

GUATEMALA:

Times of Change

Special report prepared by Strategic Media

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GUATEMALA: Times of Change

The rotors of the Guatemalan Air Force helicopter start spinning, slowly at first, then faster as the chopper carrying President Alvaro Colom Caballeros and his security detail lifts off from a closely guarded tarmac at Guatemala City's La Aurora International Airport.

Less than an hour later, Colom is in the remote coffee-growing town of Jacaltenango, visiting an innovative agriculture project developed by foreign NGOs a few years back and which the government's newly formed national program for rural development (Prorural) is looking to replicate in other areas of the country.

Hundreds of townspeople pop up out of nowhere to welcome the 57-year-old Colom, Guatemala's first left-leaning president in more than half a century. Agricultural experts guide him around an experimental hydroponics tomato plantation that yields four times as much produce as what normally could be expected to grow in this terrain.

Later, after the president samples three ripe tomatoes and makes a few speeches, he enjoys lunch at Jacaltenango's City Hall—as dozens of children peek through any hole they can find to glimpse this new leader, who prides himself on closeness with his thirteen million or so fellow citizens.

"Guatemala is a magical country where we share 108,000 square kilometers, 23 peoples, 23 cultures and 23 different visions," Colom tells SML Strategic Media in an exclusive interview. "We need a low-impact development strategy involving individual communities."

Colom's message especially reverberates in a largely indigenous Guatemala that has had to watch the country's development from the sidelines because of systematic discrimination.

In the months since its January 14, 2008 accession, the Colom administration has raised expectations at home and confounded skeptics abroad who assumed the social democrat would align himself politically with Venezuelan president Hugo Chávez.

In April, Colom met with U.S. president George W. Bush at the White House. One month earlier, he also traveled to Brazil to meet with leftist president Luiz Inacio Lula da Silva, who has earned widespread



President Colom eyes a bright future for Guatemala

praise, even from critics, for his successful antipoverty programs.

"I pledged myself to those who had nothing, and this is what I am doing," said Colom. "I believe that the great change is not being perceived. Money now goes to priorities such as combating poverty." After less than 100 days in office, the president launched a national rural development program that will assist 270,000 families over a two year period. "This means more than 1.3 million people in rural areas, or 10 percent of Guatemala's population," says Prorural's newly appointed executive coordinator Roberto Dalton.

Among other things, the Colom administration so far has:

- initiated its Mi Familia Progres (My Family Improving) program, under which a monthly payment is given to Guatemala's poorest families to encourage them to put their children in school and ensure these kids have access to health clinics in each community.
- pushed a dialogue on national reconciliation, incorporating all elements of civil society despite party rhetoric and deep divisions lingering as a result of Guatemala's 36-year civil war.
- reduced Guatemala's homicide rate, which had ranked among the highest in the region. It has also seized more illegal narcotics in four months than what was confiscated in the previous three years. In this regard, the Colom administration is cooperating closely with Washington,

whose Merida Initiative—a three-year program designed to support the battle against drug cartels—calls for \$65 million for regional projects in Central America, including between \$10 - 20 million for Guatemala.

- launched a program to reduce Guatemala's dependence on imported oil and boost production of domestic petroleum resources, while encouraging the growth of biofuels and alternative energy sources.

The challenges for newcomer Colom are great, but he is determined that his administration will strike the right balance and overcome the obstacles the country faces. "I have faith that there's going to be important changes ahead. In my vocabulary, the words 'cannot be done' are prohibited, because we have to get the job done with what we have, even if it takes time and seems in certain moments overwhelming." ■

Guatemala: A Dynamic Diplomatic Front

In 1947, Guatemala's vote in favor of the United Nations resolution to partition Palestine into Arab and Jewish states was a determining factor in the establishment of Israel the following year. Today, Guatemala is an active citizen and supporter of the Multilateral Governance System. Its troops play leading roles in peacekeeping operations in Congo and Haiti. In contrast, the country abstained from supporting the U.S. war in Iraq.

Our international policy is an open one. We do not close ourselves to any nation; on the contrary, this openness is one of our fundamental pillars.

Haroldo Rodas Melgar – Foreign Relations Minister

Guatemala's willingness to pursue an independent—and sometimes unpopular—foreign relations policy is a hallmark of its diplomatic dynamism.

Among Guatemala's main priorities, said Haroldo Rodas, Foreign Relations Minister, is economic integration with its Central American neighbors, not to mention closer political ties with South America as well.

Guatemala pursues an aggressive foreign trade policy that is now more than ever the driving force behind its diplomatic efforts. "The time has come to also look to the south for strong economic and political partners," said President Alvaro Colom. Present at his January 15, 2008, inauguration was Brazil's president, Luiz Inacio Lula da Silva, who three years earlier had become the first Brazilian head of state ever to visit Guatemala. Last April, Colom returned the gesture, flying to Brasilia on his first state visit overseas as president.



Lula and Colom, building ties beyond Mercosur

Luis Antonio Fachini, Brazil's ambassador to Guatemala, said it's important for his country to cultivate strong trade and political relationships with countries like Guatemala that are moving toward social democracy and that share common points of view. Closer ties also help Brazil share its expertise with fellow Latin American countries on problems ranging from fighting hunger and poverty to exploring new sources of energy, particularly biofuels.

Meanwhile, Rodas says Guatemala still aspires to win a coveted seat on the UN Security Council, despite its October 2006 tug-of-war with Venezuela that after 47 rounds of voting failed to produce a clear winner; both countries eventually endorsed Panama as a compromise candidate to end the deadlock.

"We wish to have an excellent relationship with every nation. Unfortunately, our financial resources do not allow us to have the diplomatic presence we would like," said Rodas, adding that "we are nonetheless expanding this presence to match the changing power equation in the world. For example, we plan to open diplomatic missions in India and South Africa shortly." ■

Transparency: Restoring Trust in Government

Fully aware that Guatemala is in need of greater transparency, the new government is taking its cleanup campaign very seriously. Vice President Rafael Espada has been charged with the urgent task of eliminating corruption. The same Espada who little over a year ago was one of America's most respected heart surgeons has become Guatemala's bluntest and most hands-on politician: "There is still a lot of corruption in this country and disorganization in the political structure. Part of my mission is to address this", Espada said in an exclusive interview. "The president has asked me to serve as the leader on a transparency project to push the country in the right direction."

Espada goes on to say that the United Nations, the U.S. Agency for International Development and other groups are "supporting us in the launch of a truly transparent government." Within two years, says Espada, "we should have a secretary of transparency" in operation. He also intends to make "quality information available" online 24 hours a day, seven days a week in an effort to restore the public's trust in the government.

In the end, nobody puts it so accurately as Foreign Minister Rodas: "Guatemala's best international policy will be its domestic policy." ■

Sound Macroeconomics

When it comes to luring foreign investment, credit ratings are paramount. Keeping this in mind, Guatemala's leading monetary authorities have formed a country risk board to boost its sovereign ratings by the world's three top agencies: Moody's Investor Service, Fitch, and Standard & Poor's.

Known in Spanish as the Mesa de Calificación de Riesgo País, the board represents one of the most successful alliances to date between Guatemala's public and private sectors. Partly as a result of this joint effort, the country's ratings have improved.

Juan Alberto Fuentes, Guatemala's minister of public finances, said the main aspect of his job is carrying out tax modernization. This includes the creation of a new income tax and renewed efforts to collect more value-added tax (IVA). He'd also like to see an improvement in the risk assessment of Guatemala by the Organization for Economic Cooperation and Development (OECD).

"The risk ratings agencies list security, inequality, social struggle, weak tax collection capacity, and governability concerns as the country's main challenges," said Fuentes. "This is why a basic agenda is being developed—shared



by the public and private sectors—and this gives us much hope of advancing together in this effort."

Despite rising food and oil prices and a likely global recession, Fuentes insists that "never before has Guatemala been so well prepared to weather the storm ... we have a stable and consolidated macroeconomy, with \$4.3 billion in international reserves."

Maria Antonieta de Bonilla, president of Guatemala's Central Bank, agrees. She points out that the country's GDP grew 5.7 percent in 2007—the fastest growth in thirty years. "Currently, Guatemala's public debt is one of the lowest in the region, while our external debt has dropped from 15 percent of GDP to 12 percent, and this reduces the nation's vulnerability to external clashes," she said.

Hopefully for Guatemala, the credit-rating agencies are listening. ■

Competitiveness at the Heart of the National Agenda

It's no secret that Guatemala—with over thirteen million people and a GDP of \$33.6 billion—boasts the largest economy in Central America. Its challenge, however, is to be the most competitive as well.

"As a nation, we must run, and run faster than our competitors," says Julio Héctor Estrada, executive director of Guatemala's National Program for Competitiveness (known by its Spanish acronym Pronacom).

Despite Guatemala's inequality in income distribution, the country does have some important factors going for it these days. For one thing, Guatemala enjoys one of Latin America's lowest fiscal deficits (1.6 percent of GDP) and, during the last four years, the region's lowest external debt (12.8 percent of GDP). It also has \$4.28 billion in reserves as of 2007, and despite the political turmoil of the 1970s and 1980s, it has not gone through any banking or financial crisis since the Great Depression of the 1930s.

"In order to understand Guatemala, one has to watch this nation's movie over the last 25 years, not just today's picture," says Mario Marroquin, executive director of Invest in Guatemala, the one stop national investment agency. "The country has great economic and social challenges. Nonetheless, important advances have been made in macroeconomic and political stability, as well as social indicators."

Ratings agencies have been paying attention, too. Fitch has given Guatemala a sovereign rating of BB+, with a positive perspective, while Standard & Poor's rated the country BB, also with a positive perspective.

Earlier in the year, the ratings agency changed the outlook on Guatemala's bonds from stable to positive "in light of a strengthening balance-of-payments position and prospects for continued economic growth."

Annual foreign direct investment (FDI) has jumped from \$105 million in 2001 to \$535 million in 2007. The FDI goal for 2013 is \$1.5 billion, which—together with domestic investment of \$10.6 billion—would be equivalent to 25 percent of GDP.

"This investment rate will sustain annual economic growth over 6 percent, which is so necessary in order to leave poverty behind," said Estrada, who led the World Economic Forum's research efforts on Latin America for several years prior to joining Pronacom.

One of Pronacom's central goals is to coordinate the modernization of government operations and services in order to maximize the country's potential as a Logistical and Manufacturing Centre. Convened by Pronacom, the leading companies in the textile, assembly, information technology, and off-shore services sectors have grouped around clusters where the government co-invests with the private sector

in infrastructure, human capital, and in innovation and technology development.

"Guatemala has a legal framework that doesn't discriminate between local and foreign investments, with complete freedom of capital movement and repatriation of dividends," he said. "Investors can also set up in free trade zones, with benefits that are within the international standards permitted by the WTO. Besides, one sole company can be established in any part of the country, under a special exporter regime, which permits it to operate as a free-trade zone within its installations."

Alvaro Castellanos, a partner at Guatemala City's prestigious Consortium law firm, says the previous administration's attitude toward foreign investment has been "very positive," thanks to reforms in the country's legal system and public administration. As a result, Guatemala has been recognized as one of the top ten country reformers by the Ease of Doing Business program of the World Bank for two years in a row.

"It has also introduced laws for particular sectors of the economy which are regarded as very liberal, such as telecommunications and mining, and has entered into bilateral investment treaties and free-trade agreements containing investment chapters, such as CAFTA (Central American Free Trade Agreement) with the US," said Castellanos, adding that "based on the Foreign Investment Law, no performance requirements can be imposed for the opening or maintenance of a foreign investment." President Colom has expressed a strong commitment to the continuity of an investor friendly, fair and stable environment.

To date, Central America's largest corporation is Grupo Multinversiones, a conglomerate with annual sales exceeding \$4 billion. Its banner company is 35-year-old fast-food chain Pollo Campero, with more than 300 restaurants in Central America and the United States. Earlier this year, Pollo Campero opened its first two outlets in Asia: one in the Indonesian capital of Jakarta, the second in the Chinese metropolis of Shanghai; a vivid example of Guatemalan businesses going global.

Likewise, Guatemala's coffee industry has gone through an extraordinary transformation in the last decade, focusing on more lucrative gourmet blends rather than ordinary beans; it has already become the largest supplier for Starbucks, the world's leading coffee retailer.

"The most important investments in the isthmus have first come to Guatemala, and from here they have extended to the rest of the region," said Marroquin. "All of these examples show how Guatemala has become a leader, based on serious and sustained work. The challenge is to consolidate this entrepreneurial success and extend it to other sectors." ■

Advancing Infrastructure and Logistics

Brand-new highways, gleaming cruise ship and container terminals, a dramatically expanded international airport—all these and more are taking shape across Guatemala, as the Colom administration pours billions of dollars into updating the country's antiquated infrastructure, continuing several projects spearheaded by the previous Berger administration.

Supervising this ambitious effort is Luis Alfredo Alejos Olivero, Guatemala's minister of communications, infrastructure, and housing. He said the nation will invest \$1.2 billion over the next four years in roads, airports and seaports alone, based on a new law that incorporates the most successful world models for the regulation of such projects.

"To really improve the nation's infrastructure, we will definitely need the participation of the public and private sectors," he said. "Many companies at an international level are willing to invest in Guatemala, allowing us to be more aggressive with the plans we already have. It is important that we act as facilitators in this type of investment."

One of the ministry's biggest projects is construction of the Franja Transversal del Norte (FTN), a highway linking Guatemala City with the country's four northernmost

departments. Likely to be completed by 2011, the construction of this \$250 million project is expected to enable an area that represents an additional 20 percent of high yield arable land in the country to link itself to the international agricultural markets.



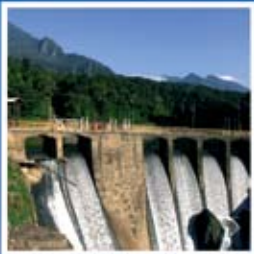

"This is an area with natural and cultural diversity, but it's been abandoned and we believe we can create a good tourist corridor with this highway," said Alejos, adding that the FTN will also be an additional link to Mexico and Belize.

Guatemala's infrastructure needs extend to seaports as well. Some \$125 million will be spent this year to expand Puerto Nacional Quetzal on the Pacific coast. This includes a new container terminal, longer berths, and a dredging project so that larger ships can call there. Investment will also go toward beefing up the four-lane highway linking Puerto Quetzal to Guatemala City, as well as to the port of Santo Tomás de Castilla on the Atlantic.

Santo Tomás currently receives 100 cruise ships a year. Upon completion of the new cruise ship terminal, the port will be able to receive 300 vessels annually.


"We are trying to execute this project with foreign investment only," says Alejos. "The idea is to triple or



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quadruple the volume at Santo Tomás in the next ten to fifteen years. To do this, we are going to require a public-private investment of around \$400 million."

A smaller project is underway at the port of Champerico, where the British and Dutch governments are contributing 8 million euros to develop sport fishing; the effort will pay off as European tourists who like to fish begin flocking to Guatemala for vacation.

Guatemala, which is increasingly positioning itself as the leading regional logistics and service center, has already slashed the time it takes to clear a container through customs from twenty hours to three hours. In fact, the model developed in Guatemala—which is seeing rapid growth of regional distribution centers in the chemical, textile and electronic manufacturing sectors—is now being copied by other countries.

One of the most high-profile projects to date is the expansion of Guatemala City's La Aurora International Airport, an ambitious project started by the previous Berger administration. The first phase of this \$400 million project was built by Precon, which has been praised by the International Civil Aviation Organization for getting the

job done on time and under budget while adhering to the latest international aviation security standards.

When finished, the new terminal will be able to accommodate 22 aircrafts simultaneously. The airport already handles 260 flights a week and direct connections to six U.S. cities as well as Mexico, all of Central America, Peru, and Spain.

"The first phase of the airport expansion will be finished during the third quarter of this year, and construction of phase two will begin in mid-2009," said Alejos. "This second phase, besides opening more boarding gates, will focus on extending runways so that larger planes can land. We also want to remodel our cargo area; this is very important for us."

To that end, Combex-IM (another initiative developed within the boardrooms of the Chamber of Industry) is committed to providing quality air-cargo services to importers and exporters alike. Its spacious facilities are equipped with closed-circuit TV cameras and other sophisticated equipment. Handling over 60 thousand tons of air cargo annually, Combex-IM operates 24 hours a day, 365 days a year to meet customers' high expectations. ■

Intecap: Training for the Future

Without skilled and qualified labor, no country can be competitive in today's globalized economy. That's why the nonprofit Productivity and Training Technical Institute (known by its Spanish acronym Intecap) is so important to Guatemala's economic future.

Intecap, the country's leading institution for human-resources training and technical assistance, offers courses, career training, and seminars through its 21 centers throughout Guatemala, as well as mobile units and online classes. Since its creation in May 1972, Intecap has trained over 2.7 million people, though the agency's role has more recently been enhanced with the 2004 adoption of the National Competitiveness and Investment Program.


Intecap offers technical assistance to companies in three economic sectors: agriculture, manufacturing, and services. Its mission is to continuously improve Guatemala's business climate by focusing on areas such as efficiency of government services, encouraging the development



Intecap is advancing IT skills

of industries with clear potential, and investing in physical infrastructure and critical technology.

By year's end, the Korea-Guatemala ICT Training Center will be inaugurated, as part of the Korean government's efforts to help train young guatemaltecos in the field of information and communications technology. By the end of 2009, Intecap expects to have seven new training centers functioning in San Marcos, Huehuetenango, Suchitépéquez, Petén, Sacatépéquez, Chimaltenango, and Santa Rosa. ■



Guatemala, The Energy-rich Cousin in Central America

With petroleum rapidly approaching \$200 a barrel, it's no surprise Guatemala is eagerly looking for ways to wean itself from a near-total dependence on imported oil.

Carlos Meany, the country's minister of energy and mines, says now is the time for his country to diversify into hydroelectric and geothermal power, and coal and ethanol as alternate sources of energy for a quickly growing population.

"When this new government took over on January 14, 2008, we were truly worried with the energy crisis which was building up worldwide," he said. "Guatemala had chosen an inappropriate technology for generating energy based on oil and bunker fuel. We knew that if we didn't take immediate action we would be in danger of rationing energy as early as 2009."

Indeed, demand for electricity in Guatemala is expected to jump by 8 percent this year, with sustained growth of 15 percent forecast through 2015. Where all the additional capacity would come from was still unclear as President Colom took office. But, since his inauguration, projects for an additional 920 megawatts have been confirmed and initiated and new projects at different stages of planning and development include more than 40 initiatives with a total capacity of more than 3 gigawatts.

Minister of Environment and Natural Resources Dr. Luis Ferraté says Guatemala has the potential to produce over 5,300 megawatts from hydroelectric power, and another 1,000 megawatts through its geothermal potential. Wind energy is also being pursued by the Israeli company Tahal, which plans to invest \$60 million in a Guatemalan venture; meanwhile, the European Union is financing a solar energy project in 50 rural communities.

Biofuels are yet another path to energy self-sufficiency, with Grupo Pantaleón and other top sugar exporters leading Guatemala's efforts to generate electricity from the byproducts of the sugar-harvesting process. Pantaleón's president, Julio Herrera, says Guatemala's sugar industry already produces at least 16 percent of the country's energy during the sugar harvest.

Yet oil will never be completely eliminated from the energy matrix, especially since Guatemala is an oil-producing nation. The peak was reached in 2003, when the country produced an average 25,000 barrels a day. Today it produces close to 20,000 barrels a day in the northern region of Peten, most of it a rather heavy sulphuric petroleum that sells for 64 percent of West Texas intermediate, but total confirmed reserves for this crude and some other sweeter varieties amount to more than 500 million barrels. This means that the country could increase production to more than 100 thousand barrels per day for 20 years without finding one more drop of additional oil. There are also strong indications of considerable additional reserves in the border areas of Mexico and Belize, and exploration of the Pacific Basin, where an important discovery of Gas is expected, will begin in 2009. The Guatemalan government is committed to boosting drilling in Peten and exploration in new areas with high potential.

A perfect example of the kind of projects that are shaping the country is the 94mw power plant Hidro Xacbal, S.A. According to Alvaro Castellanos, partner at Guatemalan law firm Consortium and advisor on the deal, the transaction consisted of a highly complex and sophisticated structure involving numerous agreements governed by both foreign and Guatemalan law. In 2007, the magazine Latin Finance named Hidro Xacbal the Best Infrastructure Project in 2007 in the category of financial structuring and financial innovation.

Castellanos goes on to say that upon completion, Hidro Xacbal will be the second biggest hydroplant in Guatemala and one of the largest in Central America.

Sensing an air of opportunity, a delegation from Brazil's state oil monopoly Petrobras is expected to visit Guatemala soon to discuss exploration opportunities, according to Luiz Antonio Fachini, the Brazilian ambassador to Guatemala. Fachini said the converging interests between Petrobras and Guatemala came about following Colom's meeting with Petrobras executives during his official visit to Brazil earlier this year—in yet another example of the affinities that have recently developed between the two nations. ■

Tourism Offers a World of Opportunities

Until Guatemala's 36-year-long civil war officially came to an end in 1996, this land of Mayan temples, exotic jungle panoramas, and charming colonial towns was largely ignored by tourists.

These days, however, tourism is booming. Last year, Guatemala received 1,627,500 foreign visitors (up 8.4

percent over 2006 figures), generating income of \$1.2 billion (a 15 percent increase from 2006). Between 2003 and 2007, tourism growth averaged 17 percent a year, with foreigners flocking to Guatemala to see breathtaking Lake Atitlan, the dramatic ruins of Tikal, world-class golf resorts, and coffee plantations producing high-quality gourmet beans.

Julio Orozco is the director of Instituto Guatemalteco de Turismo (INGUAT), the country's national tourism promotion agency. He says investment in tourism projects will surpass \$200 million during 2008—a big chunk of money for Guatemala, but only a fraction of what Mexico or Costa Rica will spend this year on tourism infrastructure.

"Developing our tourism potential is vital," said Orozco. "Until now, there has been a lack of inter-institutional coordination, and a true link between the public and private sector. INGUAT has established a very tight relationship with the private sector—comprised of micro-, small-, and medium-sized enterprises—and, of course, with the local communities. Nonetheless, we still have a long way to go."

Guatemala's main sources of tourism are nearby El Salvador and Honduras, though the country is especially targeting the more affluent U.S. and European markets. Thousands of Americans

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and Europeans visit the colonial capital of Antigua each year to study intensive Spanish. Orozco says his top five EU target markets are the United Kingdom, Spain, Italy, Germany, and France.

"In fact, we are directing joint publicity actions at a regional level through CATA (Central American Travel Agency), based in Madrid," he said. "In a parallel manner, we wish to perform studies on the Scandinavian market, since we have detected interest there in bird observation, hiking, surfing, rafting, and other segments that can be developed in natural areas such as those that distinguish Guatemala."

Orozco said one of INGUAT's priorities is helping Guatemala—together with its Central American neighbors—jointly develop the ambitious El Mirador megaproject as a sort of "Patrimony for Mankind". This Mayan capital of pharaonic proportions was rediscovered recently after centuries lost to the jungle. Aerial photos show the web of elevated roads which linked this important cultural and political center to other cities of the empire. The city boasts the largest pyramid base in the world, and hundreds of temples, making this site one of Guatemala's best kept secrets. The archeological site is currently a few days walk from any civilization through thick tropical forest. Experts and authorities all agree on the same notion: the development of this unique archaeological site into a tourism destination will have to be paced and measured to preserve and protect the fragile ecosystem which surrounds the site. The proposed multinational jungle park would encompass parts of northern Guatemala, Belize, and southern Mexico and include thousands of Mayan temples within its jurisdiction.

"We want Guatemala to be perceived as the heart of the Mayan world, because in our territory one can find the largest and most important archaeological sites and



Guatemala celebrates its colorful traditions

structures of the whole region, which includes Guatemala, Mexico (with its five southern states), Belize, Honduras, and El Salvador," he said.

Perhaps INGUAT's biggest challenge is tackling travel advisories on security issues in Guatemala. While foreign tourists are not being specifically targeted, the perception is that Central America's largest country is also increasingly dangerous.

Orozco says his country has responded strongly to all the bad press by boosting the police presence in tourist zones and by instituting INGUAT's National Program of Tourist Assistance (Asistur), while at the same time better educating tour operators and foreign governments alike on the real situation on the ground.

"Safety is very important to us," he said. "We have presence on eight different sites and are reinforcing tourist assistance for those who visit us through borders with Mexico, Belize, El Salvador, and Honduras. Our intention is to strengthen this program, which public- and private-sector institutions, foreign embassies, and consulates are recognizing more and more each day, and this is exactly what I am supporting." ■

Marriott: Accommodating Central America

Despite Guatemala's fame as a world-class tourist destination, the 385-room Marriott Guatemala City—one of the country's leading hotels—hardly depends on tourism at all. Only 3 percent of its guests are bona fide tourists; the rest are business executives, including those attending conferences, thanks to the property's state-of-the-art convention facilities.

At present, occupancy at the ten-story Marriott, a few minutes down the highway from Guatemala

City's La Aurora International Airport, ranges between 70 percent and 75 percent.

According to General Manager Germinal Garcia, "Guatemala has proven that there can be a healthy hospitality offer, providing even better service than a Nordic country or a North American one."

Garcia said 78 percent of the Marriott's guests come from the United States, Mexico, and Central America, despite the large presence of European tourists in Guatemala. ■

No Crisis in Guatemalan Real Estate Sector

Guatemala City, sitting proudly on a plateau surrounded by volcanoes, is home to nearly 2.4 million people and growing every day. With half its population under the age of eighteen and 70 percent younger than 30, the demographics clearly favor further growth in what is already Central America's largest metropolis.

"Guatemala City is in the midst of its longest-ever construction boom," said mayor Alvaro Arzu, now in his third term as the city's top official. "Real estate in the capital has never gone down in history, not even in the worst moments of the armed conflict."

Arzu, no stranger to power, was Guatemala's president from 1996 to 2000. From the heights of City Hall, he runs this town with a pragmatic vision that inspires confidence—and growth. Three years ago, the 2005 World Mayor competition named Arzu the best mayor of any Latin American city and third-best mayor worldwide.

Arzu said that in 2003, a year before he took over as mayor, the municipality was granting 2,500 square meters in construction licenses every week; now, the figure is more like 60,000 square meters a week.

"If we succeed in incorporating all the barrancos [forest areas surrounding the city], into our residential

planning, Guatemala City will be the second city in Latin America, in terms of square meters of green areas per person.

Within its 321 square kilometers, Guatemala City boasts over 700 public schools, 2,500 private schools, 140,000 university students and more than a dozen four- and five-star hotels capable of hosting international conferences. Last year alone, the city hosted both the Inter-American Development Bank's 48th annual board of governors meeting and the annual gathering of the International Olympic Committee; it has also hosted the OAS General Assembly in past years.

Yet remarkably, Guatemala City remains a remarkably cheap place to live, with some of the lowest rental rates in the region.

"Rents here are more or less half the price compared to any other nation in Central America," said Ramiro Alfaro, general manager of Inmobiliaria Spectrum SA. "Our people here prefer to rent rather than to purchase, and the market is growing, because the number of firms is growing."

In 2000, only five years after its founding, Spectrum decided to focus on real estate, asset, and property management. Its various divisions have built major



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office buildings as well as high-end shopping malls like Miraflores in Guatemala City. About 70 percent of Spectrum's business is in residential sales, with the remaining 30 percent in commercial real estate—of which 85 percent consists of shopping malls.

The company announced it would invest \$55 million to build the brand-new Oakland Mall in the capital city's Zona 10, due to open late 2008. A second mall, along the highway to the Atlantic, should open by early 2010; some 2,500 to 3,000 jobs will be created during the construction phase of both malls.

"In the future, we are going to continue investing in offices, but at a regional level," said Spectrum's Alfaro. "We are even investing in Honduras and Nicaragua, and assessing other nations such as Costa Rica and El Salvador. We are also evaluating the second-home market."

One of the chief engines behind Guatemala's growth is Grupo Progreso SA, the country's leading cement producer. Founded 109 years ago, the company consists of two divisions: one produces cement, chalk, and pulverized minerals, and oversees a reforestation unit responsible for mitigating the environmental impact of Progreso's core activities. The other oversees investment and business development, which includes energy, real estate, and sales of construction materials.

Grupo Progreso is currently building a \$700 million cement plant in San Juan Sacatepequez to keep pace with future growth.

Guatemala's leading developer of high-end residential apartment buildings and condominiums is Transac SA. Francisco Toriello, an architect and Member of Transac's Board, says his company has 34 years of experience catering to the most demanding local and foreign clientele.

Transac, with seventeen projects under its belt, is now involved in its latest venture: the impressive nineteen-

story Twin Tower Casa Rialto Residences. This luxurious development boasts impressive lobbies, a gymnasium, social rooms, earthquake-resistant construction, and first-class apartments with sophisticated furnishings. Transac also operates its own building management unit, as well as a real estate brokerage division.

Also benefiting from Guatemala City's construction boom is Grupo Precon, which specializes in structural design and geotechnical engineering. Precon, established in 1970, produces pre-tensioned concrete for bridges, buildings, and housing projects.

Among Precon's recent projects is the new Guatemala City regional office of the U.S. Agency for International Development. Built within a year (way ahead of schedule) and complying with the State Department's unusually strict security standards, the building used pre-cast elements developed by Precon and used for the first time worldwide.

According to Precon President Anthony Bickford, the company has developed three proprietary constructions systems, and will soon export its technology to two developing countries—Egypt and Colombia—in a prime example of the kind of South-South cooperation the Guatemalan government is now encouraging. ■



A Dynamic Industrial Initiative

In 1958, when a group of businessmen gathered at a private home in downtown Guatemala City to inaugurate the Cámara de Industria, Guatemala's economy was still highly controlled by the United Fruit Company, political chaos was the order of the day, and annual per-capita income hovered around \$140.

Today, half a century later, Guatemala is clearly a very different country, though the Cámara de Industria de Guatemala (CIG) remains a potent force in its development. Its official motto is "developing a modern, productive, and competitive Guatemala in a globalized world through industrialization."

"This chamber was born out of the need to promote the nation's industrial sector," said its current president, Thomas Dougherty. "One of our main successes is that the chamber is still here 50 years after its foundation. It is strong, solid and focused, with very clear principles."

Given that manufacturing accounts for 23 percent of Guatemala's current GDP, it should come as no surprise that some of Guatemala's most significant laws and initiatives were first conceived within CIG's boardroom. The organization was also an early and consistent backer of the Central American Free Trade Agreement (CAFTA), to which Guatemala is a signatory.

"CAFTA has had a positive impact on the industrial sector. Exports and foreign investment have grown, which is very important, but it is debatable whether this is a direct cause of CAFTA or not," said Dougherty. "Let us remember that these treaties not only create opportunities but also create an environment around them, which normally benefits countries such as Guatemala."

He added: "Guatemala's population is growing tremendously. We don't need more employees; instead, we need more employers."

Talk of political integration is on the rise, though Dougherty says that's still a long way off. "Nonetheless, we can get immediate access to a much larger market for our goods just by allowing free mobility throughout Central America, by eliminating bureaucratic barriers at the borders and permitting the circulation of products."

That would make three of the chamber's most important corporate members particularly happy: Central American Bottling Corp. (Cabcorp); Grupo Unipharm SA, and Distribuidora Agrícola Guatemalteca SA (Disagro).

Cabcorp, one of the biggest and oldest beverage conglomerates in Central America, is the anchor bottler for Pepsi-Cola; its territories cover Guatemala, Nicaragua, El Salvador, and southern Honduras. Interestingly, Guatemala is the only Latin market where Pepsi still outsells Coke (41 percent to 34 percent).

Cabcorp, formerly Grupo Mariposa, enjoys profitable business partnerships with a number of leading entities including Brazil's AmBev, through which it markets Brahma beer, and with Bon Appetit SA de CV, a leading juice and nectar manufacturer in El Salvador. In 2002, Cabcorp acquired a 50 percent stake in Bon Appetit, consolidating its market share in the region, where it produces Gatorade, California, Petit, Frutsi, and Gyro drinks.

Cabcorp, with 180,000 corporate clients, 50 distribution centers, over 1,000 routes and 273 warehouses, has won many awards including the MEM-X Award, given by Pepsi-Cola for excellence in marketing. No wonder Cabcorp's president, Carlos Enrique Mata Castillo, was tapped by President Colom earlier this year to become the new executive coordinator for Guatemala's National Competitiveness Program.

Another member of CIG is Grupo Unipharm SA, one of Central America's leading drug companies. Part of a Swiss-based conglomerate, Unipharm was founded in 1963 and is, according to its president, Mike Erichsen, "dedicated to the innovation, development, manufacture, and marketing of human pharmaceuticals, veterinary products, and raw materials, always with the philosophy of manufacturing products of high quality at a low price."

The company is a key supplier of Vitamin A to the sugar industry, and is known for giving away free medicines to victims of Hurricane Mitch and other recent natural disasters.

Yet another success story is Distribuidora Agrícola Guatemalteca SA (Disagro), a leading agribusiness conglomerate. The company's vice president, Roberto Dalton, said the company opened its first fertilizer blending plant in 1978. It now supplies around one million tons of fertilizer a year to customers throughout Central America, though the company doesn't have much competition at this point due to the capital-intensive nature of its business. ■



Sweet Success of Sugar Now Geared Toward Biofuels

Agriculture dominates Guatemala more than any other economy in Central America—accounting for 23 percent of GDP and employing half the country's labor force.

And within the agriculture sector, sugar, coffee, and bananas are still the undisputed giants, despite recent inroads by nontraditional products like strawberries, sugar-snow peas, and shrimp. With 197,000 hectares of caña under cultivation—twice as much as in the early 1980s—Guatemala is now Latin America's second largest sugar exporter after Brazil, and fourth largest exporter worldwide.

In the 2006–2007 season, Guatemala produced 2.2 million tons of sugar, with 75 percent of that production shipped overseas. Broken down by region, the best customer for Guatemalan sugar is the Far East (47.5 percent of the total export market), followed by North America (27.4 percent), South America (10.6 percent), and the Caribbean (4.8 percent).

The Guatemalan Sugar Cane Producers Association, known by its Spanish acronym ASAZGUA is an influential and dynamic entity that helps manage the local market

for sugar and supports exports for the country's top sugar mills.

"ASAZGUA is very important in the nation's economic agenda," said the organization's general manager, Armando Boesche. "It is crucial that the entire sector gets involved along with the government in social responsibility. We hope that this will, in some way, effectively neutralize the unfavorable impacts that globalization provokes, such as more concentration of wealth, which does not help reduce poverty."

While Boesche points out that globalization—in the form of trade agreements like DR-CAFTA—could very well hurt protected industries in the long term, the relentless rise in oil prices worldwide is increasingly shifting political will toward sugar-based ethanol production, boosting the economies of countries like Guatemala that are in an ideal position to become major exporters of ethanol.

According to Boesche, Guatemala already operates five ethanol distilleries. The combined daily production of 775,000 liters goes mostly to the United States and Europe.

Shipping rate average of 2,000 MT/hour of sugar in bulk ■ Storage capacity of 365,000 MT of sugar in bulk ■ Storage capacity of 66,000 MT of sugar in 50 kilo bags ■ Total storage capacity of 431,000 MT ■ Reception capacity of 800 MT/hour of sugar in bulk

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"Guatemala does not yet have an ethanol blending program. It is being discussed in Congress, and we hope that someday legislation will permit this," said the ASAZGUA chief, noting that ethanol will comprise no more than 10 percent of the finished product sold in Guatemala. This is in line with the policies of Latin America's leading ethanol producer, Brazil, which is cooperating with Guatemala in biofuels research.

"This will reduce in some proportion the pollution caused by gasoline, since it would reduce emissions and eliminate the use of MTBE," said Boesche. "Then we would all win: the Guatemalan people, the environment, and the sugar producers."

Sugar mills, which produce crystallized sugar from juice as their main product, also make ethanol from molasses, which are a byproduct.

"The amount of ethanol obtained from molasses represents around 5 percent of the sugar mass," according to an October 2007 report on Guatemala's biofuels potential by the UN Conference on Trade and Development. "Consequently, with eighteen million tons of sugar cane [produced in 2005] and with 110 kg of theoretically recoverable sugar per ton, it is possible to produce two million tons of sugar and 100,000

tons of ethanol per year. This yields an amount of 130 million liters of ethanol per year from molasses, or 722,000 liters per day, on the basis of 180 days of harvest".

Grupo Pantaleón, the country's top sugar producer, already plans to capitalize on this lucrative export by building a 180,000 liter-per-day ethanol plant near Guatemala City; it has received funding from the World Bank's International Finance Corp to finance this project. Pantaleon also developed a joint venture in Brazil for the production of ethanol.

"Everyone is looking at ethanol as a solution to oil issues and costs, but I don't see it that way. It is only partial," said Pantaleón's president, Julio Herrera. "I see it as a medium-term business that will help reduce our dependency on the Middle East and elsewhere. Nonetheless, ethanol production is going to be very important for the short-term sugar cane industry because it will give this industry more stability. I think we will be producing a lot of ethanol in two years."

According to Herrera, "given that we export 70 percent of our output, we have to compete with the best and most efficient players. That has made our company focus on cost-competitiveness and quality." ■

Connected People, Prosperous Country

In October 1998, the Guatemalan government sold off its bumbling, inefficient phone company, Guatel, to private investors, and now it is owned by Carlos Slim's Telmex. At that time, only 400,000 lines were in service, 80 percent of them in the capital city. But within just six years, consumer demand for new lines was so strong that Guatemala was forced to switch to eight-digit phone numbers—the first country in Central America to do so.

A big part of this explosion is in mobile telephony. In 2007 alone, Guatemala added 3 million mobile phone users, bringing the current total to 10.2 million lines in use for the country's thirteen million inhabitants. That translates into mobile penetration of 75 percent, one of the highest in the region.

This impressive growth is being helped along by mobile phone kits selling for as little as 100 quetzales (roughly \$13); some 93 percent of all Guatemalans now use prepaid services. The market leaders are Comcel (41 percent), followed by America Movil's Claro (34 percent) and Movistar (25 percent).

As a result of the Guatel privatization, Guatemala

today boasts Latin America's lowest mobile phone rates and one of the region's lowest long-distance rates.

"We believe in the free-market theory, most of all in relation to telecommunications," said Luis Alfredo Alejos Olivero, Guatemala's minister of communications, infrastructure, and housing. "My ministry's role is to act as a facilitator for people in the private sector, and foreign companies, to invest in telecommunications."

In addition to the mobile operators, Guatemala is also served by nineteen local network operators and fifteen Internet service providers. The country has 1.3 million Internet users, translating into an online penetration rate of 10.1 percent—up from 0.6 percent in 2000.

Guatemala's improving telecom infrastructure has spurred the growth of call centers, along with increasing interest in the information and communication technology (ICT) sector. To that end, the National Competitiveness Program has developed an ambitious agenda to encourage ICT investments through educational efforts, legal frameworks, fiscal incentives, technology parks, and other innovative measures. ■

Guatemala and CSR: People On Top of the Agenda

In many countries, corporate social responsibility (CSR) is just another buzzword thrown around by economists and pro-business types. In Guatemala, however, the concept has been practiced by the private sector for more than half a century.

As early as the 1940s, local companies like Grupo Progreso were championing the concept of CSR by creating social security networks for their employees. Sugar producers followed suit by developing ambitious health and educational programs for mill workers.

Today, more than 30 percent of Guatemala's GDP is generated by companies that have CSR and sustainable development at the very core of their business strategies.

"Our company has recognized the importance of improving living conditions for our employees, as well as taking care of related stakeholders," says Salvador Biguria, head of new businesses at Pantaleon Sugar Holdings. "We have invested heavily in education, health, and working conditions for our employees. We have also developed environmental programs through a nonprofit foundation targeting the communities around the sugar mills. Recently, the Organization of American States awarded Pantaleon its top prize for corporate citizenship for our elementary school program for employees and community children."

CSR has taken root in Guatemala with the help of CentraRSE, an organization that was established in 1998 and now has over 100 corporate members. Through its association with the World Business Council for Sustainable Development, CentraRSE late last year hosted the highly successful Inter-American Conference on Corporate Social Responsibility in Guatemala City.

The December 9-11, 2007 event focused on the central theme of shared responsibility, meaning "the promotion of responsible practices through productive chains, including suppliers, distributors, and other stakeholders that are part of the value chain of the company."

"All our members are dedicated to doing business based on ethical principles and compliance with the law,

respect for their workers, families, and the environment," says Guillermo Monroy, general manager of CentraRSE, "and to contribute to Guatemala's competitiveness and sustainable development."

One of Guatemala's most successful CSR initiatives to date is the Instituto de Recreación de los Trabajadores de la Empresa Privada de Guatemala (known by its Spanish acronym IRTRA). This institution is totally operated and supported by private-sector organizations including the Chamber of Industry of Guatemala, the Chamber of Commerce of Guatemala, the General Association of Guatemalan Business Owners, and the General Association of Agriculture Business Owners.

IRTRA traces its roots to the early 1960s, when a group of Guatemalan businessmen came up with the idea of creating an institution that would give private-sector workers a chance to relax and have fun with their families. In July 1962, Congress passed Decree 1528, which required all managers to contribute 0.3 percent of all wages and ordinary salaries paid to workers in order to fund IRTRA. Thirty years later, Congress raised the mandatory contribution to 1 percent, where it remains today.

The institute currently employs 3,000 people and operates five recreation centers and amusement parks—including the world-class Xocomil water park and the Xetulul amusement park—as well as the 669-room Los Hostales hotel complex and spa/sports club. In its nearly half-century of existence, IRTRA has provided recreational activities to more than 42.5 million people. ■

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