Business Report- Guatemala

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***Executive summary***

Guatemala is a country boarded by Mexico, located in Central America. It is one of the most populated countries in Central America with an estimated population of 16.6 million. It is a representative democracy and its largest city is known as Guatemala City which is also its capital. Tourism in Guatemala is growing because of the fascinating sights and historical importance of this land that appeals thousands of tourists across the globe. It has a well-developed transportation system and despite the existence of a railway network since 2007, rail service was suspended so no freight train runs in the country. It is a country with multicultural people. It is the biggest economy in Central America. For boosting its economy, it is dependent upon reforming and increasing private revenues and private investments for pro-growth investments in human capital and infrastructure. Guatemala has a gross domestic product of $125.9 billion that is mainly based on its purchasing power. Major industries working in Guatemala are textiles, furniture, flowers, processed foods, chemicals, and [[1]](#footnote-1)oleum etc. half of the economic activities occur in manufacturing (20%), commerce (18%), agriculture (12%) and private sector (14%) sectors.

***Macro environment of Guatemala***

According to the IMF report present in 2018, Guatemala grew around 2.8% because of strong remittances from the U.S private consumption and external trade. Guatemala is supported by the U.S financially and enjoys privileged proximity to Mexico. It is recognized as a country with high potential in different sectors i.e. agriculture, tourism, mining, hydroelectric and geothermal energy, etc. Major challenges that Guatemala is facing are poor infrastructure, corruption, vulnerability, low fiscal revenues, dependence on the low-added remittances and industries, ethics division, underemployment, social and political instability, etc. The unofficial unemployment rate in the first quarter of 2018 was 2.8% according to the trading economics but it underestimates the country's informal sectors (60%) according to Guatemala’s Labor and Social Security Minister. One of the damaging social crises in legislation was granting of the amnesty to people who were charged with an allegation of human rights violation during the Guatemala civil war. Though all these facts and figures cannot be undermined, at the same time, it has been witnessed that Guatemala is struggling hard to make the situation better. Industry sector accounted for 25.75 in 2017 in GDP and 21.0% of employment in 2016. Main industries that are helping Guatemala grow are: coffee, textile, paper industry, pharmaceutical, rubber, tourism, and petroleum. Another industry that is adding to the GDP is mining that is extracting nickel, zinc, and iron. The agriculture sector is accounted for 10.6% of GDP in 2017 and employed 29.02% out of an active population in 2018. According to Focus Economics Consensus Forecast, there are 3.0% chances of expansion of the Guatemala economy in 2018 and 3.1% chances of economic expansion in 2020[[2]](#footnote-2).

Trade, liberation, diversification of the exports and conduct of international trade are the areas that showed progress. An important advancement has been witnessed with the signing of the DR-CAFTA and establishment of the application rules by WTO. From the last decade, there has been witnessed an increase in the export of goods by 10 % that added value of US$ 3,430 million in 2004. Though Guatemala’s historic poor infrastructure always limits its growth. World Bank identified the development of the infrastructure as the second most important determinant after education. Roads have always been important for reducing the rural poverty. For building the social cohesion and improving access to rural areas to the markets, health centers and schools infrastructure must be considered. Public investment has been categorized as the second most important pillar of the Government's development plan. The main focus of the Central Government shifted towards transport sectors in public infrastructure.

Though the foreign direct investment in Guatemala is much less than other countries, a steady increase in FDI has been noticed. An increase of US$ 2 billion in the inward stock of FDI has been witnessed in early 1990 that was recorded by US$ 4.5 billion in 2005. Most of the FDI was dependent on the finance sector, manufacturing and petroleum due to the gradual liberation of foreign investment laws[[3]](#footnote-3)

Corruption is also among the major factors that determine the economic growth of Guatemala. According to the Corruption Perceptions Index, Guatemala has been listed at: least 144 corrupted nation nation out of 175 countries. Corruption Rank in Guatemala is 106.10 from 1998 until 2018 and was recorded low of 59 in 1998. Corruption curbs the economic growth and this fact become more evident that steps must be taken for making Guatemala, a corruption-free country so that more and more investors would come and help it in making its economy stronger.

*Political and social instability*

According to the study done by Patricia Galicia, there are a number of social issues but most disturbing is generally free but still too expensive education. Failure of the food program and delay in attaining of the teaching material and textbook is the most damaging social issue. Teachers are over-burdened with the number of students. In rural areas, sometimes one teacher has to teach three groups of students.

*Legislation*

After the civil war, those who were charged with an allegation of murder and other major crimes were not punished that weakened Guatemala's legislation. Another legislative issue is one would be held responsible for past Human Rights Violation. Amendments in the laws could help in making Guatemala more attracting for the investors.

*Economic condition and stability*

Stability of Guatemala is challenged many times because of the social issues that have been listed above. Guatemala is struggling for improving its economy as more than half of the population is living under the poverty line. Economic stability would help Guatemala in attracting more foreign investors[[4]](#footnote-4).

***Factor Endowments***

Basic and advanced factors of production are increasing in Guatemala as business opportunities are increasing. Guatemala is endowed with natural resources i.e. petroleum, lead, nickel, zinc, iron and a small amount of the jade, gold, and silver. Only 13% of the land is farmed. Industrial minerals, metals, fossil fuel, and investment are the main resources. An increase of 10% in the production of metallic mineral has been seen. Labor power is also present, development in infrastructure, natural resources, and increase in the educational opportunities are grabbing the attention of the other countries that wanted to expand their business in other countries and are looking for the opportunities. Though, there are both factors positive and negative but still the improving condition of Guatemala in attracting many foreign companies by providing better business opportunities.

It mentioned above in the section of the macro-environment, it is a land full of natural sources that foreign companies that are interested in exploring and extracting natural resources have a great chance of expanding their business. The textile industry is one of the major industries that is growing in Guatemala and is providing chances to those companies that want to flourish their garments companies in Guatemala. The export industry is incorporating new exportable supplies and nontraditional products that are appealing to the companies that wanted to do trade with Guatemala.

Legal framework for foreign investment is the most grabbing element that sheds light on the business opportunities that Guatemala is providing to foreign companies. Law in Guatemala promotes the foreign investment that includes a provision which guarantees private property rights for both the Guatemala nationals as well as the foreigner investors[[5]](#footnote-5).

***Analysis***

Critical evaluation of the above-mentioned facts and stats shows that there would be several benefits for the Canadian company would expand its foreign operations in Guatemala. The first benefit would be cheap labor as there is no competition in Guatemala and also high unemployment rates would help in the successful launching of foreign operations. The second main benefit would be exponential rates of success as no other companies are working in Guatemala. Legislation of Guatemala is providing more rights to foreign investors for own land etc. Its laws are more protective than any other country’s laws when it is about protecting those who would be providing their population with the job opportunity. Just four major industries are growing in Guatemala so there are more chances for other industries to establish in no time.

Before taking any final call, it is important to take in considering other negative factors as well that may threat or hinder the way of successful launching of foreign operation of the Canadian company. There are issues like corruption and low fiscal revenues. Infrastructure may not be as supportive as it should be. Political and social instability may also hustle the way things should have work and ethical division and high rate of a crime if dealt with care more investors could be attracted. This thing must be kept in mind that any company needs to make some strategies that they could use for making any environment and country favorable for their growth. The strategic strength of a company is proven when it mitigates its risks and challenges by taking full advantage of the positive aspects and elements present in the target country[[6]](#footnote-6).

***Recommendation and conclusion***

Keeping all the stats, risks and benefits in mind, undoubtedly Canadian company must expand its foreign operations in Guatemala. In business, this fact cannot be denied that risks and benefits go hand in hand, so if the Canadian company wants to grow in the international market they must take all the negative and positive factors in consideration. Apart from the cheap labor, there are other advancing industries i.e. technology. Unemployment would lower the annual expense if this Canadian company would launch its foreign operations in Guatemala, it would also help to increase the overall profit of the company. So taking in account the above-mentioned numbers and facts, it could be said that expanding business in Guatemala would be a wise decision if only careful planning is being done against the risks that would mitigate with time. Presence of natural resources could be also used for increasing the profit of the Canadian company and availability of the cheap material could be taken as another factor that would help in bringing this Canadian company at the top of the world’s best companies list.

End Notes

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3. World Bank. Latin America and the Caribbean Regional Office. Environmentally and Socially Sustainable Development Department. Republic of Guatemala Country Environmental Analysis: Addressing the Environmental Aspects of Trade and Infrastructure Expansion. World Bank, 2006. [↑](#footnote-ref-3)
4. Mercadal, Trudy. "Documenting the Human Cost of Guatemala’s Civil War." In Oxford Research Encyclopedia of Latin American History. 2019. [↑](#footnote-ref-4)
5. Grandin, Greg and Elizabeth Oglesby. "Washington Trained Guatemala Killers for Decades." *The Nation* (2019). [↑](#footnote-ref-5)
6. Copeland, Nicholas. *The Democracy Development Machine: Neoliberalism, Radical Pessimism, and Authoritarian Populism in Mayan Guatemala*. Cornell University Press, 2019. [↑](#footnote-ref-6)