

TRADE POLICY REVIEW

Report by

GUATEMALA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Guatemala is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Guatemala.

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I. INTRODUCTION

1. Since the last review, Guatemala's trade policy has continued to encourage the opening up of trade through the conclusion of international trade agreements.

2. The Government of Guatemala has set itself a number of objectives as part of the trade liberalization process, in particular: (a) to stimulate economic and social development by consolidating economic liberalization; (b) to move forward in the construction of an open economy; (c) to create a stable legal framework for the promotion and development of investment; (d) to introduce mechanisms to prevent the application of unilateral and discretionary measures that affect trade flows; (e) to foster cooperation between countries, partly through the implementation of specific projects in priority areas for development.

3. This report is divided into two sections. The first discusses Guatemala's trade and economic policy environment, while the second addresses trade policy, beginning with Guatemala's integration into the multilateral trading system and then going on to discuss the negotiation and conclusion of trade agreements to date.

II. ECONOMIC AND TRADE POLICY ENVIRONMENT

(1) CHANGES IN THE ECONOMIC ENVIRONMENT

4. Macroeconomic indicators in Guatemala have clearly improved since the last trade policy review. After achieving a growth rate of 3.9 per cent in 2002, the national economy slowed down somewhat in 2003 owing to the low price of certain export products, the rise in oil prices and the uncertainty surrounding the electoral process. Beginning in 2004, however, thanks to a combination of favourable external conditions, monetary and fiscal discipline, and a positive reaction of economic operators, the economy began a steady process of recovery which lasted until 2007. The average annual GDP growth rate in real terms went from 2.5 per cent in 2003 to 5.7 per cent in 2007, the highest in 18 years. It is significant that for the fourth consecutive year, the GDP growth rate exceeded the annual population growth rate of 2.5 per cent. According to the revised estimates of the Central Bank, the economy should grow by 4.3 in 2008 in spite of the slowdown in world economic growth.

5. Over the past few years the economy has tended to lean more and more towards the services sector. In real terms, between 2002 and 2007 the value of services grew at an average annual rate of 5.1 per cent, with the result that its share in GDP increased from 56.5 per cent to 59.6 per cent, making it the most dynamic sector of the economy during that period. Meanwhile, the agriculture, livestock, hunting, forestry and fisheries sector grew at an average annual rate of 2.7 per cent, with the result that its share of GDP fell from 14.1 per cent in 2002 to 13.3 per cent in 2007. The manufacturing industry followed the same trend: with an average annual growth rate of 3.3 per cent, its share of GDP decreased from 19.2 per cent to 18.5 per cent.

6. As regards investment, gross fixed capital information, after recording a 9.3 per cent rise in 2002, fell by 3.1 per cent in 2003 and 0.5 per cent in 2004. However, in 2005 it began to rise again, reaching 4.3 per cent that year and peaking in 2006 at 16.7 per cent before falling back to 8.9 per cent in 2007.

7. From 2002 to 2007, the annual rate of inflation fluctuated between 9.23 per cent (2004) and 5.79 per cent (2006). In 2007, owing in particular to the surge in the international prices of oil, maize and wheat, inflation reached 8.75 per cent. Nor has Guatemala been spared the inflationist trend that

affected most countries in 2008: year on year inflation, which stood at 8.39 per cent in January, reached a peak in July at 14.16 per cent before subsiding to 13.69 per cent in August and 12.75 per cent in September.

8. In the macroeconomic policy area, the basic objective of the Central Bank is to contribute to the creation and maintenance of an environment conducive to the orderly development of the national economy, which means favouring monetary, exchange and credit conditions that promote general price stability. Accordingly, monetary policy has been implemented with a view to developing a system of explicit inflation targets based on the selection of the inflation target as the policy's nominal anchor and backed up by a flexible nominal exchange rate regime, using indirect monetary control instruments (monetary stabilization operations that favour market decisions), as well as enhanced transparency in Central Bank activities.

9. Over the past few years, the growth in economic activity has essentially relied on the maintenance of macro economic stability and the implantation of a prudent monetary policy backed by a policy of fiscal discipline, helping to create an environment of confidence for economic operators.

10. Guatemala adopted a flexible exchange rate system consistent with a monetary model involving explicit inflation targets, in which any intervention by the Bank of Guatemala in the exchange rate market is based on rules that are explicit, transparent and comprehensible to the markets, thus putting an end to the discretionary nature of such interventions and minimizing the volatility and uncertainty surrounding exchange rate developments. The nominal exchange rate has shown little variation since 2000 although it has tended to appreciate more since 2004 than in previous years.

11. As regards foreign trade, over the past six years goods exports accounted on average for 20.3 per cent of GDP, while the share of goods and services exports remained at approximately 26.2 per cent. Meanwhile, the goods imports/GDP ratio averaged 38.8 per cent, while the goods and services imports/GDP ratio stood at 40.2 per cent.

12. The total value of exports between 2002 and 2007 grew at an annual average rate of 10.7 per cent. Agricultural exports registered an average annual increase of 13.2 per cent; manufactured products, 8.3 per cent; and minerals, 26.7 per cent, the latter stimulated by the mining of precious metals, which began to acquire more momentum as from 2006.

13. In 2007, the value of exports grew at an increasing rate during the first five months of the year, and in May even exceeded by 29.1 per cent the value for the same period in 2006. In December 2007, the value of exports reached a total of US\$6,925,700,000, i.e. US\$912,900,000 (15.2 per cent) more than the value reached during the same period in 2006 and 55 per cent higher than the value for 2003. What was decisive for the 2007 results was the good performance of sugar, banana, coffee, cardamom, and oil exports which, taken together, grew by 26.2 per cent; exports to the Central American Common Market, which grew by 19.3 per cent; and to a lesser extent, non-traditional products, which increased by 8.4 per cent.

14. Accounting for 28.3 per cent of total exports in 2007, the Central American Common Market consolidated its position as one of the main engines of growth in Guatemala's foreign trade. A little more than one-third of the growth in total exports was due to the excellent performance of sales to other countries in the region, which grew from US\$1,664,100,000 in 2006 to US\$1,961,100,000 in 2007, an increase of US\$316.9 million (19.3 per cent) over the previous year. With the exception of records, matrices and tapes, and tyres and inner tubes of rubber, the main export categories recorded a

significant growth, particularly metal products (48.5 per cent); chemical products (23.5 per cent); articles of clothing (25.4 per cent); food products (21.4 per cent); fruit and preparations thereof (20 per cent); construction materials (17 per cent); textiles and yarns (15.6 per cent); plastic articles (11.1 per cent); and cosmetics (7.7 per cent).

15. Turning to non-traditional products, in 2007 their value reached US\$3,331,600,000, 8.4 per cent (US\$257,300,000) higher than in 2006. The main heading in this group of products, clothing articles (19.4 per cent of total exports and 40 per cent of non-traditional exports), was adversely affected by the liberalization of the world textiles market, which had a negative impact on the related foreign exchange earnings, particularly in the case of exports to the United States (97.4 per cent of the market) where demand was down by 8.8 per cent, representing a decrease of US\$173.5 million. On the other hand, with only a few exceptions, exports of other non-traditional products performed dynamically, with glass products taking the lead (78.4 per cent growth) followed by metal products (72.2 per cent); minerals (68.5 per cent); fruit and preparations thereof (45.8 per cent); wood and articles thereof (42.6 per cent); food products (37.9 per cent); natural rubber (32.2 per cent); vegetables (32.1 per cent); and shrimps, fish and lobster (21.9 per cent).

16. Over the last six years, the country's export structure has undergone a number of integration-related changes. In 2002, exports of agricultural products accounted for 21.9 per cent of the total, while manufactured goods represented 72.8 per cent, and minerals 5.2 per cent. In 2007, agricultural exports accounted for 24.3 per cent of the total, while manufactured goods represented 65.4 per cent, and minerals the remaining 10.3 per cent.

17. In a broader sense, 2007 saw further changes in the structure of exports with respect to the same period in 2006. In the case of the leading products (sugar, bananas, coffee, cardamom and oil), thanks to the surge in exports of the first four, the five together reached 23.6 per cent of total exports, as compared to 21.6 per cent for the same period in 2006. The clothing articles sector went from 25.2 per cent of the total to 19.4 per cent, while sales to the Central American Common Market went from 27.3 per cent in 2006 to 28.3 per cent in 2007. Meanwhile, non-traditional products (not counting clothing) gained more ground, reaching 28.7 per cent of total exports in 2007 as compared to 25.9 per cent in 2006.

18. The value of imports, for their part, grew at an average annual rate of 12.1 per cent: imports of agricultural products at 12.3 per cent and of manufactured products at 9.6 per cent, while mineral, imports, under the influence of the considerable increase in the price of fuels and lubricants, grew at a rate of 23.4 per cent.

19. During 2007, the value of imports reached US\$13,578,100,000, up by 14 per cent from the previous year. The main agricultural imports (3.8 per cent of the total) were maize (US\$150,100,000) and wheat (US\$138,900,000), which together accounted for 56.6 per cent of that category. Among the imports of manufactured goods (72.9 per cent of the total value), the most significant categories were: vehicles and transport equipment (US\$990 million); machinery and mechanical equipment for electro-technical use (US\$989.8 million); textiles and fabrics (US\$914 million); plastic materials and articles thereof (US\$614.3 million); various products of the chemical industry (US\$402.5 million); pharmaceutical products (US\$332.1 million); and paper and cardboard products (US\$296 million). As regards mining products (23.3 per cent of the total value of imports) the main categories were fuels and lubricants (US\$2,421,500,000); iron and steel (US\$478.5 million); and aluminium (US\$123.8 million).

20. Services exports, for their part, have grown steadily over the past seven years, and have played a fundamental role in Guatemala's economic development. Among the main sectors involved were tourism, transport, insurance, and other business services. In 2007, services exports reached a peak for the past few years at US\$2,258,600,000. With services imports totalling US\$921.6 million that year, the services trade balance showed a surplus.

21. One of the main weaknesses affecting Guatemala's foreign trade over the years has been the persistently high trade deficit. This situation has resurfaced in the past seven years, during which the trade balance deficit grew by 90.2 per cent from US\$3,496,700,000 in 2002 to US\$6,652,400,000 in 2007, when it accounted for 19.8 per cent of GDP.

22. The trade balance in 2007 showed a deficit of US\$6,652,400,000, US\$758.7 million (12.9 per cent) higher than the previous year. The balance of trade in goods with the different partners, according to trade relations with the country or economic influence, was as follows: (a) countries with which Guatemala has concluded free trade agreements, a deficit of US\$2,470,000,000; (b) Central America, a surplus of US\$574.8 million; (c) countries with which Guatemala has partial scope agreements, a surplus of US\$46.5 million; (d) countries with which free trade agreements are currently being negotiated or are reviewed by the Legislature, a deficit of US\$1,327,800,000; (e) countries of Asia (China, South Korea, Hong Kong, Japan, Indonesia, Malaysia, Singapore and Thailand), a deficit of US\$1,681,500,000; (f) CARICOM (except Belize), a deficit of US\$56.7 million; and (g) the rest of the world, a deficit of US\$1,794,400,000.

23. The balance of payments current account balance increased by 37.4 per cent from US\$1,234,900,000 in 2002 to US\$1,696,900,000 in 2007.

24. As regards the performance of foreign trade during the first six months of 2008, generally speaking, and in spite of the prevailing uncertainty on international markets, exports, while slowing down considerably with respect to the exceptional growth recorded during the first half of 2007, nevertheless performed well, particularly in view of the cooling off of the global economy. In comparison to the first six months of 2007, the value of exports of the main products increased by 9.6 per cent: exports to Central America rose by an impressive 22.6 per cent, while exports of non-traditional products rose by 9.2 per cent, together producing a figure of 12.9 per cent for the total value of exports.

25. At the end of June, the value of exports had increased by US\$455.9 million, reaching US\$3,996,300,000 as compared to US\$3,540,400,000 in 2007. Close to 80 per cent of the increase was due to the 22.6 per cent surge in sales to the Central American Common Market, and the 9.2 per cent increase in sales of non-traditional products. Meanwhile, the value of core product exports, which represented 26.5 per cent of the total, reached US\$1,060,800,000, 9.6 per cent higher than in the first half of 2007. Here, the revenue generated by coffee, oil and cardamom were decisive, since the price and volume of sugar decreased as well as the volume of bananas, cardamom and oil.

26. The c.i.f. value of imports reached US\$7,482,000,000, i.e. US\$1,082,600,000 or 16.9 per cent higher than the figure for the first half of 2007. Imports grew at a faster rate during the first half of 2008 than the 12.7 per cent recorded for the first half of 2007, owing largely to the higher oil bill.

27. With US\$3,996,000,000 worth of exports and US\$7,482,100,000 of imports, Guatemala's trade balance halfway through 2008 showed a deficit of US\$3,485,800,000, 26.9 per cent higher than a year earlier. Among the different categories of trading partners, the countries with which Guatemala has concluded free trade agreements accounted for 33.5 per cent of the deficit; the countries with which it has partial scope agreements accounted for 1.9 per cent; the countries with which trade

agreements were awaiting approval by the Congress of the Republic or were currently being negotiated for 10.5 per cent; and the rest of the world, for 35.3 per cent.

28. Regarding the fight against poverty, the Living Standard Measurement Survey (*Encuesta de Condiciones de Vida* – ENCOVI 2006) provided positive data showing that poverty had decreased from 56 to 51 per cent of the population over the past six years, i.e. at a faster rate than during previous periods. The decline in poverty in rural areas was markedly faster than the national average, reaching 10 per cent for the period 2000-2006. However, the rural poverty index remained very high (71.7 per cent), the worst affected being indigenous population. Unfortunately, it is highly likely that this year, with the high prices of food and oil derivatives, poverty will have worsened.

29. One of the government's leading social investment schemes provides for short-, medium- and long-term projects. The programmes currently being implemented target areas such as health, education, security, rural roads, agro-industrial development, and rural development.

30. The government has focussed its action on 41 municipalities most severely affected by extreme poverty and poverty. According to official estimates, this covers 98 municipalities to which rural development projects are to be extended. The government has set itself improved poverty index targets and hopes to reduce these indices significantly over the next four years. By 2011, the current poverty indices of 51 per cent for the total population with 15.2 per cent extreme poverty, should be reduced to 40.5 per cent and 10.5 per cent respectively, bringing the Human Development Index down from 113 to 85.

31. At the same time, the government launched the National Integral Sustainable Development Plan which aims to coordinate and integrate government policies to produce a State social action plan that is fully coherent and has a social impact. This means promoting integral, coherent and consistent development, which goes hand in hand with the further mobilization and application of social, human, material and knowledge resources, taking account of the individual and collective aspirations of human beings within the framework of their culture, their ambitions and their possibilities. Essentially, the policies of a democratic country must seek to achieve the best possible quality of life and well-being for the population.

32. Among the national and international challenges facing Guatemala, special attention is being given to improving the quality of education and access to lifelong vocational training: to job creation; to rescuing and preserving the environment and respecting biological and cultural diversity; to developing a policy of leadership in international relations so as to avoid, as far as possible, economic, social and territorial imbalances and greater concentration of wealth; to improving hygiene and security, wages, and recreation and housing for workers in urban and rural areas; and to enhancing the welfare of the population with special emphasis on the most vulnerable groups.

(2) OPENING UP OF THE ECONOMY

(i) Central American Regulations on the Valuation of Goods for Customs Purposes, Resolution 115-2004

33. On 28 June 2004, the Council of Ministers for Central American Economic Integration (COMIECO) issued Resolution No. 115-2004 approving the Central American Regulations on the Valuation of Goods for Customs Purposes, which came into effect 30 days later. These Regulations contain provisions referring to the Agreement on Implementation of Article VII of the GATT 1994 in compliance with the commitment of the five States parties to the Economic Integration Sub-System as Members of the WTO.

34. On 25 April 2008, COMIECO issued Resolution No. 225-2008 (COMIECO-XLIX) approving the Regulations to the Central American Uniform Customs Code (RECAUCA), which include the totality of the provisions contained in the Central American Regulations on the Valuation of Goods for Customs Purposes of 2004. We note that RECAUCA entered into force for Guatemala, El Salvador, Honduras and Nicaragua on 25 August 2008.

(ii) Consumer and User Protection Law, Decree No. 6-2003

35. This law was issued on 18 February 2003 and entered into force on 26 March 2003 with a view to promoting, publicizing and protecting the rights of consumers and users and to establishing the offences, penalties and procedures that apply in this field. The provisions of this law provide protection for consumers and users and constitute a minimum standard of inalienable social and public rights and guarantees.

36. Its Regulations, which entered into force on 18 December 2003, are set forth in Government Decision No. 777-2003. They develop the provisions of the Law with a view to regulating the administrative structure and functioning of the Department for Consumer Affairs (DIACO), which is the administrative unit responsible for enforcing the said Law.

37. DIACO is an operationally and technically independent department of the Ministry of the Economy responsible throughout the country for enforcing the Law and its Regulations, subject to such responsibilities as may fall to the courts of justice.

38. The procedure for handling and settling complaints filed by consumers and users in disputes with suppliers has been certified under Standard ISO 9001, since 12 December 2007.

(iii) Government Procurement and Purchasing Information System (GUATECOMPRAS), Resolution No. 100

39. The legislation governing the use of the Government Procurement and Purchasing Information System was drafted on the basis of the precepts set forth in the Constitution of the Republic of Guatemala as well as the Law on Government Procurement, the Regulations thereto and other applicable legal instruments.

40. The above Resolution aims to establish the dates, rules, procedures and technical security and responsibility aspects governing the initiation, development and use of GUATECOMPRAS.

41. Users of GUATECOMPRAS would typically be buyers, suppliers, civil society and monitoring bodies, as a means of managing and following up ongoing government procurement procedures conducted by public institutions. Any user may also consult the system as regards contracts that are classified as having been finalized.

(iv) Law on the Recognition of Electronic Communications and Signatures, Decree No. 47-2008

42. On 23 September 2008, after approximately five years of discussion both in Congress and in the different government institutions, Decree of the Congress of the Republic of Guatemala No. 47-2008 introducing the Law on the Recognition of Electronic Communications and Signatures in Guatemala was published in the *Diario de Centroamérica* (Official Journal). This Law is now in force, and provides for the legal recognition of electronic communications except as regards Guatemala's obligations under international agreements or treaties, and warnings which by their nature need to be printed. It also paves the way for electronic signatures, addressing their legal,

administrative and commercial effects and providing for the creation of a government office responsible for the administration and control of all domestic and foreign firms that wish to offer their services in issuing electronic signature certificates, thereby in turn preparing the ground for a new kind of commerce that goes hand in hand with globalization, electronic commerce, and enhancing the country's participation in the dynamics and the benefits of free economic and social development, modernization of economic processes without any artificial barriers or impediments, and sustainable and equitable integration in the flow of world progress.

(v) Law on Access to Public Information, Decree No. 57-2008

43. The Law on access to public information is a legal instrument that is considered to be of national interest, drawn up in strict conformity with the precepts of the Constitution of the Republic of Guatemala and of the various international instruments relating to the right of citizens to free access to public information, in particular the Universal Declaration of Human Rights (Article 19), the American Convention on Human Rights (Article 13) and the International Pact on Civil and Political Rights (Article 19).

44. This Law is based on the principles of equality, public disclosure of acts, promptness, exemption from payment and simplicity. It contains a number of positive elements for the government of Guatemala: (a) strengthening of the institutional structure; (b) strengthening of the rule of law; (c) strengthening of human rights; (d) transparency of administrative acts; (e) effective participation of the population in the monitoring and control of public acts; (f) guaranteed protection of personal information in the possession of those concerned and proper use of such information.

45. This legal instrument is not only a social audit tool, it also contains a number of implicit positive elements that enable the population to be aware of the government's actions and of its determination to ensure greater transparency.

(3) MARKET ACCESS

46. Guatemala has an open trade policy. It respects the principles of national treatment and most-favoured-treatment without discrimination. Both principles apply in respect of market access for goods as well as for services and investment.

47. Its technical standards and sanitary and phytosanitary measures are consistent with the principles laid down in the WTO Agreements. All of the measures serve the legitimate objectives of protection of human, animal and plant health and life.

48. On the subject of tariff levels, it should be recalled that since 1997, Guatemala, as a part of the Central American Economic Integration Sub-System, has had a common tariff policy with Central America under which a vast majority of applied tariffs are below 15 per cent. The average applied tariff is 7 per cent. The degree of tariff harmonization with Central America exceeds 94 per cent.

49. The average WTO bound tariff is 40 per cent.

50. As regards internal taxes, Guatemala applies a value added tax (VAT) of 12 per cent to all products.

(i) International Trade Negotiations

51. Since 1986, Guatemala has had an integrated foreign trade policy aimed at promoting competitiveness and foreign trade as a means to contributing to the country's economic and social development.

52. This policy was reviewed and updated in the mid-1990s, and now has two main focuses:

- (a) Development of competitiveness with emphasis on increased productivity;
- (b) opening up of trade with a view to promoting access to new markets and ensuring compliance with such trade instruments as the free trade agreements, in particular by:
 - 1. Speeding up the negotiation of such agreements;
 - 2. ensuring the efficient and effective administration of agreements already in force.

53. Thus, 1996 marked the beginning of a new era dominated by the search for new markets for Guatemala's exportable supply through the negotiated opening up of trade. Since that time, Guatemala has completed negotiations and concluded free trade agreements with Mexico, the Dominican Republic, Chinese Taipei, and the United States (DR-CAFTA).

54. Agreements have also been concluded with Colombia, Chile, Panama and Belize, and are currently in the process of ratification. The first of these cases involved joint negotiations with El Salvador and Honduras, while in the next two cases negotiations were conducted with the rest of Central America. The agreement with the United States was negotiated bilaterally.

55. In order to establish its negotiating fronts, Guatemala, in keeping with its integrated foreign trade policy, has a national negotiating agenda which it periodically reviews and updates.

56. This agenda is developed on the basis of trade, strategic and political objectives, and involves reaching a consensus among the different production sectors and government departments.

57. Guatemala's priority in these negotiations remains the WTO multilateral negotiations and the regional integration negotiations with the rest of Central America, with which it is currently seeking to establish a customs union.

58. In keeping with this regional integration objective, Guatemala has sought as far as possible, in its negotiations, to form a bloc with the countries of the region. It is currently negotiating a free trade agreement with the European Union in association with the rest of Central America. Together with El Salvador, Honduras and Nicaragua, it is also in the process of completing negotiations with Canada, and with those same countries and Panama, it is initiating negotiations with CARICOM.

(ii) Administration of Trade Agreements

59. The Directorate for the Administration of Foreign Trade (DACE) is responsible for administering Guatemala's international trade agreements and deriving the greatest possible benefit from them. Its functions are determined by the country's foreign policy, the aim being to take full advantage of the opportunities offered by globalization in accordance with the Government's guidelines for the period 2008-2012.

60. The DACE was created under Article 15 of Government Decision No. 182-2000, the Internal Institutional Regulations of the Ministry of the Economy of 12 May 2000, published in the *Diario de Centroamérica* (Official Journal) of 18 May 2000.

61. Its main functions include the following:

- (a) Establish proceedings for the implementation of trade agreements and treaties to which Guatemala is a party; (b) to promote the harmonization of laws to make it easier to comply with the commitments made and to exercise the rights deriving from the trade agreements in force; (c) to guide domestic producers with respect to the proper application of trade regulations; (d) to coordinate inter-institutional and intersectoral consultations on the implementation of the trade agreements in force; (e) to proposing tariff modifications in defence of national interests or in compliance with agreements and treaties; (f) to help update and disseminate information on the various trade agreements; (g) to administer and provide advice on tariff quotas and other such mechanisms.

62. It should be noted that the DACE is the only Central American government entity responsible for administering trade agreements that is certified under standard ISO 9001:2000.

(iii) Promotion of Trade

63. According to Article 14 of its Internal Regulations, the Ministry of the Economy's main functions include promoting the exportation of its national products. Accordingly, since 2006 it has been implementing a trade promotion strategy that includes training, recourse to outward selling trade missions, support for participation in international trade fairs, etc.

64. With a view to providing support to the entire organized business sector, the Ministry of the Economy issued Ministerial Decision No. 258-07 of 10 July 2007 creating the National Trade Promotion Committee comprising the public sector (Ministry of the Economy) and the private sector. Its purpose is to devise, implement and evaluate the annual national trade promotion plan.

65. The training programme includes general knowledge of the target market, business opportunities for Guatemalan companies, and the required customs procedures for access to each market. This information is supplemented with presentations on the free trade agreements and partial scope agreements signed by Guatemala or currently being negotiated. The training programme's set objectives are being achieved thanks in part to the help of the DACE and the Directorate for Economic Analysis, but above all thanks to the participation of international experts thoroughly versed in these areas. There were a total of 2,909 such participants during the period from 2006 to 2008.

66. Meanwhile, 196 firms participated in 31 outward selling trade missions under the trade promotion programme from 2006 to October 2008, with US\$100,496,075 worth of business expected. This has unquestionably contributed to the 14.6 per cent growth of exports between 2006 and 2007.

67. With regard to participation in international trade fairs, the Ministry of the Economy has provided support to 50 Guatemalan firms which exhibited in 13 international fairs chiefly relating to the most developed production sectors. This support was provided through the Guatemalan Exporters' Association (AGEXPORT), the Guatemalan Chambers of Commerce and Industry, and the ornamental plants and manufacturing clusters.

(4) PROMOTION OF COMPETITIVENESS

(i) Export Situation

68. Economic openness and globalization have brought significant changes to Guatemala's external sector, particularly in the structure of its foreign trade, and specifically its exports.

69. As a result of this process, at the end of 2007 the total value of exports reached US\$6,925,000,000, signifying a growth rate of 16.5 per cent. Exports of the main products were up by 27 per cent, while exports of new products to Central America increased by 19.3 per cent, and to the rest of the world, by 8.4 per cent.

70. By August 2008, growth in total exports had reached 15 per cent, with the implicit creation of one million jobs.

71. Certain export sectors performed particularly dynamically during this period, for example manufactured products, particularly processed foods, which reached US\$392 million, 20 per cent higher than in 2007, and chemical products, which reached US\$577 million or 41 per cent higher than in 2007. Shrimp and fish exports grew by 47 per cent, while agricultural products, as part of the agro-industrial chain, continued their growth trend. The value of vegetable exports as well as fruit exports grew at a rate of 19 per cent, while wood and articles thereof grew at 7 per cent. Other export sectors grew more modestly, and only one sector, textiles and clothing, produced a slightly negative result with a 2.5 per cent decline.

72. Guatemala has a variety of export destinations. According to data for 2007, Guatemalan products could be found in more than 139 countries. However, outward trade flows continued to focus on the United States (43 per cent) and Central America (24 per cent), followed by the European Union (6 per cent), Mexico (5 per cent) and others (22 per cent).

73. At the same time, in view of the strong trend towards services exports as a means of establishing a position in the world market, Guatemala launched a services export strategy at the beginning of 2007.

74. As a result, Guatemala is now exporting certain services. Leading the way are call centres and software. There is also a group which provides laboratory services for exportation, sustainable tourism services, very recently joined by the health and wellness tourism sector covering traditional medicine (medicine, dentistry, nutrition, reproductive medicine, etc.), alternative medicine (therapists, physiotherapists, naturopaths, etc.), tourism (hotels, tour operators, travel agencies), and spas (beauty treatment, facials, massages, etc.).

(ii) Elements Helping to Stimulate Exports

75. Faced with the increasingly rapid opening up of the economy, the export sectors have come up with the answer.

76. For example, the manufacturing sector has opted for higher value added products and more competitive products, and has decided to take advantage of natural markets such as Mexico. Sales of furniture and wood products to the Central American market are rapidly expanding, designs are diversifying, and higher value added and better quality products are being sold to the rest of the world. Shrimp exports are stimulated by the new domestic demand from the farmed shrimp industry which is benefiting from new technology and good farming practices. Higher value added agricultural products are now exported, and they are gradually adjusting to international sanitary and

phytosanitary measures. The crafts sector is working to design new products, to provide training and technical assistance, and to improve productivity and enhance its presence in markets such as Europe. In short, all of the export sectors are aiming to increase their productivity as the key factor in boosting their international competitiveness. Sectors which have recorded the slowest growth have encountered highly specialized global competition, for example the textiles and clothing sector, which is developing new strategies to diversify market niches and ensure rapid response in today's markets, using the country's advantages such as its proximity to the United States market and its membership in the DR-CAFTA free trade agreement.

77. Efforts are being made to consolidate services exports through certification programmes, the creation of specialized free zones, the teaching of English as a key to its expansion, training programmes for middle and upper management, and an aggressive trade promotion programme.

78. Each one of the sectors has a growth strategy for the next few years which requires public and private sector cooperation as well as the following public policy inputs:

- Promotion of rural development through agricultural and non-agricultural activities, rural free zones and services;
- flexibility in labour relations in keeping with the requirements of the world market;
- strategy to lower electricity costs;
- strategy to lower transport costs;
- continued efforts to modernize and enhance the transparency of customs;
- programmes for exporting SMEs;
- national quality and certification systems;
- attraction of investment;
- expansion of the programme of government trade representatives abroad;
- trade promotion;
- optimum use of free trade agreements and expansion of markets.

79. Among the tools used by the export sector to stimulate its activities consists of programmes to promote exports in Guatemala, which have proved a valuable means of attracting domestic and foreign investment, boosting exports and generating employment.

80. Guatemala has two programmes: the Law on the Promotion and Development of Export and *Maquila* Activities (Decree No. 29-89) and the Free Zones Law (Decree No. 65-89).

(iii) Export Regimes

81. If it is to continue to develop an integrated foreign trade policy, Guatemala needs to further decentralize its industry and generate sufficient economic growth, but creating a larger supply of qualified labour within the national conglomerate and developing a diversified industry that would enable it to offer highly competitive products, expanding its export destination markets, relying on the coordination of the production sectors and the government, and ensuring technology transfer achievable by providing incentives on the basis of the promotion laws already existing in the country.

82. A number of legal instruments have been enacted to that end, for example Decree No. 29-89 of the Congress of the Republic and its regulations and amendments, and the Law on Free Zones, Decree No. 65-89 and its regulations. Thanks to these instruments, jobs have been created and industrial zones set up, and it has been possible to develop the so-called "*verdes*" ("green" projects) – agro-industrial projects such as fruit, flour and fern, and seed plantations which have helped

Guatemala to penetrate the United States and European markets, providing domestic and foreign investors with an incentive to continue in that direction, thereby helping to a certain extent to restore the trade balance and the balance of payments.

Law on the Promotion and Development of Export and *Maquila* Activities

83. Under this law, clothing articles have reached some 33 per cent, followed in order of importance by agricultural production, with 14 per cent.

Free Zones Law

84. Guatemala currently has 16 approved free zones in operation, with a total of 216 users, 163 of them commercial, 33 industrial and 20 services.

85. These free zones have helped to revive the production sectors. It should be borne in mind that the WTO provides for the termination of export subsidies on 31 December 2015, and the Government of Guatemala is working to comply with that provision.

(iv) Foreign Trade Institutions

86. The above activities and the government policy to be promoted come under the responsibility of the National Council for the Promotion of Exports (*Consejo Nacional de Promoción de las Exportaciones* – CONAPEX), which implements Guatemala's integrated foreign trade policy based on five priority areas: conditions for the promotion of trade and investment; promotion and marketing; international negotiations; policies and strategies for the modernization of production; and administration of the liberalization agreements.

(v) Institutional Consolidation

87. Efforts to modernize and strengthen the executive branch have resulted in a series of coherent and comprehensive measures to adapt the laws, policies, institutions and ways of supplying services as well as its management systems.

88. This process of modernization and institutional consolidation has involved the establishment of various institutions needed to enable the State to respond to constant change. They include the Supervisory Authority for Tax Administration responsible for the collection, administration, supervision and control of domestic taxes and import duties, and the Telecommunications Supervisory Authority, a highly technical body which administers and supervises the use of the radio spectrum and the telecommunications register.

89. In addition, the Ministry of the Economy has been restructured so as to enable it to ensure Guatemala's effective participation in the multilateral trading system, as well as in regional and bilateral agreements.

III. TRADE POLICY DEVELOPMENT

(1) PROGRESS IN THE AREA OF FOREIGN TRADE

(i) Tariffs

90. Over the past five years, the countries of Central America have redoubled their efforts to establish a common external tariff and were able to harmonize 95.1 per cent of their tariff universe.

The remaining 4.9 per cent is currently being harmonized, and the tariff policy parameters established in 1997 remain in force.

(ii) Customs Procedures

91. In recent years, the countries of Central America have made substantial progress in the area of customs facilitation, sanitary registration, harmonization of taxes, etc., thanks to the work done in the framework of the Central American Customs Union process, which has involved 24 rounds of negotiations thus far and has produced agreements to facilitate international trade by scaling down or eliminating certain customs or other requirements that impede such trade, and establishing common customs regulations through the Central American Uniform Customs Code and its Regulations, the computerization of customs declarations and the electronic interconnection of the region's customs administrations. Specific regulations were issued to consolidate an accelerated land customs transit regime within Central America and Panama. Among other measures, procedures and formalities at intra-regional border crossings were simplified by introducing a unified procedure and a single customs office, open 24 hours a day.

(iii) Technical Standards

92. The publication in the Official Journal of the Law on the National Quality System on 8 August 2005 laid the foundations for the quality infrastructure that Guatemala needed to fulfil the commitments that the globalized world entails. The integration of the system involving the Guatemalan Standards Commission (COGUANOR), the Guatemalan Accreditation Bureau (OGA) and the National Metrology Centre has made it possible to coordinate these technical activities that are so essential to the development of the country's production, and this coordination should help to improve the quality of products for the benefit of domestic consumers while fostering the country's dynamic integration in external markets.

(iv) Services and Investment

93. Guatemala participated actively in the negotiation of the General Agreement on Trade in Services (GATS) concluded at the end of the Uruguay Round with the basic objective of expanding trade in services, achieving progressive liberalization through successive negotiating rounds, and ensuring the transparency of rules and regulations.

94. Services are an essential part of international trade, and have therefore been included by Guatemala in all of the free trade agreements that it has concluded, for example financial services, investment services, cross-border trade in services, telecommunications and professional services.

95. In the case of investment, according to the Constitution, the fundamental obligations of the State include protecting capital formation, savings and investment and creating favourable conditions for the promotion of foreign capital investment. The Law on Foreign Investment (Decree No. 9-98) regulates this type of investment in Guatemala, prohibiting any discriminatory acts against foreign investors or their investments. Foreign investors may participate in the development of any lawful economic activity in the country.

(v) Intellectual Property

96. In the intellectual property area there have been efforts this year to reinforce the Special Prosecutor's Office for Intellectual Property Offences, with the result that a greater number of offenders have been successfully pursued and convicted. Also worth mentioning is the successful

reinforcement of the National Intellectual Property Committee, which now incorporates State institutions that were not previously involved, extending and improving the coverage of intellectual property related matters, including customs inspection and control of trade in goods protected by intellectual property rights. The administration of intellectual property matters at the international level has called for considerable change, with the training of the responsible staff this year enhancing the implementation and monitoring of Guatemala's international agreements currently in force.

(2) TRADE AGREEMENTS

(i) Central American Customs Union

97. The commitment to form a Central American Customs Union dates back to the signature of the General Treaty on Central American Economic Integration in 1960, Article I of which includes a commitment by the Contracting States "to establish among themselves a common market". However, in the decades that followed, the countries focussed their efforts on developing the free trade zone.

98. Following various efforts among the countries of the region to push the customs union process forward, in March 2002 the Presidents of Central America approved an action plan to speed up the process, creating different working groups for its implementation. June 2004 saw the approval of the General Framework for the Negotiation of the Customs Union in Central America, which has served as a basis for the current negotiations.

99. In December 2007, the governments of Central America signed the Framework Convention for the Establishment of the Central American Customs Union containing legal provisions to consolidate the underlying objectives and principles. It is currently in the process of ratification and approval by the different legislative assemblies.

(ii) Free Trade Agreements in force

Free Trade Agreement between the United Mexican States and the Republics of Guatemala, El Salvador and Honduras

100. The Northern Triangle – Mexico Free Trade Agreement signed by Guatemala, Honduras and El Salvador with Mexico came into force on 15 March 2001, and was the first trade instrument of its kind signed by Guatemala. It is known as the NT-Mexico FTA, and has enabled Guatemala to increase its goods exports to Mexico through lower tariffs.

Free Trade Agreement Between Central America and the Dominican Republic

101. This Agreement was signed on 16 April 1998 by Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica with the Dominican Republic, and came into force on 15 October 2001. It establishes a free trade area of approximately 40 million people. As a result of these negotiations, more than 95 per cent of Guatemalan products have duty-free access, an essential factor in increasing exports to that market.

Free Trade Agreement Between the Dominican Republic, Central America and the United States

102. This Agreement has been in force since 1 July 2006. Following its entry into force, Guatemala took a number of measures to meet its commitments under the Agreement, such as Decree No. 11-2006 Introducing Legal Reforms for the Implementation of the Dominican Republic – Central America – United States Free Trade Agreement, known as the DR–CAFTA Implementation Law.

This Agreement provides legal certainty, above all with respect to trade and investment between the parties.

Free Trade Agreement between the Republic of Guatemala and Chinese Taipei

103. This Agreement has been in force since 1 July 2006. The Administrative Commission of the Free Trade Agreement between the Republic of Guatemala and Chinese Taipei published Decision No. 1 and its annexes, containing regulations on origin and dispute settlement.

(iii) Partial Scope Agreements in force

Cuba

104. The Partial Scope Agreement between Guatemala and Cuba was signed in Havana on 29 January 1999 and came into force on 18 May 2001. Its objective is to grant tariff preferences and eliminate non-tariff restrictions so as to facilitate, expand, diversify and promote trade between Guatemala and Cuba, as well as to adopt measures and pursue actions so as to stimulate the process of Latin American integration.

Panama

105. Guatemala has a free and preferential trade agreement with Panama which has been in force since 13 March 1975 and covers a limited number of negotiated products; in fact it was effectively expanded with the signature of the FTA between Guatemala and Panama.

Venezuela and Colombia

106. In 1984 and 1985, Guatemala signed unilateral partial scope agreements with Colombia and Venezuela. In the case of Colombia, the Agreement was replaced with the Free Trade Agreement which is currently in the process of administrative approval. In the case of Venezuela, in 2007 it was decided to renegotiate the agreement with a view to enhancing trade relations, but there has been no significant progress in that respect.

(iv) Generalized System of Preferences Plus

107. Since 1 January 2006, Guatemala has been a GSP Plus beneficiary. This meant that Guatemala had to ratify and implement the international agreements on human and labour rights, environmental protection and governance. This Agreement is very important to Guatemala's exports with the European Union. The necessary measures are currently being taken to ensure its renewal.

(v) Generalized System of Preferences

108. Guatemala also benefits from GSPs with other countries such as: Australia, Canada, Japan, New Zealand, Norway, Switzerland and Russia. Under these schemes, Guatemala receives tariff preferences which benefit its exports.

(vi) Investment Promotion Agreements

109. In keeping with its policy of protection of foreign investment, Guatemala signed reciprocal investment promotion and protection agreements providing for substantial guarantees of due legal process on the reception of such investment as well as protection and stability for the investor.

Agreements of this kind have been concluded with Sweden, the Federal Republic of Germany, Chile, Korea, Chinese Taipei, France and Argentina. Also, in 2007 the Protocol to the Treaty on Investment and Trade in Services was approved in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. This Treaty contains all of the necessary provisions for investment between the countries of Central America.

(vii) Trade Agreements currently being brought into force

110. Free trade agreements with Colombia, Panama and Chile are currently in the process of being approved by the competent authorities, as is a Partial Scope Agreement with Belize.

(viii) Trade Agreements currently being negotiated

111. Guatemala is in the process of negotiating, together with other countries, the following trade agreements: Partnership Agreement with the European Union, Free Trade Agreement with Canada, and Free Trade Agreement with CARICOM.
