Guatemala Trade Brief

Trade Policy

The latest MFN Tariff Trade Restrictiveness Index (TTRI)[1], on which Guatemala is ranked 68th out of 125 countries and scores 5.9 percent, indicates that its trade regime is more open than that of an average Latin America and Caribbean (LAC) or lower-middle-income country (with TTRIs of 7.6 and 8.6 percent, respectively). Its tariffs on both agricultural and manufactured goods (with TTRIs of 8.4 and 5.5 percent, respectively) are lower than the average for its comparators. Its TTRI including preferences is 4.9 percent, a significant decrease from 7.2 percent in 2006. The 2008 simple average MFN tariff is low at 5.6 percent, and when taking into account the preferences, the simple average applied tariff is even lower at 5.4 percent. Guatemala's maximum tariff (excluding alcohol and tobacco) is 40 percent, lower than the regional average of 74.9 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), was maintained at around 36.6 percent (in 2008) throughout the 2000s. Regarding the extent of its commitment to trade liberalization in services, Guatemala ranked 107th out of 148 countries according to the GATS Commitment Index. The government rarely uses nontariff barriers and does not require import licenses.

In response to the food crisis, in February 2008, Guatemala and three of its fellow Central American Common Market countries canceled import taxes on wheat flour until the end of 2008 or up to a maximum of 10,000 imported tons. In May 2008 the government unilaterally eliminated tariffs on wheat flour, powdered milk, yellow corn, eggs, maize flour, vegetable oil, chicken, rice, and fertilizers.[2]

External Environment

According to the Market Access TTRI[3] (including preferences) of 1.4 percent, on which it is ranked 35th (out of 125), Guatemala's exports enjoy low tariff barriers compared to the LAC and lower-middle-income country averages of 2.0 and 2.3 percent, respectively. The 2008 rest of the world simple average applied tariff (including preferences) on Guatemala's exports has risen to 10 percent from 3.3 percent in 2004. But, when taking into account the level of exports, it is much lower at 1.6 percent, with its agricultural exports facing a tariff of 2.7 percent and its non-agricultural exports of 0.9 percent.

Guatemala's most important trade arrangement is the DR-CAFTA with the United States that became effective in 2006. DR-CAFTA consolidates and expands the current access that Central American countries currently have to the U.S. market, while extending broadly reciprocal access for U.S. goods to their own markets. The decision to make the provisions of the agreement applicable multilaterally is deepening regional integration efforts and facilitating the creation of a Central American Customs Union.[4] Negotiations for an Association Agreement between the EU and six Central American countries, including Guatemala, which began in 2007 and include a free trade agreement (FTA), have been postponed as of July 2009, due to the political instability in Honduras.[5] Guatemala has a flexible exchange rate policy with limited intervention.[6] In nominal terms the Guatemalan quetzal appreciated by 1.5 percent against the U.S. dollar in 2008.[7]

Behind the Border Constraints

Guatemala ranked 110th in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. In addition, the Logistics Performance Index, a measure of the ease of trade facilitation, rates Guatemala at 2.53 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.47 for countries in the lower-middle-income group.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

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Guatemala ranked 75th in the world and 12th in the LAC region (with Chile leading the regional group). The area in which it performed the best was timeliness of shipments in reaching their destinations and it needs most improvement in increasing the quality of transport and information technology (IT) infrastructures.

Trade Outcomes

Guatemala's real (in constant 2000 U.S. dollars) growth in total trade of goods and services was 8.4 percent in 2007, and accelerated to a high of 10.8 percent in 2008, but is expected to shrink by 2.5 percent in 2009. The real growth rate of exports dipped slightly from a high of 10.8 percent in 2007 to 8.1 percent in 2008. Imports of goods and services accelerated to a high of 12.5 percent in 2008. Both exports and imports are expected to decline in 2009, by 2.6 percent and 2.4 percent, respectively.

Total trade grew in nominal terms by an estimated 19.3 percent in 2008. Nominal exports grew by an estimated 21.1 percent. The United States remains Guatemala's main trading partner (accounting for almost 40 percent of exports and imports) followed by Central America. One third of total goods exports are exported by the *maquila* industry, and over half of this production is composed of garment exports (the country's top export). The second largest export, coffee, which accounts for around 12 percent of all exports, grew by 19 percent in 2008. The next largest exports, sugar and bananas, make up 7 and 6 percent of all exports and grew by 5.6 and 6.3 percent, respectively.[8] In contrast to the strong growth in 2008, nominal exports are expected to fall by 8.5 percent in 2009. Year-on-year export growth rates have fluctuated between growth and decline for each of the first seven months of 2009.[9] However, the total over this period is 4.5 percent lower than the total for the same period in 2008.[10] Nominal import growth was estimated to be 18.2 percent in 2008 and is expected to decline by 11.2 percent in 2009 due to a contraction in domestic demand as well as lack of available credit. Remittances are important for the Guatemalan economy, having accounted for 11.4 percent of GDP in 2008. However, this is a decrease from 12.5 percent of GDP in 2007. FDI inflows accounted for 2.2 percent of GDP in 2008.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
4. SICE, 2009.
5. Bilaterals.org, 2009, and European Commission, 2009.
6. WTO, 2008.
7. IMF, 2009.
8. WTO, 2008, and Guatemala Central Bank, 2009.
9. Guatemala Central Bank, 2009b.
10. Guatemala Central Bank, 2009a.

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