AmCham In Action

June 2022

Guatemala´s Economic Reactivation & Investment Promotion Strategy: A PPP Agenda with the USA

ACTION PROPOSALS FOR 3-4 2022

- USA financing for investment "hubs" for manufacturing for exports and jobs via DFC and MCC programs, as well as IDB nearshoring programs.

- USA support to PPP infrastructure projects between USA and Guatemala governments and business sectors, with particular focus on the FTZ and ZDEEP sector.

- Digitalization and technology transfer initiatives with new USA programs and private sector investment.

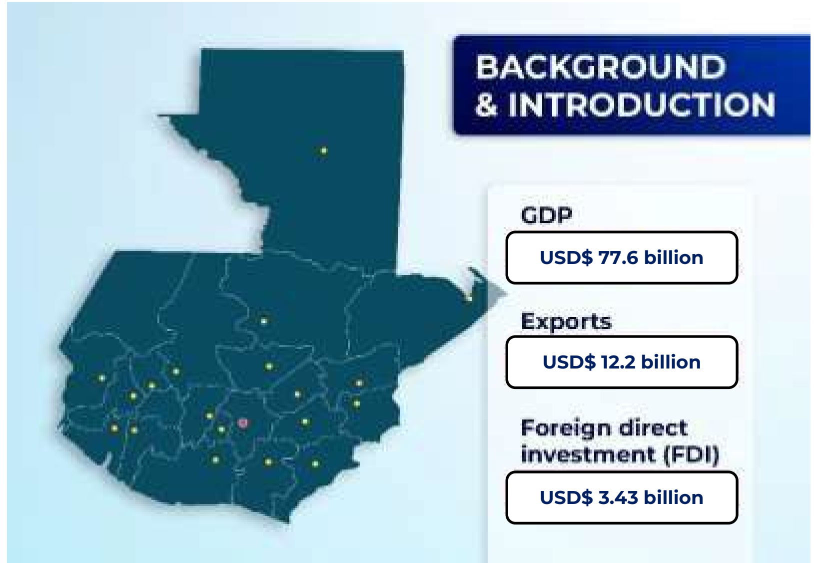
- USA and Guatemala commercial diplomacy and promotion initiatives via nearshoring as well as CAFTA integration into USMCA investment value-chains and supply chains, especially production cumulation and rules of origin complementarities.

ANNEX 1:

We believe that after understanding the vision that Vice President Harris has for the region, in which she seeks to generate prosperity through the creation of jobs in conjunction with the private sector, that we have other opportunities that will develop quick wins:

- Efficient and flexible mechanism for short supply.
- Market access to new agricultural products: avocado case.
- USA lift section 232 tariffs on steel and aluminum from Guatemala.
- Promotion and facilitation of H-2B and H-2A temporary work visas.

I. BACKGROUND & INTRODUCTION



Guatemala is the largest and most diversified economy of Central America, with a total GDP of US$ 77.6 billion (23% of which are remittances – US$ 17.86 million), exports of US$ 12.2 billion, and foreign direct investment (FDI) of US$ 3.43 billion. Much of this economic growth success developed from US policy and business engagement originating in the 1984 Caribbean Basin Economic Recovery Act (CBERA), known as CBI, establishing Guatemala and the region as a center for USA manufacturing offshore production combining value-added labor competitiveness in the region with USA manufacturing R&D and technology investment. In the 2000s this co-production joint venture model was further expanded and deepened and diversified with the 2006 US free trade agreement (FTA) with the region, CAFTA-DR. By all performance indicators and measurements this 4-decade process of FDI, production, and export has been a success, expanding economic opportunities across the board and creating an economic ecosystem of competitive stability and good jobs.

However, this data does not reflect on the lives of thousands of Guatemalans who make the decision to migrate to the United States looking for better opportunities. The COVID-19 pandemic, along with natural disasters, such as hurricane Eta and Iota, made 2020 a more difficult year for everyone. The economic crisis and retrenchment resulted in economic lockdowns and a decline in employment opportunities, serving as incentives to 'push' labor into US-bound migration waves. Paradoxically, remittances from the USA increased during the pandemic. For this and other reasons today, more than ever, it is necessary to work together in the implementation of legal frameworks that promote a better business climate, generate new job opportunities, recognizes all members of society and enhances ties with the main partner of Guatemala and the region, the United States of America.

For various decades now, and especially since the 2006 CAFTA-DR, the Government of Guatemala has embarked on a multi-strategy plan to increase trade liberalization and economic reforms, as well as advance legislative reforms to business-critical policies seeking to improve transparency and efficiency. The pandemic crisis has exacerbated many of the weaker linkages in this economic model and is forcing the need for a faster, broader and deeper economic reactivation strategy centered on public and private investments and job creation. A clear commitment to transparency and anti-corruption efforts and the respect for the rule of law, both at the public and private sector levels in conjunction, will serve to further strengthen and dynamize this economic reactivation, growth and prosperity agenda. Likewise with regards to a bi-national collaborative security effort against illegal narcotics trafficking and drug cartels undermining the rule of law, the institutions of the public sector, and the legitimate business sectors in Guatemala.

On the public health front, it has become imperative as well to ensure comprehensive vaccine procurement and to have a proper vaccination plan that allows all Guatemalans to have access to the COVID 19 vaccine. Only such measures will guarantee the possibility of a business and policy environment that is stable and can grow with new jobs, thereby disincentivizing the migratory push and making staying at home more attractive and viable on all fronts.

The Guatemalan and USA private sector in Guatemala, working via the AmCham Guatemala as the premier business organization in the country, have been working with the governments over the years to advance a strategic engagement plan at the national, regional, and international levels to promote economic reactivation, investment promotion (foreign and local), and job creation across various sectors in manufacturing, services, and agroindustry. New initiatives such as the 2020 *"Guatemala No Se Detiene"* and the new shifts in global value chains (GVC's) as per manufacturing nearshoring investment (NS), technology transfers and digitalization, and a new focus on services and the circular and orange economies as well as the renewables and environment-conservation sectors, now position Guatemala in a unique position in the isthmus via CAFTA-DR and geographically linked to the USMCA North American markets via Mexico. The Inter-American Development Bank (IDB) has embarked on its own NS GVC program of support to countries and is already identifying nine (9) sectors and over 45 project investments as "quick wins" to advance green investments, new exports, and new jobs.

All these efforts, Guatemala and US working together, can allow for the making of a major difference game-changer in terms of economic opportunities and incentives for Guatemalans to stay home and work at home for a prosperous and safe future. Today in 2021, just like in 1984 and 2006 before, we believe that investment for production and exports based on competitive jobs can form the foundation today for the required economic reactivation and growth to counter migration and offer opportunities here at home. The private sector is ready and able to work with US policies to advance such goals and initiatives.

II. USA INITIATIVES TO PROMOTE INVESTMENT, ECONOMIC REACTIVATION AND PROSPERITY

- Access to Financing:
  - The promotion of the US International Development Finance Corporation (DFC) in 2020 was very well received in Guatemala and offered a new access to financing, leveraging US government and business investment. However, after two years we have not seen the impact expected in the business. Therefore, we would like to propose a less burdensome and bureaucratic approvals, especially for loans under US$1 million, targeting SME's and non-traditional sectors. The DFC procedures and mechanisms should also include some form of local on-the-ground representation capable of working with viable projects and assisting in the preparation of applications and the pre-approval process. This would serve to streamline and expedite the process in order to generate more project proposal, approve and finance more projects, and generate much needed green investment and new jobs. Current requirements have proven to set a bar too high for the private sector to meet.

  - The Millennium Challenge Corporation (MCC) has been present and active in Guatemala since 2015 under the implementation of a $28 million threshold program to improve tax and customs administration, stimulate more private funding for infrastructure, and provide Guatemalan youth with skills they need in the job market to improve the quality of secondary education. However, we feel that it is also necessary to leverage the MCC for the development of local infrastructure and logistics project using US companies to help elevate the country's infrastructure productivity and competitiveness. Currently the MCC has withdrawn this type of aid, based on Guatemala´s per capita GDP, yet this indicator does not reflect the deficit in infrastructure and its negative implications for the country´s development.

Like with USAID before it, the DFC and MCC programs establish GDP income indicators as the quantifiable variables upon which the US decides to work in any given country. Given the pandemic crisis and the need to focus on maximizing financial resources and competitive investments we would recommend a waiver of all income indicator variables in order to free-up DFC and MCC resources for Guatemala projects. This would be similar and in-line with income waiver decisions taken already by multilateral financial institutions such as the World Bank, International Monetary Fund (IMF), and the Inter-American Development Bank (IADB).

The recent DFC and FMO Entrepreneurial Development Bank collaboration for a US$75 million co-financing facility to boost COVID-19 response will bring much-needed liquidity to businesses in developing countries impacted by the pandemic and Guatemala would be an excellent starter location to bring liquidity to financial intermediaries to support micro-, small-, and medium-sized enterprises impacted by the COVID-19 crisis and promote new investment to support economic sustainability in developing countries with a particular focus on low income countries and underserved groups like women, youth, and entrepreneurs active in agriculture or rural areas. https://www.dfc.gov/media/press-releases/dfc-and-fmo-launch-75-million-co-financing-facility-boost-covid-19-response

- PPP (Private-Public Partnership) Infrastructure Investment Projects: Guatemala faces major challenges in the country's infrastructure, which has impacted the quality of life of the inhabitants, as well as the productivity and competitiveness of the country, due to the various limitations of the traditional model in the development of infrastructure and provision of services, such as fiscal and investment limitations, lack of planning and project execution capacity. Roads, ports, logistics, water, energy/power projects need to be streamlined under a strategic objective of attracting FDI in job-creating sectors that require competitive infrastructure logistics. AmCham member companies can advance joint ventures with US and international companies attracted to the Guatemalan economy.

- Free Trade Zone (FTZ), Special Public Economic Development Zone (ZDEEP), FDI Reactivation & Modernization: The FDI and export growth model of the past decades has been centered on maximizing the FTZ model which permeates the region and is concentrated on light manufacturing and goods production. The new 21st century economic diversification into services, ICT, and the new circular economy of environmental conservation and resilience. Manufacturing of medical equipment for the new post-pandemic health economy is also a critical new value-added sector.

    - ZDEEP ZOLIC: The Santo Tomás de Castilla Free Trade and Industry Zone, ZOLIC, is a decentralized and autonomous entity of the Government of the Republic of Guatemala, created in 1973, by Decree 22-73 of the Congress of the Republic. A Special Public Economic Development Zone (ZDEEP) in Guatemala is a geographically defined area within the national territory, extra customs, for the development of industrial goods and services or commercial activities, with special rates, temporary customs regime, and foreign trade, authorized by ZOLIC. https://zolicguate.com/

- Michatoya Pacific Business Hub is a multimodal free trade zone nestled within a smart city, offers built-to-suit constructions on size-and-shape-to-suit properties, warehousing, livability amenities and a full range of services in the region's best location. https://www.michatoyapacifico.com/en/

- Digitalization and Technology Transfer Industries are needed to add value to the human resource development component of the economy, leveraging not only supply-side training and education in-country but also responding to company demand-driven needs for well-trained workers with technical skills and abilities to engage work across the new digital economy re: ICT (Call Centers, Business Process Outsourcing-BPO and Information and Technology Outsourcing-ITO), audio-visual, video and animation, among others. Vocational and technical training initiatives, with corporate human resource components, can complement the traditional high-school and university training not adequate for such a changing economy.

AmCham Guatemala has a Technology and Innovation Committee (TIC) that is working on knowledge transfer, based on the MIT Regional Entrepreneurship Accelerator Program (MIT REAP) - https://reap.mit.edu/assets/D-Lab-One-Pager-Sept-2017.pdf. This system achieves success by translating research into practical frameworks, convening stakeholders focused on IDE, and educating regional leaders through team-based interactions to achieve economic and social progress.

- Promotion of Commercial Diplomacy & Investment Promotion:
  With changing global value chains (GVC's) and the new nearshoring investment and manufacturing phenomenon, along with fiscal incentives, there is the relocation of US manufacturing back to the US as well as to Latin American/Caribbean markets. Companies are seeking close to market production competitiveness and lowering of risks related to offshore production in Asia and China. There is a great opportunity to leverage this market phenomenon with USA government policy support for investing and producing in the region, in cost efficient and close to USA market countries, such as Guatemala and the Northern Triangle countries, for sectors such as textile/apparel maquila FTZ, light manufacturing (electronics, medical devices), agroindustry and agribusiness industries (including food & beverages), chemicals & pharmaceuticals, call centers, BPO´s, and ITO's, logistics and transportation, and energy services, among others. The *"Guatemala No Se Detiene"* initiative of the government has advanced in identifying target sectors and industries and firms that can relocate manufacturing investment and production from Asia to Guatemala in a competitive

manner and accessing the US market with made-in-CAFTA-DR exports. Already $2 billion new investments have been targeted for 2021 and growing.

- US State Department and Commerce Department support to an AmCham Guatemala-led public-private sector *"Coalition for Investment & Jobs"* focused on targeting and promoting job-creating investments with US CEO's of companies in Guatemala and others not present but targets for consideration to investing in Guatemala. Along with the US Chamber of Commerce and AACCLA and the executive policy support of the Biden administration, AmCham Guatemala can target such CEO's and coordinate site visits to Guatemala to focus on potential "quick win" job-creating investments.

- Throughout the 1980s and 1990s successive USA governments and Congresses, with bipartisan support, promoted such investment efforts in the Caribbean Basin, resulting in many of the current USA corporate investments in Guatemala across manufacturing, agroindustry and services sectors. We now need to double-down on such experiences and leverage the current volume of US corporate investment in Guatemala (US$195.3 million in 2020 and US$1,284.6 million from 2016-2020) for expansions of current investments and new investments. Agriculture Department programs have worked successfully with Guatemala agroindustry exporters over the decades and can advance new initiatives to maximize new business opportunities.

- Pepsico invested US$70 million during 2019 and 2020, increasing its logistics capacity for the region. Similarly, its commitment to Guatemala is reflected in the training of 730 farmers in GAP and GMP. The company has also carried out more than 130 productive agricultural and environmental infrastructure works and has trained more than 870 young people and women in agribusiness skills.

- Coca Cola FEMSA has invested throughout the years in Guatemala and now has 3 production plants, 25 distribution centers, generating 3,768 direct jobs and reaching 110,652 clients nationwide. They also have an alliance with more than 10 NGO´s and together create different projects that benefit more than 200 thousand Guatemalans. Between 2020 and 2021, Coca Cola FEMSA has invested in 4 major projects located in:
    - Escuintla: US$900,000 investment and more than 80 direct jobs.
    - Barberena and Villa Nueva: US$2.2 million and more than 47 direct jobs and 60 indirect jobs.
    - Retalhuleu: US$60 million and 97 new job positions.
    - Chimaltenango: US$180,000

- Likewise, there is a unique opportunity for Guatemala to leverage its geographic contiguity with Mexico to seek to maximize value-added and co-production investment and jobs opportunities with companies in Mexico (Mexican, US, Asian and international) to competitively integrate Guatemalan production into the USMCA value chains across many of these same nearshoring and FTZ sectors. Co-production and cumulation of inputs for exports under FTA's has worked well already between the Dominican Republic and Haiti, for example, using CAFTA-DR and CBERA provisions. Guatemala, Mexico and the USA can very well use CAFTA-DR and USMCA provisions to advance cross-border and co-production investments for exports, creating new and competitive employment in the economically depressed northern Guatemala and southern Mexico regions. South Korean and Taiwanese companies and investments in many of these sectors can also be leveraged along this US initiative. Current USTR discussions re: USMCA implementation and enforcement offer a unique opportunity to advance CAFTA-DR integration and cumulation.

  Specifically, and as per recent policy statements by USTR Katherine Tai, we envision opportunities such as re:
  - CAFTA-DR joining USMCA and its value chains;
  - Rules of Origin harmonization of value-added preferences; and,
  - Cumulation on all supply chains.

III. INVESTMENT "HUBS" FOR MANUFACTURING FOR EXPORT AND JOBS

President Biden has asked for US$20 billion to build manufacturing innovation hubs across the USA. Meanwhile, his infrastructure agenda allocates US$50 billion to strengthen supply chains for critical products. If some of these hubs were located in Guatemala and the region the US could assemble US$1 billion in infrastructure investment by drawing on those resources and expertise of the DFC and MCC, as well as private investors. USA firms partnering with these new technology hubs could be eligible for some of the same incentives the administration desires to make available to manufacturers moving factories back to the US mainland. Components made in these hubs under current free trade deals can also count toward domestic content mandates.

These overseas hubs would support local economies, create new good employment, and slow migration, while also producing significant economic benefits for the US economy. The integrated regional network of world class production hubs would build supply chains with more resilience and flexibility. Their scattered locations would provide an insurance against natural disasters, political instability, and even disease, helping to avoid the type of costly and chaotic disruptions from the coronavirus pandemic. This network of regional manufacturing hubs would correct such serious disadvantages of existing supply chains based in Asia. Closer hubs would incorporate more components made in the United States. Their proximity would also make them less vulnerable to disruptions in transportation. In another benefit, US authorities could more easily guard against cyberwarfare and terrorist threats. Nearshore value chains would also be far more cost efficient than full onshore supply chains. Labor and environmental standards would also be pushed upwards towards US benchmarks as part of the natural market competitiveness process.

Given the resources the Biden Administration has proposed, these investments in the region could be transformative. These hubs could easily generate 100,000 jobs each after five years and three times as many after a decade in operation. By purchasing manufacturing inputs from local suppliers, including small business, the creation of new competitive jobs would be even greater. To ensure these hubs are competitive, and to improve the items produced for American firms and consumers, the United States could redirect a key portion of its foreign assistance to build out local infrastructure, increase broadband access, and bolster public education and jobs training in the region. The administration could also broaden the scope of its ambitious domestic infrastructure and jobs initiatives to include new developments including the bold climate change and energy plans proposed from the US in fact extend to these areas. The result of these hubs would be a very powerful demonstration that economic collaboration helps Guatemala and the region while strengthening USA security and prosperity.

55 Años

AMCHAM GUATEMALA

AMERICAN CHAMBER OF COMMERCE

AmCham Guatemala