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Guatemala's Incoming President Must Balance Competing Business And Social Agendas

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A private-sector study has concluded that Guatemala will need billions in infrastructure investment, "in order" says the author, "not to be left behind and to remain competitive in the globalized world." The organization that commissioned the study, the Programa Nacional de Competitividad (PRONACOM), was set up by the government of outgoing President Oscar Berger in 2004. With Berger scheduled to pass the mantle of the presidency to President-elect Alvaro Colom on Jan. 14, the business community is becoming increasingly concerned that Colom, a social democrat, will fail to prioritize the sacred tenet of the sector, investment. PRONACOM was conceived as a program to run from 2005 to 2015.

The program estimated the country's annual infrastructure-investment requirement, to maintain current growth levels, at US$340 million. But, in the first two years of the Colom administration, US $700 million will be required each year to continue works in progress, including the modernization of La Aurora International Airport, expanded highways, and improved ports. Included in the to-do list is the completion, after many years, of the periferico, the beltway around Guatemala City that handles most of the traffic that pours into the capital daily.

Elsewhere around the country, only 42% of rural roads and only 59% of the system as a whole are paved. The periferico, or Anillo Metropolitano, is estimated at US$1 billion. Another road project of immense proportions on the urgent list is the Franja Transversal del Norte (FTN), the highway that will cross the country's northern mountainous tier and open up rich mineral and oil areas to modern transportation facilities. The price on that is in the US$300 million range, with expected add-ons for the Intermediate Transversal Strip planned for the stretch from San Marcos-Huehuetenango-Quiche to El Estor, Izabal. The port facilities include terminals for container and cruise ships at Santo Tomas de Castilla on the Atlantic side and Puerto Quetzal on the Pacific. Somewhat more than US$370 million will be needed for that. Paving the highway system will cost around US$600 million. These figures were all revealed at a Nov. 30 press conference by Spanish researcher Juan Cabeza, who authored the report. PRONACOM's director, Ruben Morales, was on hand to impress upon the media how "very important" it is, and will continue to be, for the government to identify priorities.

What remained unclear and worrisome was whether the new administration would identify the same priorities. Berger has been successful in attracting foreign investment, particularly in the mining and energy sector, even over the objections of his own people (see NotiCen, 2006-08-17). What is furrowing the collective brow of the businesspeople is that the country has a wide spectrum of growth priorities, and Colom has a social-welfare agenda and campaign commitments that could collide with the commercial elite's vision. But the collision, if it happens, will not be head-on. Colom has already announced that the FTN will be a top priority. So will a hydroelectric dam at Xalala.

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While in Spain in December, the president-elect promised contracts for these projects to Spanish companies Union Fenosa and Ibedrola. He did this even though bidding on these and other projects is not scheduled to begin until March 2008. The private sector lobbied the Berger government to initiate PRONACOM in 2004. The idea was to commit succeeding governments until 2015 to long-term investment in infrastructure modernization. With the coming on line of the Central America Free Trade Agreement (CAFTA), and the on-again, off-again Plan Puebla Panama (PPP), PRONACOM was designed to give the Guatemalan private sector a competitive platform in the face of foreign competition. Essential to PRONACOM's success is Axis 5, the main elements of which are the hydroelectric dams, geothermal-energy development, development of oil resources, biofuels, and the road, airport, and seaport programs. Axis 5 also calls for investment in telecommunications and industrial parks. This is a lot of construction work, one of the most ambitious building plans in the history of the country.

Those who stand to profit most from it are understandably nervous about its future under the new president, but their fears appear at least partially exaggerated. Edgar Barquin, prominent leader in Colom's Unidad Nacional de Esperanza (UNE), has made a policy statement, saying that "the Berger government has adopted very good strategies for improving competitiveness that ought to be continued, and some of the people who are currently coordinating them should stay." Giving some weight to the words, Berger's presidential commissioner for investment and competitiveness Emmanuel Seidner has been mentioned as a candidate to head Colom's Ministry of Economy. Seidner called the program "an excellent starting point for the next government, as it was designed as a minimum ten-year endeavor." In its bid for continued life in the new administration, PRONACOM claims some impressive achievements, including closing out 2006 with US$354 in foreign direct investment (FDI), 36% better than the previous year.

In the 2007-2008 Global Competitive Index, Guatemala improved its standing to 87th place from 91st in the previous cycle. The World Bank, acknowledging Guatemala's bringing in US$685 million since 2004, when the program started, has designated Guatemala one of the most improved countries two years in a row. Banco de Guatemala, (Banguat) the central bank, has projected that the country would close the books on 2007 with FDI 51.4% better than 2006. Seidner stepped up to take credit here, too, with the uncontested claim that a program within PRONACOM, Invest in Guatemala, facilitated the creation of new national and international businesses over the four-year period, adding up to about US$7 billion.

From January 2006 to mid-November, Invest in Guatemala reported investments of US$377.5 million, of which more than half came from three Israeli development and energy companies. President of the Camara de Industria de Guatemala (CIG) Thomas Dougherty said that the local investment picture is much better than that, a contention that Seidner backs, but Banguat does not track local capital. Seidner put the actual total investment figure for the 2007 period at around US $1.27 billion. Dougherty foresees continued strong macroeconomic growth, new investment, and expanded manufacturing capacity. Colom has said he is committed to PRONACOM's objectives but has added that his first priority will be not these megaprojects but rather small and medium-sized businesses and, after that, industrial development in the underdeveloped interior of the country. As president, he will have to make good on his welfare campaign promises. Fulfillment of these promises is all the more necessary because of the failure of the much-lauded macroeconomic successes to reduce poverty and inequality.

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When the country moved up on the World Bank's improved list, it didn't bring most of its people with it. The UN Development Programme (UNDP) ranked Guatemala last among all Latin American countries on social indicators. Higher quality help wanted Hugo Maul, economics director of the Centro de Investigaciones Economicas Nacionales (CIEN), made the point, in another context, that, to pull real people up the ladder, "if we want jobs of quality, we must invest in education, in infrastructure, and other things." He noted that in the past year four new call-center companies created 1,060 new jobs, but there are not enough bilingual workers to fill the increases in the sector that Seidner says are coming. Invest in Guatemala has a list of 43 investment projects, among them five more call centers, one Panamanian, three from the US, and one European. Each of these is expected to create jobs for 500 people. Other projects that will tap the short supply of educated bilingual workers are US-based companies building retirement homes to be sold to the US market. With this kind of investment in mind, Guatemala places itself in direct competition with Costa Rica, a country whose population is much better prepared for the contest.

In the PRONACOM view, what has most attracted foreign investment is a combination of legal reforms making it easier to set up businesses, stable macroeconomic indicators, and some natural advantages like geographic position. This past year, Guatemala was among the top 20 countries in the world making business-facilitating reforms, according to a report, Doing Business, produced by the World Bank and the International Finance Corporation (IFC). The country has cut registration times for properties down to seven days, with innovations like legalizing electronic signatures, slashing red tape on exports by utilizing a new electronic customs-declaration database, and using a risk-based inspection policy. The World Bank has also found the elimination of unnecessary paperwork, once a major industry employing substantial numbers of lawyers, notaries, clerks, runners, and even people paid to stand in the long lines at government offices, to be an important breakthrough. Now companies can often get up and running with a single visit to a ministry. The same has been true for authorization for construction, said the bank's report. But this report, too, notes that more incentives are needed, and improvement of "the quality of human capital" is high on the list.

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