



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.

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1 INTRODUCTION

1.1. During the review period, Guatemala's trade policy has continued to encourage trade liberalization through the conclusion of international trade agreements and the adoption of various trade facilitation measures.

1.2. The actions taken by Guatemala as part of the trade liberalization process seek to achieve the following objectives: (a) stimulate economic and social development by consolidating economic liberalization; (b) advance in the construction of an open economy; (c) create a stable legal framework for the promotion and development of investment; (d) introduce mechanisms to prevent the application of unilateral and discretionary measures that affect trade flows; and (e) foster cooperation between countries, *inter alia* through the implementation of specific projects in priority development areas.

1.3. There are four sections to this report: the first deals with Guatemala's economic environment; the second with developments in domestic trade policy; the third with developments in foreign trade policy; and the fourth with the promotion of competitiveness and attracting investment.

2 DEVELOPMENTS IN THE ECONOMIC AND FOREIGN TRADE ENVIRONMENT

2.1. Macroeconomic indicators in Guatemala have improved markedly since the last trade policy review. After achieving a growth rate of 3.3% in 2008, the national economy slowed down somewhat in 2009 owing to the low price of certain export products, the rise in oil prices and the global crisis more generally. However, even with an unfavourable world picture the Guatemalan economy recorded 0.5% growth that year and, thanks to a combination of favourable external conditions, monetary and fiscal discipline, and a positive reaction from economic operators, showed steady growth between 2010 and 2015.

2.2. Annual GDP growth in real terms rose from 0.5% in 2009 to 4.1% in 2015, and significantly, for the sixth consecutive year it exceeded annual population growth (2.5%). For the first quarter of 2016, economic activity in terms of estimated real GDP increased by 2.8%. This trend was driven by the positive performance of private consumer spending and buoyant gross fixed capital formation.

2.3. According to the Central Bank's revised estimates, the economy is expected to grow by between 3.1% and 3.9% in 2016 in spite of the slowdown in world economic growth.

2.4. Over the past few years the economy has shifted towards the services sector. In real terms, between 2009 and 2015 the value of services grew at an average annual rate of 3.2%, with the result that the sector's share in GDP has continued to be around 15%, making it one of the best performing sectors during that period.

2.5. Meanwhile, agriculture, cattle-farming, hunting, forestry and fisheries recorded average annual growth of 3.5%, so that this sector's share of GDP remained steady at 13.6% in 2009 and 13.5% in 2015. Manufacturing grew slightly over this period, with an average rate of 2.7% annually, fluctuating from -0.91% in 2009 to 3.5% in 2015, with rises in the intervening years.

2.6. As regards investment, gross fixed capital information fell by 13.1% in 2009, and then rose by 7.1% and 3.6% in 2011 and 2012 respectively. That upward trend continued until 2015 when it stood at 5.5%. Average growth was 0.9%

2.7. From 2009 to 2015, the annual rate of inflation fluctuated between -0.28% in 2009 and 6.2% in 2011. In 2015 it was 3.07%. During the period under review inflation averaged 3.6%. The fall in inflation from 2012 reflected in particular the lower international prices of oil and raw materials.

2.8. The Central Bank's key macroeconomic policy objective is to help create and maintain an environment that is conducive to the orderly development of the national economy, which means favouring monetary, exchange and credit conditions that promote general price stability.

2.9. Accordingly, monetary policy has been implemented in line with 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, giving priority to market decisions), as well as greater transparency in Central Bank activities.

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

2.11. Guatemala has adopted a flexible exchange-rate system consistent with a monetary model involving explicit inflation targets. 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.

2.12. As regards foreign trade, over the past seven years total exports accounted on average for 19.3% of GDP, of which a significant share was represented by Guatemala's main export products including articles of clothing, sugar, bananas, and coffee, which together made up 5.6% of export earnings in 2015. The share of total imports in GDP in 2015 stood at 32%, headed by consumer goods, raw materials and intermediate products, and capital goods, which together accounted for 23.1% of the total.

2.13. The total value of exports between 2009 and 2015 grew at an annual average rate of 7.2%. Agricultural exports registered an average annual increase of 5.2%; manufactured products, 6.9%; and minerals, 17.4%, the latter stimulated by exports of precious metals, sales of which performed well chiefly between 2010 and 2012, and exports of lead, iron and steel in the last three years.

2.14. In December 2015, the value of exports reached a total of US\$10,677.2 million, i.e. US\$126.3 million (-1.2%) less than the value reached during the same period in 2014 and 6.5% higher than the value for 2013. The decisive factor in the 2015 results was the performance of sugar, banana, coffee, cardamom, and oil exports which, taken together, fell by 6.8%. Exports to the Central American Common Market grew by 1.1% and non-traditional products increased by 0.8%.

2.15. The destination for 29.2% of these exports in 2015 was the Central American Common Market, which consolidated its position as one of the main engines of growth in Guatemala's foreign trade. Sales to other countries in the region grew from US\$3,081.5 million in 2014 to US\$3,115.6 million in 2015, an increase of US\$34.1 million (1.1%). With the exception of propane gas, electricity, and edible fats and oils, the other main export categories recorded significant growth. The most important export categories were vehicles and transport equipment (30.6%); paints, varnishes and dyes (25.8%); textile materials (woven and other fabrics) (17.7%); pharmaceutical products (17.6%); other base metal manufactures (13.6%); kerosene (12.6%); preparations of meat, fish, crustaceans and molluscs (10.8%); gasoline (10.5%); and manufactures of paper and card (9.1%).

2.16. Exports of non-traditional products reached US\$8,078.2 million in 2015, an increase of 0.8% over the previous year. This category of goods comprised mainly articles of clothing and textiles, which accounted for 12%, and non-traditional products at 16.4%. The products where growth was greatest were iron and steel (up 56%); various products of the chemical industry (up 23.9%); pharmaceutical products (17.6%); machinery and mechanical equipment (12.2%); cereal-based preparations (10.1%), dried or frozen fresh fruit (9.9%); textile materials (woven and other fabrics) (8.2%); and paper and cardboard products (6.6%).

2.17. Over the last seven years there have been some changes in the composition of the country's export structure. In 2009, exports of agricultural products accounted for 28% of the total, while manufactured goods represented 61.3% and minerals 10.7%. In 2015, agricultural exports accounted for 24.1% of the total, manufactured goods for 61.4%, and minerals for the remaining 14.4%.

2.18. In 2015 the main export products (sugar, bananas, coffee, cardamom and oil) accounted for 24.3% of total exports, as against 25.8% in 2014. During 2014 the "articles of clothing" category accounted for 11.8% of the total whereas in 2015 it was 12.4%. Sales to the Central American Common Market rose from 28.5% in 2014 to 29.2% in 2015. In 2015 exports of non-traditional products accounted for 75.7% of the total, compared to 74.2% in 2014.

2.19. Between 2009 and 2015 imports grew at an annual average rate of 7.7%. Agricultural imports registered an average annual increase of 6.6%, manufactured products, 8.9%, and minerals, 4.7%. Minerals were adversely affected by the global oversupply crisis that hit the fuels and lubricants market in the second half of 2014 and continued through 2015.

2.20. Exports of services grew at an average annual rate of 4.9%. Among the main sectors were tourism, transport, insurance, and other business services. In 2015, exports of services reached US\$2,764.5 million while imports totalled US\$3,074 million, resulting in a deficit on the services trade balance.

2.21. During 2015, the value of imports reached US\$17,640.2 million, down by 3.5% on the previous year. The main agricultural imports (4% of the total) were maize (corn) and wheat, which together accounted for 54.6%. Among imports of manufactured goods (77.4% of the total value), the most significant categories were: machinery and mechanical equipment (US\$1,561.7 million); vehicles and transport equipment (US\$1,460.6 million); plastic materials and articles thereof (US\$1,055.1 million); various products of the chemical industry (US\$736.7 million); pharmaceutical products (US\$726.7 million); textiles and fabrics (US\$673.3 million); and transmitters and receivers (US\$589.3 million). As regards mining products (18.6% of the total value of imports) the main categories were fuels and lubricants (US\$2,482.9 million), iron and steel (US\$461.6 million), and aluminium (US\$181.7 million).

2.22. The trade balance in 2015 showed a deficit of US\$6,963 million, a fall of US\$515.3 million (-6.9%) on the previous year. The balance of trade in goods with the different partners, according to type of trade relationship or economic influence, was as follows: (a) countries with which Guatemala has concluded free trade agreements, a deficit of US\$5,570.5 million; (b) Central America, a surplus of US\$1,114.3 million; (c) countries with which Guatemala has partial scope agreements, a surplus of US\$119 million; (d) countries with which free trade agreements are currently being negotiated or are under review by the Legislature, a deficit of US\$51.5 million; (e) countries of Asia (China; Hong Kong, China; Japan; Indonesia; Malaysia; Republic of Korea; Singapore; and Thailand), a deficit of US\$2,527.3 million; (f) CARICOM (except Belize), a surplus of US\$52.6 million; and (g) the rest of the world, a deficit of US\$99.6 million. The balance of payments current account balance fell by 174.2% from a surplus of US\$272.8 million in 2009 to a deficit of US\$202.5 million in 2015.

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

2.24. Guatemala has a variety of export destinations. Data for 2015 show that Guatemalan products were shipped to more than 148 countries. However, outward trade flows continue to focus on the United States (34.5%) and Central America (29.2%), followed by the euro zone (6.8%), Mexico (4%) and others (25.5%).

2.25. Regarding the fight against poverty, the Living Standard Measurement Survey (ENCOVI 2014) revealed that poverty stood at 59%, higher than the 51% observed in 2006. The rise is probably due essentially to high food prices, the rise in fuel prices during the early years of the review period, and the global financial crisis. In the aim of reversing the increase and reducing levels of poverty, the Guatemalan authorities are promoting a series of programmes to achieve inclusive, sustainable, innovative growth across the board.

2.26. In 2014 the National Urban and Rural Development Council (CONADUR) launched the National Development Plan K'atun, Our Guatemala 2032, which aims to organize and coordinate the activities of the public administration, through the formulation of development policies, plans and fiscal programmes. The strategy was drawn up following wide-ranging public-private consultation and is based on five priority areas: urban and rural Guatemala; the welfare of the people; prosperity for all men and women; natural resources today and in the future; and the

State as guarantor of human rights and the driver of development. The plan has 80 targets, which are to be achieved within a period of 20 years.

2.27. Another important effort in this regard was the establishment in 2012 of the Ministry of Social Development, the body responsible for formulating, defining and delivering public policies to improve the welfare of vulnerable individuals and groups. The Ministry is the conduit for assistance programmes such as conditional cash transfers for education and health, food cards, educational bursaries and employment.

2.28. At the beginning of 2016 the Food Security and Nutrition Secretariat at the Office of the President of the Republic (SESAN) launched the Chronic Malnutrition Prevention Strategy 2016-2020. The strategy is based on four programmes that seek in the first instance to address urgent needs, then gradually bring about changes in behaviour and consolidate tools to bolster the family economy. It is planned to provide assistance to more than 135 municipalities in seven departments. The SESAN report published in July 2016 stated that in the first half of the year over 300 Municipal Food and Nutrition Committees had already started work and more than 199,000 families in rural areas had received food aid.

2.29. It is expected that coordinated implementation of these programmes will help to achieve sustainable poverty reduction by generating more and better opportunities for all Guatemalans.

3 DOMESTIC TRADE POLICY DEVELOPMENTS

3.1 Trade facilitation

3.1. In July 2014 Guatemala notified its Category A commitments under the WTO Agreement on Trade Facilitation, and in late March 2016 the Executive forwarded the text of the Agreement to Congress for approval. The Executive is currently conducting follow-up actions in the Legislature, within its legal remit, to raise awareness of the importance of securing prompt approval of this instrument.

3.2. During the review period the Guatemalan authorities worked on important trade facilitation measures at national and regional levels. In October 2015 the Council of Ministers for Economic Integration (COMIECO) approved the Central American Strategy for Trade Facilitation and Competitiveness in conformity with the provisions of the Declaration of Punta Cana made in 2014 by the Presidents of the member countries of the Central American Integration System (SICA). The private sector was also involved in designing the strategy through the Consultative Council for Economic Integration, thus making it possible to address that sector's concerns and needs.

3.3. In order to make the most efficient use of the existing logistics infrastructure, the Central American trade facilitation strategy is based on the following priority measures: bolstering of the system for advance declarations; streamlining and coordination of immigration controls; introduction of electronic plant and animal health certificates; logging of transport movements using radio frequency devices (RFID); and use of camera systems at border crossings.

3.4. Implementation of this strategy will make it possible to introduce both a regional mechanism to exchange information between border control institutions and an integrated system to identify, analyse and manage risk. The strategy will also strengthen coordination and mechanisms for cooperation between the Central American border control institutions and will improve interaction between the public and private sectors – a very important aspect where trade facilitation is concerned.

3.5. In 2013 the new National Customs Law was published pursuant to Decree No. 14-2013. The new law introduced important reforms such as standardization of customs rules on administrative offences in the aim of streamlining their enforcement. Also included among its provisions were mechanisms to prevent the use of discretion in the interpretation of the law, and on the imposition of penalties and their legal basis.

3.6. The Tax Administration Supervisory Authority (SAT), the body responsible for the administration of the tax regime and the customs system, has worked hard to collate customs

procedures and publish them on-line in accordance with the Central American Uniform Customs Code (CAUCA) and its Regulations. The procedures can be viewed on the SAT website.

3.7. In 2014 the SAT launched the Paperless Customs project in order to reduce customs clearance times and maximize cooperation between the State bodies involved in the process. The project is currently being implemented. When complete, the time-frames for export procedures are expected to shorten.

3.8. The Streamlined Window for Imports and Transits (VAI) was launched in 2014. Legal procedures are currently under way to merge it with the Single Window for Exports (VUPE) thus forming a Single Window for Foreign Trade (VUCE).

3.9. Pursuant to Decision No. 17-2013, Guatemala incorporated regulations on authorized economic operators (AEOs) into its domestic law. In conformity with that Decision, manufacturers, exporters, carriers, logistics operators, customs agents, customs warehouses, shippers, ports and importers may become AEOs.

3.2 Reforms to the Law on government procurement

3.10. The reforms to the Law on government procurement contained in Decree No. 9-2015 involve significant changes to increase control and transparency in all State procurement processes. As part of the reforms, a new Directorate-General of Government Procurement was created to accommodate the Government Procurement and Contracting System (GUATECOMPRAS) and was designated the body with responsibility for government procurement

3.11. Other changes included measures to strengthen controls on the composition of the approvals and tender committees; controls on purchases and financial flows of trusts; the assessment of bids under the reverse auction system; and the introduction of a Single Register of Suppliers (RUP).

3.12. The actions taken in this field clearly illustrate the work done by the Guatemalan authorities to provide greater certainty, predictability and transparency in all Government procurement processes.

3.3 Tax reforms

3.13. In 2012 Guatemala instigated an important process of tax reform when it promulgated two legislative decrees to reduce the fiscal deficit and increase the efficiency of tax collection mechanisms.

3.14. Decree No. 4-2012 (Provisions to Strengthen the Tax System and Combat Fraud and Smuggling) entered into force on 25 February 2012 and contains measures to strengthen and improve mechanisms to control and audit taxes. The Decree introduced important reforms to the Law on Value Added Tax (VAT) including enhancement of the formal requirements and procedures to control audits of tax credits and the introduction of a new "small taxpayer" scheme to remedy previous regulatory problems. In order to counteract evasion, the requirements and conditions involved in electronic declarations were stepped up and tax simulation (the issuance of fraudulent or false invoices) was classified as an offence under the Criminal Code.

3.15. The Tax Update Law, Decree No. 10-2012, entered into force on 5 July 2012 and introduced general reforms to improve tax collection. It included a new Law on Income Tax (ISR) drawn up in a more orderly, structured way to make it easier to understand and easier to comply with. The new law expanded the tax base and personal scope, and incorporated international standards, clauses on transfer pricing controls and the concepts of "permanent establishment" and "resident".

3.16. The Emergent Law on employment protection was approved by Congress pursuant to Decree No. 19-2016 and entered into force on 31 March 2016. It introduced important reforms to the Law on the promotion and development of exporting and maquila activities (Decree No. 29-89) and the Free Zones Law (Decree No. 65-89).

3.17. Originally both the Law on maquila activities and the Free Zones Law granted export subsidies to products such as clothing and textiles, processed foodstuffs and plastic products. The 2016 Emergent Law on employment protection withdrew all tax privileges in all sectors except for clothing and textiles, and services associated with information and communications technologies, for which it provides for a limited number of specific subsidies.

3.18. Guatemala's aim in introducing these reforms was to bring its subsidy programmes into line with its WTO commitments.

3.4 Other relevant reforms and sector-strengthening measures introduced during the review period

3.4.1 Financial system

3.19. The Organic Law of the Bank of Guatemala was amended pursuant to Decree No. 26-2012. Pursuant to the reform the Central Bank has a more active role in providing financial assistance to institutions with liquidity problems. Among other provisions, the reform broadens the contribution, the type of guarantees and the life of any loan that the Central Bank can offer institutions in that position without exposing the bank itself to additional risks.

3.20. The regulatory framework for the insurance market was also amended significantly during the review period. Decree No. 25-2010, in force since January 2011, replaced the previous Insurance Law, strengthened the authorities' supervisory role, brought the regulatory framework into line with international standards, modernized the regulations in force and increased their efficiency.

3.4.2 Maritime transport and ports

3.21. The National Maritime Administration Commission (CONAMAR) was established in March 2015 pursuant to Government Decision No. 58-2015 to coordinate government maritime activities across institutions.

3.22. CONAMAR is composed of representatives from seven Ministries, including the Ministries of Defence, Agriculture, the Economy and Foreign Affairs, and the National Council for Protected Areas. Its principal duties are to make national maritime policy recommendations; coordinate measures with institutions associated with maritime administration; cooperate in the reviews of previously approved maritime policies; and cooperate in recommendations for plans, programmes and strategies to promote national maritime development.

3.23. The Commission will remain in place for 25 years. Since 2015 the technical group has drawn up and embarked on a detailed work programme to beef up the regulatory framework governing maritime matters and ports in Guatemala.

3.4.3 Telecommunications

3.24. Significant reforms were made in the telecommunications field between 2009 and 2016 to strengthen the sector and improve its efficiency.

3.25. In 2012 Decree-Law No. 34-2012 was promulgated, extending the period of radio spectrum use for an additional five years. As a result of the extension, spectrum use is granted for a period of 20 years, which may be renewed.

3.26. The Law on mobile devices (Decree No. 8-2013) was approved with a view to reducing theft of mobile equipment by means of a negative database. Decree No. 12-2014 (Enhancement of Data Transmission Infrastructure) regulated the award of authorizations to install telecommunications infrastructure, and an infrastructure unit was created within the Telecommunications Supervisory Authority (SIT) for the purpose.

3.27. The sector was originally approved for privatization in the 1990s, and these measures have enabled it to remain dynamic and competitive.

3.4.4 Energy

3.28. In 2012, the Ministry of Energy and Mining (MEM) published the paper *Energy Policy 2013-2027* with a view to achieving sustainable energy development while ensuring social equity and environmental protection.

3.29. To that end, a strategy based on the following priority areas was drawn up:

- Security of electricity supply at competitive prices: this area aims to diversify the energy matrix and extend coverage nationally.
- Security of fuel supply at competitive prices: the chief objectives outlined for this area included the introduction of alternative fuels into the marketing chain and the enhancement of inspections in the marketing chain for fuels and natural gas.
- Exploration and exploitation of oil reserves with a view to national self-sufficiency: in this priority area the Government is looking to increase opportunities for exploration and exploitation of the country's reserves, and to modernize the technological platform for the production and transportation of oil and natural gas.
- Efficient use of energy and energy savings: the objectives in this area include the introduction of specific mechanisms to encourage efficient energy use and reduce the use of wood as a fuel in industry and homes.

3.30. One and a half years after launching the strategy, the MEM reported that it had achieved a national coverage rate of 90% and more stable power prices. At end-2015 MEM presented the results of the Pilot Plan to mix fuel ethanol into gasoline under Priority Area 2, which aimed to reduce dependence on fossil fuels and introduce the use of alternatives.

3.31. As part of the process to update plans to expand the power sector, in 2012 MEM authorized a review of the Indicative Power Generation System Plan 2012-2026 and the Transmission System Expansion Plan 2012-2021.

3.32. The updates are very important because they will help define a cogent vision for the next 15 years from their year of publication, based on various scenarios for expansion and a thorough analysis of variables such as the inclusion of hydroelectric and geothermal plant, energy efficiency measures and fuel prices.

3.4.5 Intellectual property

3.33. With assistance from the World Intellectual Property Organization (WIPO), the Intellectual Property Registry launched the National Intellectual Property Strategy (ENPI) in mid-2015. The main objective is to promote the use of intellectual property as an instrument for economic and social development by encouraging creativity and innovation as aspects of productivity.

3.34. The Government of Guatemala is of the view that innovation, entrepreneurship and technology transfer are of major importance in generating sources of employment and creating new business models. Accordingly, in 2010, through the Intellectual Property Registry, it signed a Cooperation Agreement with WIPO to establish a Network of Technology and Innovation Support Centers (TISCs). Four such centres are currently operational in Guatemala.

3.35. In order to adequately enforce intellectual property rights and prevent criminal offences that would undermine the system, Guatemala has bolstered the Intellectual Property Offences Unit within the Public Prosecutor's Office. Ongoing training projects have been running with national and international bodies to provide technical knowledge in this area. Knowledge-pooling drives have been held at institution level with the Judiciary, the tax authorities (SAT) and the Intellectual Property Registry.

3.36. In recent years the Guatemalan authorities have strengthened the regulatory framework governing the protection of intellectual property rights (IPRs), chiefly through reform of the Industrial Property Law (LPI) Decree No. 3-2013, which entered into force in June 2013. The

reform included provisions on a specific procedure concerning geographical indications (IG) and appellations of origin (DO) in Guatemala. It should be noted that Guatemalan legislation in this matter is modern and conforms to the provisions of multilateral intellectual property agreements such as the TRIPS Agreement, the Paris Convention, the Berne Convention and the Rome Convention.

3.37. In order to guarantee the right to education and access to culture, in March 2016 pursuant to Decree No. 7-2016, Congress approved the ratification of the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired, or otherwise Print Disabled. Thus Guatemala became one of the 20 countries that helped to bring this Treaty into force on 30 September 2016 when it deposited its instrument of ratification of the Treaty with WIPO in June. Guatemala is currently in the process of implementing the Treaty.

3.38. Pursuant to Decree of the Congress of the Republic No. 20-2016 of 29 March 2016, the Government of Guatemala approved the accession to the Trademark Law Treaty and its Regulations. Ratification of that Treaty is pending. Once implemented, the Treaty will provide strong support in promoting usage of intellectual property systems.

3.4.6 Tourism

3.39. Tourism plays a very important role in the Guatemalan economy. According to Central Bank figures, in 2015 the inflow of foreign currency from tourism was US\$1,580 million, i.e. 14% of all foreign currency received in the country during the year. Over the period 2009-2015, the annual number of tourist arrivals rose by more than 35%.

3.40. Guatemala is a multi-ethnic, multicultural and multilingual country. It is home to the largest number of Mayan archaeological sites and retains the architectural and artistic legacy of the colonial era. In view of its high biodiversity levels Guatemala was designated a megadiverse country in 2010 at the Tenth Conference of the Parties to the Convention on Biological Diversity. These features make Guatemala a very attractive destination for a large number of tourism segments.

3.41. The Guatemalan Institute of Tourism (INGUAT) is a facilitating body with responsibility for governing, promoting and encouraging the sustainable development of tourism at national and international level by coordinating actions across the public and private sectors and civil society.

3.42. As part of that role to coordinate the work of tourism stakeholders and make Guatemala a world-class destination, INGUAT oversaw the drafting and launch of the Sustainable Tourism Master Plan 2015-2025. It is an important planning tool comprising various sectoral development programmes that will be in place for ten years.

3.43. In September 2014, INGUAT and the *Ministerio Público* signed a cooperation agreement to draw up an institutional coordination mechanism that would enhance the assistance and protection afforded to tourists.

3.44. In the most recent Travel & Tourism Competitiveness Index published every two years by the World Economic Forum (WEF), Guatemala's ranking was up 17 places in 2015. When broken down into its component categories, the greatest progress was made in international openness, price competitiveness of the tourism industry and good value for money; extent of staff training; customer service; the business climate; tourism facilitation; information and communications technologies; the number of protected areas and known species; and the number of intangible cultural heritage expressions, among other categories.

4 FOREIGN TRADE POLICY DEVELOPMENTS

4.1. The Ministry of the Economy (MINECO) is the body responsible for negotiating trade agreements and the administration of trade liberalization. It also has responsibility for representing Guatemala at the WTO and other international forums on trade matters.

4.2. The Vice-Ministry for Integration and Foreign Trade is part of MINECO and has responsibility for promoting economic relations, developing external trade, and driving progress in regional

economic integration. It consists of the Directorates for the Administration of Foreign Trade (DACE), Foreign Trade Policy and Economic Analysis, and the Permanent Mission of Guatemala to the WTO.

4.3. Guatemala's priorities are the WTO multilateral negotiations and Central American regional integration. In keeping with this regional integration objective, Guatemala has sought as far as possible to form a bloc with the countries of the region.

4.4. During the review period, Guatemala continued its policy of open trade and compliance with its international commitments.

4.5. Where tariff levels are concerned 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 the vast majority of applied tariffs are below 15%. The average applied tariff is 5.6%. The degree of tariff harmonization with Central America exceeds 93%. The average tariff bound in the WTO is 41.3%.

4.6. VAT applies to all commercial transactions for domestic consumption and imports of goods. A VAT rate of 12% is applied to all transactions in those categories.

4.1.2 Integrated foreign trade policy

4.7. Guatemala has had an integrated policy on foreign trade since 1986. It aims to promote competitiveness and foreign trade as means of contributing to the country's economic and social development.

4.8. This strategy was overhauled in 1997 and two fundamental pillars were established, namely the development of competitiveness (with emphasis on increased productivity), and trade liberalization.

4.9. In 2012 it was updated a second time and became the Integrated Policy on Foreign Trade, Competitiveness and Investment. It retained the principles set out in the 1997 document and the premise that foreign trade is a key element in economic development because it stimulates production, generates employment and increases people's income. However, the challenges and objectives set by the country were updated and now became: to attract productive investment; to expand and diversify trade; to increase the involvement of small and medium-sized enterprises (SMEs) in foreign trade; to derive maximum benefit from the trade and investment agreements already negotiated; to promote the country's exports; and to adapt the country to new international market trends.

4.10. The strategy was developed by the National Export Coordination Commission (CONACOEX) and approved by the National Export Promotion Council (CONAPEX), which is also responsible for implementing it. The formulation process included a broad consultation mechanism involving representatives of the public and private sectors.

4.11. The National Competitiveness Agenda 2012-2021 was approved in 2012 by CONAPEX and is also one of the instruments governing trade policy. The Agenda recognizes that competitiveness is a key factor that cuts across all public measures and policies, and that it is extremely important for improving the business climate, attracting domestic and foreign investment and, therefore, for generating better opportunities for formal employment for Guatemalans.

4.12. The National Development Plan K'atun, described in paragraph 2.26 above, sets out the government's development policies for the period 2016-2032. It also adds to the framework that underpins Guatemala's trade policy.

4.1.3 Trade agreements in force or under negotiation

4.1.3.1 Trade agreements in force

4.13. The Directorate for the Administration of Foreign Trade (DACE) (within MINECO) 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 guidelines laid down by the Government for the period 2016-2020.

4.14. Between 2009 and 2016, Guatemala concluded the negotiation of the following trade agreements, which have now entered into force: Free Trade Agreement between Central America and Panama (2009); Agreement establishing an Association between the European Union and its member States, on the one hand, and Central America on the other (Part 4 on trade entered into force on 1 December 2013); Free Trade Agreement between Chile and Central America (2010); and Free Trade Agreement between the United Mexican States and the Republics of Costa Rica, El Salvador, Guatemala and Honduras (2013).

4.15. During the review period, Partial Scope Agreements with Belize (2010) and Ecuador (2013) entered into force.

4.16. Currently the Free Trade Agreement with the member States of the European Free Trade Association (EFTA) and the Partial Scope Agreement with Trinidad and Tobago are undergoing the approvals process through the relevant domestic channels. Guatemala has concluded the domestic legal formalities required for the Free Trade Agreement with Peru to enter into force.

4.17. Guatemala also benefits from the Generalized System of Preferences (GSP) schemes operated by other countries such as Australia, Canada, Japan, New Zealand, Norway, Switzerland, and the Russian Federation, under which Guatemalan exports enjoy tariff preferences.

4.1.3.2 Trade agreements currently being negotiated

4.18. The aims of the Department for Foreign Trade Policy at MINECO are to conduct negotiations of international, multilateral, and bilateral trade agreements and treaties; monitor the Central American integration process; negotiate free trade and investment agreements; and promote Guatemalan exports.

4.19. Guatemala is currently negotiating the following instruments:

- Free Trade Agreement between Central America and the Republic of Korea;
- Free Trade Agreement with Canada – bilateral negotiations have resumed; and
- Expansion of the Free Trade Agreement with Colombia within the framework of the Free Trade Agreement between the Northern Triangle of Central America and the Republic of Colombia.

4.1.4 WTO

4.20. Guatemala has been a Member of the WTO since July 1995 and was a GATT Contracting Party from 1991. Since then Guatemala has placed its full confidence in the multilateral trading system. This can be seen in its active participation in negotiations and at the various WTO bodies, including the Dispute Settlement Body.

4.21. Guatemala is part of the Small, Vulnerable Economies group (SVEs), the Cairns Group, the Tropical Products Group, the Group of 20 (G-20), the Group of 33 (G-33), among others, and covers all the multilateral negotiating groups of the Organization.

4.22. Between 2009 and 2016 Guatemala was involved in three disputes as a complainant: *China – Grants, Loans and Other Incentives*; *Dominican Republic – Safeguard Measures on Imports of Polypropylene Bags and Tubular Fabric*; and *Peru – Additional Duty on Imports of Certain Agricultural Products*. Guatemala has also been involved in 24 other cases as a third party.

4.23. Guatemala has made efforts to fulfil all its obligations, including those concerned with transparency, which is the reason why in the review period Guatemala continued to update its notifications.

4.1.5 Central American Customs Union

4.24. The commitment to form a Central American Customs Union dates from the signature of the General Treaty on Central American Economic Integration in 1960, which includes a commitment by the Central American States to establish a common market.

4.25. The greatest progress towards achieving the customs union has been made in the last 15 years. Periodic negotiating rounds between the Central American countries have led to substantial progress in areas including customs facilitation through the simplification or elimination of certain customs and other requirements; sanitary registration; and harmonization of taxes. Similarly, measures were issued to strengthen specific regulations establishing an accelerated land customs transit regime between Central America and Panama.

4.26. On 10 April 2015, Guatemala and Honduras signed the Enabling Protocol for the Process of Deep Integration leading to the Free Movement of Goods and Natural Persons between the Republics of Guatemala and Honduras. The Protocol has been in force since 13 June 2016 and the unified domestic controls on sanitary measures, migration and customs are expected to be operational by December 2016.

4.27. In 2016 Guatemala and El Salvador began working on a trade facilitation process between their two countries in the aim of streamlining trade between them.

4.1.6 Trade promotion

4.28. Under Article 14 of MINECON's Internal Regulations, its main functions include the promotion of Guatemalan products. Accordingly, since 2006 it has implemented a trade promotion strategy that includes training, and mechanisms such as outward selling trade missions, support for participation in international trade fairs, etc.

4.29. The aim of the Trade Offices of Guatemala (PACIT) is to promote Guatemala's exports abroad; promote the country as a destination for tourism; support efforts to attract foreign investment; and implement and monitor the country's trade policy. PACIT is an interinstitutional body that has input from the Ministry of the Economy; the Ministry of Foreign Affairs; the Guatemalan Institute of Tourism (INGUAT); the Chamber of Industry; the Chamber of Trade; the Guatemalan Exporters Association (AGEXPORT); the National Competitiveness Programme (PRONACOM); and Invest in Guatemala, the investment promotion agency. It has nine trade offices in the United States, Mexico, the Dominican Republic, Colombia, Spain and the Netherlands.

4.30. Between 2013 and 2015 PACIT secured the participation of more than 980 foreign purchasers, conference delegates, exhibitors and visitors at trade fairs held in Guatemala. PACIT also coordinated more than 650 work schedules abroad for Guatemalan exporters and dealt with over 750 requests about procedures for exporting and gaining access to the markets where it has offices.

5 PROMOTING COMPETITIVENESS AND ATTRACTING INVESTMENT

5.1 Promoting competitiveness

5.1. The National Competitiveness Programme (PRONACOM) was established in 2004 and is part of the Ministry of the Economy. PRONACOM is a participatory national programme that facilitates interagency work and alliances that involve the public and private sectors as well as civil society. Its chief objective is to contribute to the development of competitive human and business capital, the decentralized development of the country and an improvement in the Guatemalan people's standard of living by generating a larger number of formal jobs.

5.2. In 2012, PRONACOM launched the National Competitiveness Agenda (ANC) 2012-2021, updating the ANC of 2005. The Agenda identifies areas where there are gaps in competitiveness and in competitive development, such as human capital, the business climate, State modernization, strategic investment and legal certainty.

5.3. The ANC 2012-2021 was drawn up on the basis of a wide-ranging public-private dialogue and is divided into the following strategic priority areas that have been identified as key to measures that will generate inclusive growth. These areas are: a healthy, educated, skilled, inclusive society; stronger, modern institutions; social and environmental sustainability; decentralization and local development; a stronger production and technology infrastructure; stronger industry.

5.4. The steps to take include the following: (a) benchmarking and comparison with the aim of measuring progress in implementing the ANC, making it possible to design studies and identify those areas that need more attention; (b) the elimination of restrictions on economic development, a key factor for reducing the time-frames and real costs of transactions, and for boosting the basic ingredients of competitiveness; and (c) the promotion of conditions that create value in the country in order to increase productivity and make the country more attractive to investment in the long term. The strategy sets out a topic-based list of key measures that it recommends should be taken between 2012 and 2021 in order to achieve the objectives set.

5.5. Additionally, in 2015 the Ministry of the Economy and the Guatemalan Chamber of Industry presented a Proposal for an Industrial Policy for Guatemala Based on Competitiveness and Innovation 2016-2044. It aims to expand employment opportunities and improve Guatemalan workers' incomes through the introduction of a new production structure and an exponential increase in national value added.

5.6. The strategies outlined in the proposal include attracting light manufacturing businesses to the urban areas of the country; promoting stronger value chains for manufactures; and the generation of effective technology transfer through supply linkages.

5.7. The National Agency for Partnerships for Economic Infrastructure Development (ANADIE) was established in 2010 pursuant to the Law on partnerships for economic infrastructure development (Decree No. 16-2010). It is a decentralized agency that helps public bodies to design and commission infrastructure projects as public-private partnerships. ANADIE is currently behind nine projects in areas including the highways infrastructure, ports and airports, and public buildings.

5.2 Measures to improve competitiveness and the business climate

5.8. During the review period, Guatemala implemented a series of systemic reforms to improve the country's competitiveness and the business climate based on the ANC 2012-2021. Accordingly new programmes were launched to make it easier to obtain information and perform administrative procedures. Given the crosscutting nature of all these measures, PRONACOM worked with a large number of public sector institutions to coordinate their implementation.

5.9. In March 2013, Guatemala launched the online Business Creation System at <https://minegocio.gt> in order to simplify the registration process and provide a single platform containing all the information needed for that purpose. The initiative was led by PRONACOM and supported by and coordinated with the Business Registry; the Tax Administration Supervisory Authority (SAT); the Guatemalan Social Security Institute (IGSS); and the Ministry of Labour. The system means that: (a) companies can register with these four institutions at the same time, and (b) the registration process is now paperless thanks to the use of electronic signatures.

5.10. Similarly, also in 2013, the System <http://asisehace.gt> was launched – an online database designed to make administrative procedures in Guatemala completely transparent. The information provided on the platform includes a full guide to the administrative procedures concerning companies, taxes, permits, licences, registrations, real estate and the operation of businesses and companies. Both projects received technical assistance from UNCTAD and financial support from the Government of Luxembourg.

5.11. Other important reforms made during the review period with a view to improving competitiveness were as follows: update to the exhaustive list held by the Ministry of the Environment and Natural Resources (sets out the processes for certain buildings); reduction in the time-frame for receiving construction permits; reduction in the cost of obtaining construction permits; reduction in the time-frame for receipt of construction permits; reduction in the time-frame for receipt of certificates from the Property Register and in the property registration process; reduction in the rate of income tax; reduction both in the time allowed for payment of

other labour obligations (through the IGSS electronic payroll) and in the time allowed for import processing (as a result of the paperless customs programme).

5.12. These measures all contributed to a significant improvement in Guatemala's ranking in the World Bank's *Doing Business* report. In the 2014 edition, Guatemala rose from 93rd to 79th place and was named the Latin American economy that had made the greatest number of reforms to make it easier to do business.

5.3 Attracting investment

5.13. 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 and prohibits any discriminatory acts against foreign investors or their investments. Foreign investors may engage in any lawful economic activity in the country.

5.14. As part of its policy of protection of foreign investment, Guatemala has signed 19 reciprocal investment promotion and protection agreements providing for substantial guarantees and legal certainty for investors of both parties so that they can make or continue to make investments under a predictable and enforceable framework. In so doing it aims to incentivize investors by guaranteeing that minimum applicable provisions are in place, such as Most-Favoured-Nation Treatment and National Treatment. Direct and indirect investment generates hundreds of medium- and long-term jobs and therefore a predictable legal framework is important.

5.15. Invest in Guatemala is the public agency responsible for providing direct support to foreign investors interested in investing in the country. It provides customized advice and assistance to potential investors by coordinating visits to the country, links to contacts and key references, support to initiate operations, and practical assistance while operations are being established in the country and afterwards.

5.16. The combination of a robust legal framework, macroeconomic stability and significant improvements in the business climate as described above has contributed to the increase of over 50% in foreign direct investment (FDI) during the review period. Figures from the Central Bank show that in 2009 total FDI was US\$600 million and that in 2015 it was more than US\$1,208 million. The expectation is that the follow up to the National Competitiveness Agenda, as updated in 2012, and the coordination of work across the public institutions will help this upward trend in FDI to continue.
