installation of additional lines.	Number of new exchanges and lines in service. Call completion rate.
1997-2000	Keep pace with technological advances to provide Guatemalan businesses with the full range of telecommunications services, including cellular phones, computer data transmission, and other services.	Range of telecommunications services available.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Guatemalan Tourism Institute

Period	Activity	Monitorable Output
1989-1992	Promote incoming tourism among high-potential market segments.	Increase in promotional budget. Increase in tourism volume.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Business Chamber (CAEM)

Period	Activity	Monitorable Output
1989-1992	Proceed with the creation of the Investor Service Center within the Empresarial Chamber (CAEM).	Office staffed and equipped. Number of leads generated. Number of first which invest and number of jobs created.
	Gradually develop overseas trade and investment officers within the Nontraditional Exporters Guild and the Empresarial Chamber.	Send only 3, not 5 promotion officers in 1989/90.
	Continue to develop awareness of the benefits of exporting.	Seminars, ad campaign.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Gremial de Exportadores No-tradicionales

Period	Activity	Monitorable Output
1989-1992	Gradually develop overseas trade and investment officers within the Nontraditional Exporters Guild and the Empresarial Chamber.	Send only 3, not 5 promotion officers overseas in 1989/90.
	Continue to support export promotion efforts	Increase level of funding for Guild.
	Continue to develop awareness of the benefits of exporting (jointly with CAEM).	Seminars, ad campaign.
	Industry Guilds should access specific training needs, raise funding from employers, and contract for courses through INTECAP and other institutions.	Number of courses paid for outside of state-sponsored program.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: Ministry of Education

Period	Activity	Monitorable Output
1997-2000	Commit sufficient national and local resources to elementary, secondary, university, and vocational education to assure a high quality workforce.	Growth in per-capita real spending on education.

NATIONAL EXPORT PLAN IMPLEMENTATION TARGETS

Institution: INDE

Period	Activity	Monitorable Output
1997-2000	Continue to plan for power generation capacity that will meet the growing industrial demand. Improve regularity of service and maintain reasonable price structure.	Power sufficient to meet demand. Absence of power interruptions.

Annex A

LIST OF INDIVIDUALS INTERVIEWED

Lic. J. Ricardo Curruchiche S. Director II
Department of Industrial and Agricultural Research
Bank of Guatemala

Lic. Willy Zapata Sagastume Director I
Department of Industrial and Agricultural Research
Bank of Guatemala

Lic. Carlos Rafael Tercero Muxi
Representative to CONACOEX
Bank of Guatemala

Ing. Agr. Rodolfo Estrada Hurtarte
Minister of Agriculture, Livestock and Food

Lic. Antonio Blanco Gomez
Vice Minister of Economy

Lic. Carlos Leiva Barrientos
Personal Advisor to the Minister of Economy for Foreign Trade

Lic. Juan Francisco Pinto C.
Vice Minister of Public Finance

Licda. Ana Patricia Peralta Azmitia
Advisor to the First Vice Minister
Ministry of Public Finance

Lic. Ariel Rivera Irias
Vice Minister of Foreign Relations

Licda. Maria del Carmen Mendoza D.
Director, International Economic Policy
Ministry of Foreign Relations

Charles A. Ford
Commercial Attache
Embassy of the United States in Guatemala

Dr. Tully R. Cornick
Agricultural Development Officer
U.S.A.I.D. Guatemala

Lic. Gustavo Chang
Director, Commercial Information Center
Non-Traditional Products Exporters Guild

Haroldo Zaldivar
Deputy Director
Non-Traditional Products Exporters Guild

Jandira Elias
Director, Promotions
Non-Traditional Products Exporters Guild

Arq. Mario Hugo Rosal Garcia
Manager
Technical Institute for Training and Productivity

Lic. Raul Navas O.
General Manager
Export Chamber of Guatemala

Susan D. Egli
General Manager
Guatemalan-American Chamber of Commerce

Josep Oromi-Mulet
Project Advisor
Enterprise Development Center AGG

Lic. Mauro S. Monterrosso X.
Legal Advisor
Chamber of Commerce of Guatemala

Juan Carlos Cheves
Executive Director
Guatemalan Development Foundation

Mario Barrutia Rodriguez
General Manager
Almacenadora Internacional, S.A.

Lic. Armando Boesche R.
General Manager
Association of Sugar Producers of Guatemala

Ing. Anthony M. Asturias
General Manager
IDS, S.A.

Claudio D. Manzolillo
General Manager
Amoco Guatemala Petroleum Company

Alvaro Colom C.
President
MEGATEX

Ing. M. Salvador Franco C.
General Manager
Seaboard Marine Ltd.

Ms. Alba America
International Trade Center
UNCTAD

Ing. Francisco Javier Godoy Arriaza
Viceministro de Comunicaciones
Transporte Y Obras Publicas

Alfredo Gil Spillari
Gerente
Consejo Nacional Del Algodon

Edgar Grisolia
Gerente General
Commercial Tropical, S.A., Cardacafe, S.A.

Lic. Jose Herrera Ovalle
Gerente
Gremial de Exportadores de Cardamomo

Edgar Grisolia Solano
Junta Directiva, VicePresidenta
Gremial de Exportadores de Cardamomo

Ing. Agr. Rodolfo Estrada Hurtarte
Ministro de Agricultura,
Ganaderia y Alimentacion
Guatemala, C.A.

Lic. Carlos Rafael Garcia
Jefe II, Seccion de Analisis de
Mercados y Comercio Exterior
Banco de Guatemala

Dr. Ubaldo F. Scavone Yodice
Director Tecnico
Laboratorios Catedral
and
Presidente
de la Union Industrial Paraguaya

Dr. Luis Roque Pomata
Secretario
Camara Paraguaya de Exportadores de
Cereales y Oleaginosas Capeco

Julio C. Gill Paleari
Vice Presidente y Gerente General
Citibank, N.A.

Dr. Derlis R. Esteche V.
Director General de Turismo
Ministerio de Obras Publicas y Comunicaciones

Helga Roche
Ejecutiva Comision de Fabricantes de Muebles
de Madera y Otras Manufacturas
Gremial de Exportadores de Productos no Tradicionales

Juan Alfredo Sandoval
Depto. Capacitacion y Asistencia Tecnica
Gremial de Exportadores de Productos no Tradicionales

Luis Fernando Valenzuela Mejia
Coordinador Ejecutivo Comision de Productos Manufactureros
Gremial de Exportadores de Productos no Tradicionales

Estuardo Castro
Coordinador Ejecutivo, Comision Productos Agricolas
Gremial de Exportadores de Productos no Tradicionales

Mario Antonio Garcia
Gerente, Division Productos de Hule, Plastico y Derivados
Incatecu, S.A.

Iris D. Matute A. de Reyes
Gerente Administrativo
Camara de Turismo de Guatemala

Ing. mario Rene Ortiz
Gerente
Asociacion Nacional del Cafe

Ing. Edwin A. Solares M.
Subgerente
Empresa Guatemalteca de Telecomunicaciones "Guatel"

Luis Rolando Giron E.
Director General de Aeronautica Civil
Aeropuerto Internacional

Ing. Guillermo A. Rodriguez Mahuad
Coordinador Area de Comercio Exterior
Camara Empresarial de Guatemala

J. Roderico Rossell A.
Presidente
Camara de Finanzas de Guatemala

Fernando Figueroa A.
Consultor de la Presidencia
Banco de Guatemala

Ing. Carlos Rubio
Gerente General
Servicios Jiversos S.A.

Lieda. Ana Patricia Peralta Azmitia
Asesora del Primer Viceministerio
Ministerio de Finanzas Publicas Guatemala C.A.

Mario Barrutia Rodriguez
Gerente General
Almacenadora Internacional

Annex B

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