



# **GUATEMALA**

## MOVING FORWARD

**BUILDING A CONSENSUS TOWARD  
JOB CREATION AND HIGHER  
INCOMES IN GUATEMALA**

Guatemala 2023



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# How the Covid-19 pandemic helped create a window of opportunity

By the end of 2020, as the Covid-19 pandemic was affecting the worldwide economy, the Municipality of Guatemala, together with its economic advisory body COINCIDE, enacted the Plan Santiago. It included a series of measures to mitigate the burden of the disease as well as a proposal to develop a plan toward the city's economic recovery. At the same time, the national government had recently enacted the country's economic recovery plan, showing that this was a priority across the board. While there were many low-hanging fruits available to get the Guatemalan economy back on track, the challenge toward fast economic growth required a clear roadmap, including efforts toward institutional and economic leapfrogging and a large political consensus to follow through with the plan. The concerns over the lasting effects of the pandemic on the Guatemalan economy created an opportunity to build a consensus toward this roadmap.

To this end, the Municipalidad de Guatemala, together with COINCIDE, and with the support of the Foundation for the Development of Guatemala (FUNDESA), a private sector foundation aiming to promote economic growth in the country, hired the consulting firm McKinsey & Co. with the goal of creating a roadmap toward the creation of 2.5 million jobs while increasing the average Guatemalan income by 60% by the year 2032. These goals are what started the project "Guatemala No Se Detiene" (Guatemala Moving Forward, or GMF).

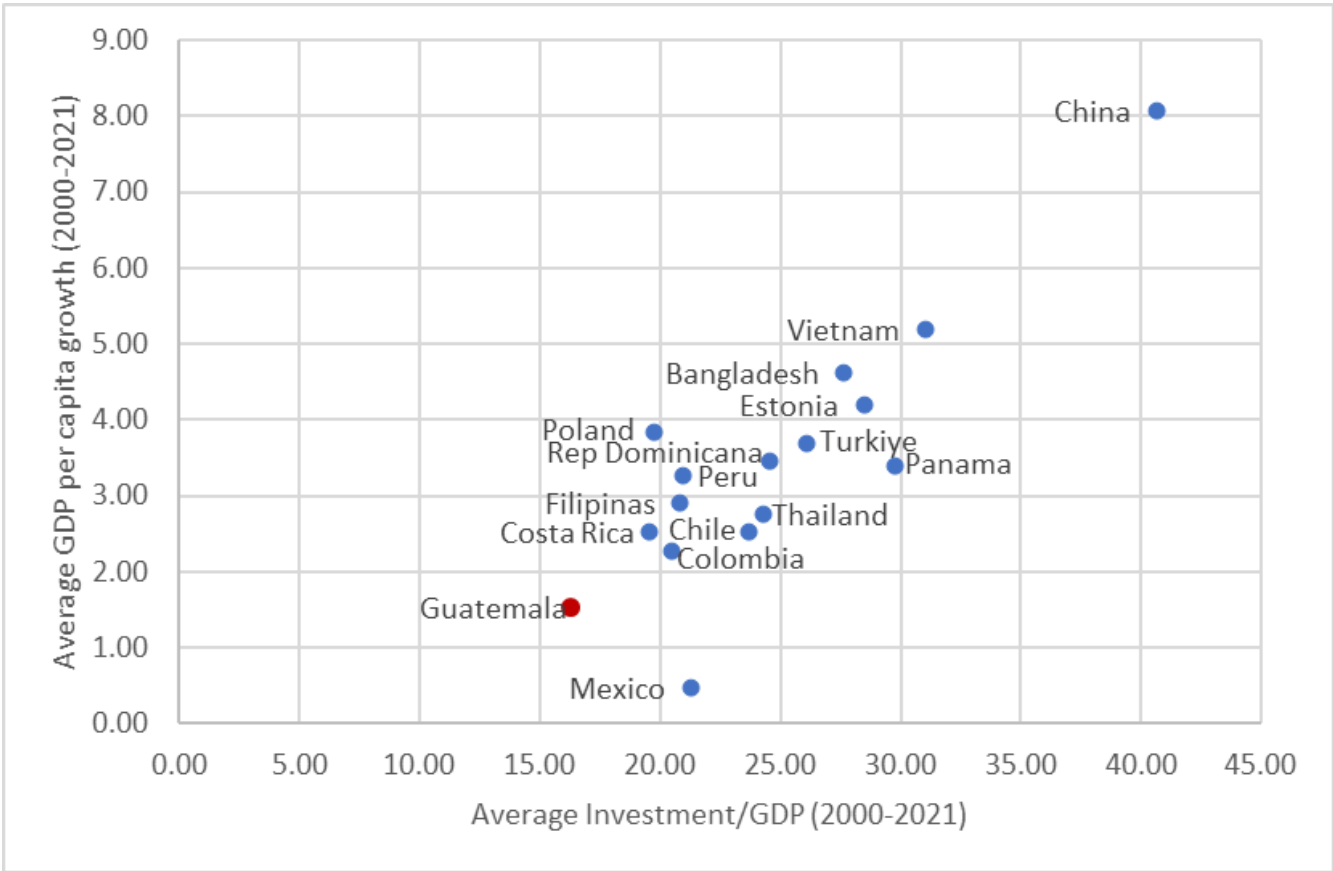
Guatemalan recent history has shown that these are no easy goals to achieve, especially by 2032. Why? Because in the last two decades the Guatemalan economy showed a reluctance to grow fast and to create abundant jobs. Even before COVID, formal job creation in the country only amounted to 25 to 29 thousand jobs per year -so, at its historical pace, it would take until 2105 to achieve the job goals. And regarding the income goal, considering the historical Guatemalan GDP per capita growth, the goal was not expected to be achieved until 2052.



To help the GMF roadmap achieve its goal, it took into consideration a series of domestic and international factors that provided avenues for growth:

1. While Guatemala has many institutional drawbacks affecting its economy, it is evident that a key reason the Guatemalan economy has been underperforming is its low investment levels. In the last decade, public and private investment averaged 15% of the economy. **Graph 1** portrays this clearly: Guatemala is lagging behind many other countries that, through higher levels of investment, have been able to increase their citizens' incomes in the last two decades: this is evident by looking at countries like Costa Rica, Panama, Estonia or Vietnam. An important driver why Guatemalan investment is so low is that its public sector investment is minor compared to other nations, as shown on Table 1. An obvious recommendation here is to help the public sector remove the constraints limiting its investment, particularly in infrastructure.

**Graph 1. Guatemala's economic growth lags due to its low investment efforts**



Sources: created using information from World Bank (2023)

**Table 1. Guatemala´s low investment efforts are mainly explained by its low public sector investment**

REGION / COUNTRY	PUBLIC SECTOR INVESTMENT & GDP
Guatemala	1.5%
Latin America and the Caribbean	2.8%
Sub-Saharan Africa	3.3%
Advanced economies	3.5%
Middle East and Central Asia	5.7%
Emerging Economies in Asia (China, Vietnam, Malaysia, Indonesia, etc.)	11.7%

Sources: created using information from ECLAC (2020)

2. An important economic opportunity has been opening to Guatemala as the trade conflict between the United States and China has been gathering steam. China had been able to become the “factory of the World” after it joined the World Trade Organization back in 2001. However, with time, it imposed challenges to many other nations as this translated to fewer jobs being created in the US -but also in Mexico and Guatemala, as explored in Box 1. This, in exchange, created increasing political pressure for the US to reconsider its trade concessions to China but also the limits of onshoring manufacturing: the US was no longer a profitable place for many industries. However, from a global value chain perspective, it still made sense for the US to promote the relocation of manufacturing factories to nearby countries more aligned to Western priorities and values, hence the term nearshoring or friendshoring. Here the recommendations involve continuing to improve Guatemala’s current export basket while also identifying and attracting companies that would allow Guatemala increase the sophistication of its manufacturing exports.

To implement the proposals identified by Guatemala Moving Forward to achieve these goals, the first step was to build a consensus: to get key actors on board with the plan. The plan required the buy in from more public and private sector institutions if it was to be enacted. The pandemic offered an important background at the time of getting more players on board: they were aware the situation had affected the Guatemalan economy even more profoundly than the 2007-2009 Global Financial Crisis. While the government had deployed socioeconomic relief at a scale never seen before, everyone was aware that the recovery was not going to be enough: Guatemala had too many socioeconomic challenges that needed solution that going back to “business as usual” was not an option.

The first effort was to sign an agreement to promote activities aiming to attract and retain foreign direct investment (FDI):

- Central government: Ministry of Economy; Ministry of Finance; Ministry of Foreign Affairs
- Other public sector entities: Central Bank; Municipality of Guatemala
- Private sector: Foundation for the Development of Guatemala (FUNDESA); Guatemalan Exporters Association (AGEXPORT).

This first GMF agreement, revolving around exports and investment, was followed by regular meetings aiming to share information and affirm the importance that certain policies be enacted. This was followed by three other have agreements that been key toward policy reform on: human capital, infrastructure, tourism and rule of law. This has taken Guatemala Moving Forward in a path to build a larger policy consensus, with an even larger array of public and private sector actors -as evident in **Image 1**.

This approach has proven fruitful. One example has been working with Fundación Sergio Paiz Andrade (Funsepa) through which a partnership with the online platform Platzi enabled to increase significantly the number of young Guatemalans benefited with a scholarship to study English, a useful skill to find a better paying job in many industries in the country. Another important private sector partnership has been with Agexport, as it enabled the creation of a private sector agency to help the Ministry of Economy to attract investors to the country. This effort was matched by the Municipalidad de Guatemala, creating its own unit to attract foreign investors to the City. Their joint effort has been useful to foreign investors as they feel more supported than what used to be the case in the years prior.

## Box 1. Five ways to understand the Guatemalan challenges to creating good jobs

*Good job creation has proven hard in Guatemala. Here we discuss five ways to understand this phenomenon.*

*First, an international trade approach tells us Guatemala cannot be immune to the same challenges faced by its neighbors, especially its main trade partner. In the last twenty years the US has faced wage declines for US workers linked to occupations particularly exposed to Chinese competition (Acemoglu et al. 2016; Pierce and Schott 2016). This affects Guatemala in two ways. First, the US is Guatemala's main trade partner, so diminishing US wages impact export growth. Second, any US jobs that could be outsourced to Guatemala could also be outsourced to China, so Chinese success attracting US factories compromised Guatemalan job creation. And, finally, more directly, any US job that had been outsourced to Guatemala (consider garment factory workers since the 1980's Caribbean Basin Initiative), could also be outsourced to China. This is how recent Chinese job creation success compromised both the US and Guatemala's job creation. Mexico provides important evidence to understand the impact of job losses due to Chinese competition. Mexico, like Guatemala, is highly dependent on US exports and also benefited from jobs outsourced from the US, until Chinese competition compromised this. Recent studies have shown that, not only are Mexican job losses caused by Chinese competition, but also that these job losses have been linked to drug trafficking and violence (Dell et al. 2019).*

*Second, a macroeconomic way to approach this phenomenon is by asking how much economic growth is required to increase the proportion of formal jobs by 10% (jobs covered by the social security). An analysis covering the years 1991-2017 showed it took an 18% economic growth for this to happen (CIEN, 2019). While this takes two years if you experience East-Asian-style economic growth rates, for Guatemala this takes an average of 5 years. This on itself is not so challenging until one realizes that social security coverage in Guatemala has been below 20% during the last decade, so reaching a 50% coverage would take close to five decades. If economic growth accelerates and if the structure of the economy favors job creation, the time needed could diminish considerably.*



*A third way is to look at the job numbers themselves and the wage evolution. The monthly minimum wage has gone up from US\$148 in 2002 to US\$367 in 2021. During this time, the number of Guatemalans earning the minimum wage or higher have gone from 2.8 million to 4.1 million. However, as a proportion of the labor force, the numbers have gone down, from 69 to 59%. So, while improvements have been taken place, they are not at the speed needed to overcome the socioeconomic challenges of Guatemala.*

*A fourth perspective is offered by looking at the distribution of jobs per sector. Abundant economic literature exists on how economic growth and income improve as workers move from the agricultural sector toward higher productivity sectors (see Kuznets, 1966; Herrendorf et al., 2005; McCaig, 2011; McCaig and Pavcnik, 2016; McMillan et al. 2016). In 2002, Guatemala still had 33% of its workers in agriculture. By 2021, it still had 27% of the labor force in this sector.*

*A final perspective has been the most publicized: is it estimated that 1.3 million Guatemalans live in the US, half, or more, as undocumented aliens. Unlike in El Salvador and Honduras, the main motive for Guatemalans to migrate is economic opportunities. Their absence in Guatemala has been felt, not only by the increasing number of broken families, but also by the considerable increase in remittances received, as they have gone from 7.8% of GDP in 2002 to 19% in 2022.*

Source: using information from INE (2002, 2021), IGSS (2022), Bolaños and Rivera (2017), Bolaños et al. (2023), and those referenced in the text.

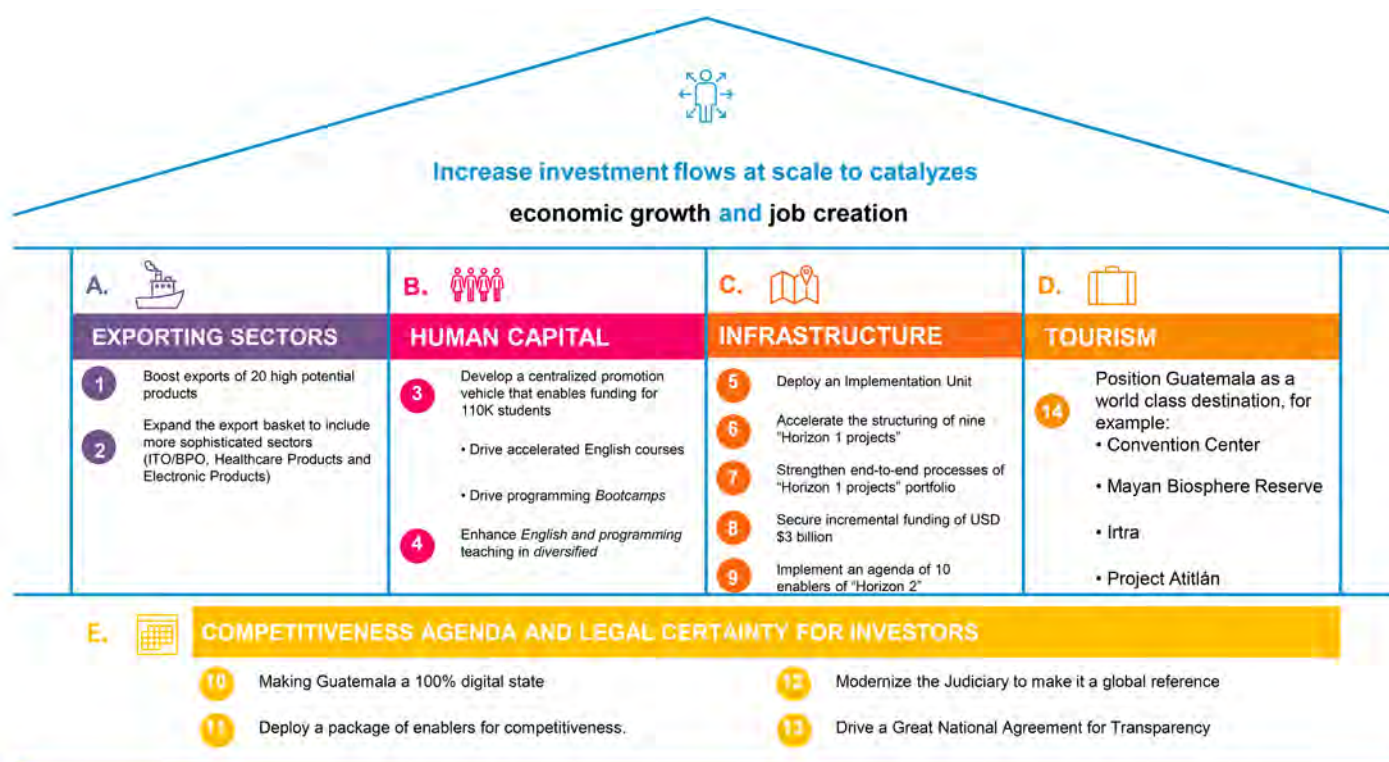
Image 1. Players currently supporting Guatemala Moving Forward



# The strategy

As shown in **Image 2**, Guatemala Moving Forward focuses on five different policy areas, each having policy priorities, low-hanging fruits, long-term reforms, and a roundtable with key players to move the agenda. What follows is a brief discussion of some of the challenges and proposed policy reforms in each of these areas:

Image 2. Guatemala Moving Forward Reform Agenda



## Exports and investment promotion

Guatemalan exports had been stagnant from 2010 to 2020, while FDI inflows dropped continually from 2015 to 2020. To tackle this, the Investment Attraction working group arose from a public-private agreement to articulate combined efforts to foster long-term economic growth and formal employment creation, with an emphasis on two strategies:

- “Continue doing what we have excelled at,” to transform Guatemala into a world-class participant in 20 industrial sectors that already compete in international markets and can develop and diversify further through an investment attraction plan for export promotion.
- “Leapfrogging towards more sophisticated sectors,” luring foreign investment by leveraging on the “nearshoring” trend in four key industries: pharmaceuticals, medical devices, electronic equipment manufacturing, and business services (BPOs, ITOs and KPOs). To do this, the private sector agency “Invest Guatemala” has been introducing potential investors to Guatemala’s competitive advantages and also helping confirmed investors to start their operations in the country.

### Box 2. Guatemala’s competitive advantages

*Guatemala offers competitive advantages to relocating your production closer to the most important markets:*

#### **Location**

*The country has access to both the Atlantic and Pacific oceans, enabling it to ship goods to both US coasts via ships, via trucks, and soon via train.*

#### **Market access**

*Producing from Guatemala allows your company to access to +1,500 million consumers through Free Trade Agreements with +45 countries, including the United States and the European Union.*

#### **Skilled labor**

*Guatemala has a very young workforce (50% of its population is under 35) and also the largest in the region. Universities and technical training facilities continue to grow and to adapt to business needs. It also has a lower total labor cost (minimum wage + fringe benefits) than Mexico and Costa Rica.*

### **Energy**

*The country offers the lowest costs in Central America; and more than 74% of its energy is generated from renewable sources.*

### **Telecommunications**

*Guatemala has access to submarine cables on both the Atlantic and Pacific oceans*

### **Political and macroeconomic stability**

*Since the 1990s, Guatemala has proven an example of political and macroeconomic stability in the Latin American region. While not immune to political disturbances their impact on the economy have been minimal.*

### **The largest Central American domestic market**

*As the country with the largest population and largest economy in the region, Guatemala is not only attractive as an export platform but also as a market in its own right.*

## **Human capital**

Guatemala has structural challenges on education. Workers only average 7 years of schooling and the quality of the education has been pointed out as a concern, affecting workers income and productivity (Eberhard-Ruiz, 2021; Fernandez-Corugedo et al, 2022). While efforts have been deployed since the end of the 1990s to tackle this situation and some success has been achieved (average schooling increased 2 years in the last two decades), Guatemala Moving Forward identified, considering some of the East Asian experience, that important benefits could be obtained from focusing on technical education, preparing young adults to work in more productive firms.

The Human Capital working group aims to create more than 110,000 new jobs in the country over the next five years mainly by focusing on expanding training on three areas: English, programming, and management skills. The working group was key in promoting a new government program that currently provides scholarships to more than 6 thousand young Guatemalans to study English, a highly demanded skill in the country. Thanks to this success, the working group was then able to attract private sector resources to provide other 21 thousand scholarships. For this year, two key efforts will be: a) to link the different scholarship programs to create a clear path to students to move from basic to advance English; and b) to improve the quality of the education provided.

## Infrastructure

As mentioned earlier, Guatemalan overall investment levels are low, and public sector investment is below its regional peers and well below high-growth countries. The main key component of public sector investment is infrastructure, so a working group was created to help the Guatemalan government overcome many of the obstacles that affect infrastructure delivery in the country. By tackling this, GMF expects a large improvement in the country's competitiveness, allowing businesses to really take advantage of their close location to the US by enabling them to respond fast and at a low cost to American consumers.

In previous years, financial resources had been identified as the main constraint (FUNDESA, 2017; CIEN, 2019). However, tax collection has increased in recent years as e-government reforms introduced by the tax authorities have eased the burden of paying taxes and of conducting tax audits. A second constraint was eventually lifted as Guatemala Moving Forward provided a framework to prioritize road construction: to increase the speed of goods coming from and going to the ports on both Oceans and to the main land customs with Mexico and El Salvador. This led to identifying 52 projects, with a capital expenditure, or Capex, of US\$6.5 billion, including roads, bridges, underpasses, etc (see Image 3).

What the working group has identified are two main challenges affecting infrastructure delivery: a) the public sector lacks the planning capacity, so many of the infrastructure projects lack all the necessary planning and feasibility studies; b) the public sector lacks many important delivery tools due to an obsolete legal framework, inadequate institutional arrangement, and its convoluted mechanisms for procurement, for expropriation, and for public-private partnership delivery. The goal of the working group is two-fold. In the short-term, to support the delivery of key infrastructure projects that the Guatemalan economy needs to continue growing. In the long-term, to promote mechanisms that help improve public sector planning capacity and to enact reforms to the infrastructure legal framework in the country.



## Tourism

The tourism industry is seen as an industry with large potential in Guatemala thanks to its Mayan heritage, its colonial architecture, its landscapes, and an increasing array of activities that have been developing in recent years, from sportfishing, and destination weddings to medical tourism. However, the same challenges faced by public sector infrastructure investment is faced by the tourism industry: the public sector has underprovided many key basic infrastructures needed to appeal to more sophisticated travelers.

This working group is the most recent one, created in 2022 so it is still in the process of consolidation. Among its main goals are: a) to modernize the institutional framework of tourism in the country, so it is currently working on a law proposal to this end; b) to introduce new tools to attract investors in this sector; and c) to promote specific support for two large scale projects, one involving the conservation of Mayan archaeological sites while developing an economic strategy for its sustainability, and another one aimed at attracting international conferences and events in Guatemala City.

Image 3.  
The 52 Projects currently  
supported by GMF



## Competitiveness and rule of law

In recent decades the World Bank's Doing Business project had emphasized the need to improve the Guatemalan legal framework to attract investors and to improve the business climate in the country. From slow administrative and judicial procedures to inadequate transparency and accountability mechanisms, the Guatemalan institutional setting requires a long-term reform agenda and quick wins to maintain the reform momentum.

The competitiveness and rule of law working group is pushing forward five different tactics:

- To make the Guatemalan public sector completely digital. Paper-based systems are slow, prone to corruption, to discretionary decisions while diminish the ability of the government to be responsive to citizens' differences. The goal is to start the digitization of the public sector by looking at the trail of permits foreign investors need to start creating jobs in the country.
- To modernize the judicial system. The resolution of conflicts via the judicial system is slow, as the Doing Business report used to show for contract enforcement and resolving insolvency. The working group's goal is to improve existing alternative resolution methods and introduce new ones that diminish the court's backlog. It is also important for the working group to improve the way the court manages itself, so e-justice is a key component of the reform agenda.
- To promote legal reforms to boost competitiveness and employment. The goal is to improve some legal frameworks that are currently limiting SMEs from creating more jobs, due to regulation that is too restrictive or due to the lack of clear and modern frameworks to create new markets.
- To promote a Grand National Agreement on Transparency. The goal is to build a large civil society agreement as a condition to push forward reforms needed to improve the public sector's transparency and control mechanism.
- To develop a civil society observatory to keep track of the efforts implemented.

## Early successes

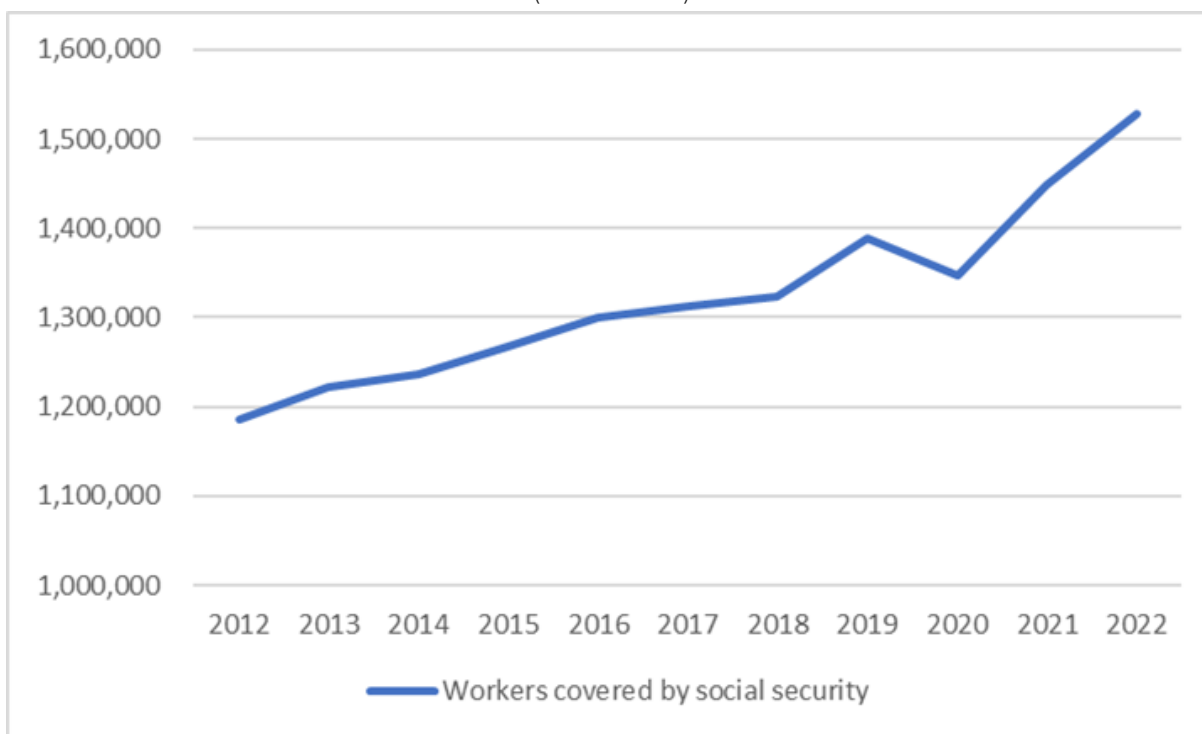
Since its inception, Guatemala Moving Forward has been able to create a pro-jobs and pro-growth policy momentum: these types of policies have found more support in the last three years than in the years prior. Among the policies enacted since its inception are the following:

- A central government scholarship program for English education started in 2022. The program, together with private sector support, provided scholarships to 27,000 young adults, increasing 17-times what had been done in years prior.
- Part-time job regulation was created, enabling companies to expand their job opportunities in the country.
- Design-Build was introduced as an infrastructure delivery method, starting with a new Guatemala City bridge expected to start construction this year. Besides this project, there are another 51 infrastructure projects that have been identified and prioritized due to their potential economic impact. These projects are subjected to regular monitoring aiming to guarantee their quality and to reduce their delivery time.
- A series of legal reforms were approved aiming to improve the country's competitiveness. A Leasing Act was approved aiming to increase access to credit to SMEs. A reform to the Free Trade Zones was enacted in 2021 to amend the 2016 reform that greatly affected Guatemala's efforts to attract FDI. And, finally, a new Insolvency Law, inspired by the US Chapter 11, was enacted as a way to overcome the concern that the bankruptcy procedures in Guatemala had been identified as one of its main weakness by the World Bank's Doing Business.
- E-government projects were implemented across the Executive and Judicial System after two new laws were enacted in 2021 to enable the streamlining and digitalization of administrative and judicial processes. One project that gathered steam thanks to this new legal framework is the Construction One-Stop-Shop, an online platform that has shown to reduce the average time it takes to obtain the government permit from 14 to 4 months, overcoming a weakness that had been identified previously by the World Bank's Doing Business. Currently, Guatemala Moving Forward is starting a project to help the Guatemalan Judicial System to implement the first Bankruptcy Court, which is expected to be an example of e-justice to the region.

- The FDI attraction strategy has proven successful. After six years of consecutive decay, FDI inflows started to increase again. The goal to recover 2015 levels was achieved and overtaken by 2021. Textiles, BPO and light-manufacturing companies are among the sectors coming to the country. Furthermore, Guatemala started to attract auto part manufacturers, with the first plant starting operations in February 2023.

Regarding the main goal of Guatemala Moving Forward, job creation, it is still too early to tell if the goal will be achieved. However, there are early signs that the project is on the right track -and the results are more surprising once one considers the Covid-19 pandemic effects. Graph 2 shows the workers covered by social security from 2012 to 2022. Three periods are worth noticing. First, from 2012 to 2019, it took nine years to create 203,202 jobs, an average of 29 thousand jobs per year. The second period, 2020, is marked by the Covid-19 pandemic, reducing the number of formal jobs by 41,863. Since then, in matter of two years, formal jobs creation has increased. It is not only above the pre-pandemic levels, but the average job creation has also accelerated considerably, going from 29 thousand jobs per year to 90 thousand jobs per year. This is a sign that efforts deployed by Guatemala Moving Forward, and the pro-jobs and pro-growth policy momentum, are seeing early success.

Graph 2. Guatemalan workers covered by social security (2012-2022)



Source: using information from IGSS (2022) and MINECO (2023).

FOR MORE  
INFORMATION



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## MOVING FORWARD

