71/GS/E

The Economy

# Guatemala

March 1973

NATIONAL INTELLIGENCE SURVEY

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*This chapter was prepared for the NIS by the Central Intelligence Agency. Research was substantially completed by October 1972.*

# GUATEMALA

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*This General Survey supersedes the one dated January 1969, copies of which should be destroyed.*





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**FIGURES**

# The Economy

## A. Trends of development (U/OU)

Despite the rapid growth of industry since 1960 and the relative decline of agriculture, Guatemala remains basically an agricultural country. The population is overwhelmingly rural, and about two-thirds of the labor force are engaged in agriculture. Although the sector contributes only a little more than a quarter of the gross domestic product (GDP), primary commodities (chiefly coffee, cotton, and bananas) provide over half of export earnings, and the processing of agricultural products is the most important manufacturing activity. Reflecting the large subsistence sector, which continues to exist side by side with a dynamic commercial sector, per capita GDP in 1971 was only about US$340 (in 1958 prices).

Traditionally, the government has not intervened extensively in the economy. Despite the short-lived reforms of the revolutionary period from 1944 to 1954 and more recent reform efforts, the overall record indicates extremely limited public investment for socioeconomic development. The government usually has followed conservative monetary policies and has given high priority to the achievement of price stability and balance of payments equilibrium. In fact, the Guatemalan unit of currency, the quetzal, has been on a par with the U.S. dollar since the late 1920's. For many years modest economic growth barely kept ahead of population growth. Moreover, studies in the 1960's indicated that per capita income in the subsistence sector was declining and that the distribution of income was becoming more uneven.

Nevertheless, the manufacturing sector, stimulated by rising domestic demand and particularly by the Central American integration process, began to grow rapidly; since 1960, manufacturing production has increased at an average of 9% annually. The government has encouraged this development with its tariff policy and other protective devices. The expansion of industry in turn has triggered periodic construction booms and a steady rise in demand for electric power and other services.

Despite a turbulent political environment, since 1967 GDP has increased at an average annual rate of 6%, and, despite very rapid population growth, per capita GDP has averaged a 2½% gain annually (Figure 1). This moderate economic boom has been fed by increased export earnings and higher levels of both private and public investment, as well as by rising industrial production. Because more resources have been channeled into the development effort, consumption has lagged behind output growth during this period, but consumption still absorbs a high proportion (about 85%) of GDP. In contrast with industrial production, agricultural output has lagged behind the economic growth rate. Moreover, production of traditional domestic food crops has not matched demand growth, necessitating increasing imports of basic grains and some other dietary staples.

Formidable basic problems contribute to underutilization of resources and continue to constrain economic development. Among these are the low levels of education and health, which are reflected in low labor productivity. Furthermore, incentives are limited because of the relatively rigid social structure. The development of agriculture is hindered by the uneconomic land tenure pattern and the generally backward technology, while population pressure in the subsistence sector contributes to increasing unemployment and underemployment.

Most of the rural population barely ekes out a living from primitive, subsistence agriculture. The most abject poverty affects the Indian population, which is concentrated in the western highlands in small communities that are culturally distinct from each other, as well as from the rest of society. These Indians account for about 40% of the population and for at least two-thirds of the subsistence farmers. Government efforts to improve their economic position thus far have been limited and have been impeded by the Indians' passive resistance to social and economic integration. The Indian population generally disapproves of those of its members who speak Spanish and adopt modern ways of life. In addition, efforts to move them to lower elevations, where most of the unused land is located, have had little success.

The Arana government, which took office in July 1970, has attempted to cope with some of the economy's basic problems. During its first 2 years in office, it moved ahead with the economic development plan (1971-75) prepared by the previous administration and began to revamp the country's antiquated institutional structure. In particular, the government thoroughly reorganized several agricultural development agencies and established an agricultural development bank, as well as an agricultural commodity price stabilization agency.

In common with those of other Central American countries, Guatemala's modern economy is highly dependent on foreign trade, and economic activity is strongly influenced by the country's export performance. Considerable progress has been made since the early 1960's, however, in reducing dependence on foreign exchange earnings from coffee and other primary commodities. Thanks largely to the development of the Central American Common Market (CACM), manufactured goods account for some 45% of exports. These manufacturing industries in turn are heavily dependent on imported machinery and materials. Rapidly expanding exports and relatively large capital inflows, however, have substantially lessened balance of payments constraints.

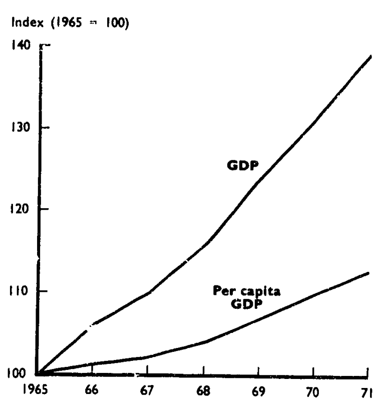


FIGURE 1. Trends in gross domestic product (U/OU)

## B. Sectors of the economy (U/OU)

Although the relative importance of the agricultural sector has been declining, Guatemala is still basically a rural country. On the other hand, the fast-growing manufacturing sector has increased its share in economic output during the last decade and accounted for 16% of GDP by 1970. Other economic sectors have been expanding more or less in line with the overall growth rate and thus have maintained their proportionate share of GDP (Figure 2).

### 1. Agriculture, forestry, and fisheries

Despite some decline in its relative importance, agriculture still accounts for 27% of GDP, about half of inputs used by domestic manufacturing, 70% of export earnings (including processed agricultural products), and two-thirds of employment. In 1970, crop production accounted for almost 61% of the value of the agricultural sector; livestock, about 30%; forestry, 8%; and fishing, 1%. Since 1965, agricultural production has increased at an average rate of 4% annually and, on a per capita basis, by less than 1% annually. Moreover, output growth has varied widely between export agriculture, where production rose by an average of 10% annually during 1966-70, and domestic crop production, which has been hard-pressed to keep up with the estimated population growth rate of 2.8% a year. In fact, food imports are necessary to help meet domestic requirements.

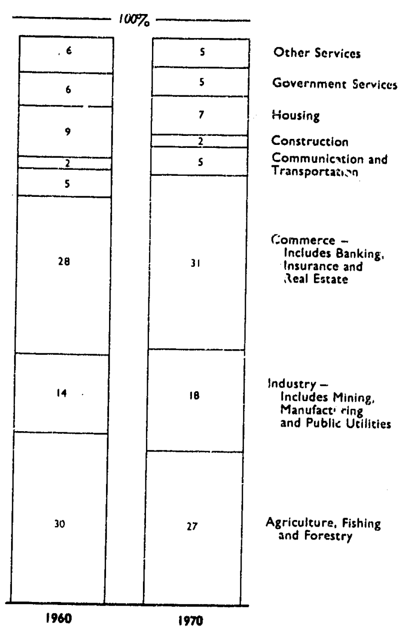


FIGURE 2. Gross domestic product by sector of origin (at 1958 prices) (U/OU)

#### *a. Land use, ownership, and agrarian reform*

According to a 1967 agricultural survey, only 24% of Guatemala's land area is used for agricultural purposes (Figure 3). This relatively small share of land devoted to agriculture is the result largely of the country's generally rugged terrain and the inaccessibility of most the heavily forested Department of Peten, which encompasses the northern third of the country. The agricultural land area has increased only about 5% since 1967 despite government and private efforts. The soils of the Pacific coast generally are more fertile than those of the Caribbean coast. The area ranging between 1,500 and 4,500 feet on the Pacific side of the mountains has some of the finest soil found in the tropics and is the principal coffee growing area (Figure 4). The Pacific lowlands are suitable for cattle raising and also contain most of the country's cotton and sugarcane plantations. Large banana plantations are found in the Caribbean lowlands. Rainfall is plentiful in the coastal area of this section, but irrigation is necessary inland. The central highlands area, which makes up roughly half the country, is the main center of domestic crop production and contains most of the subsistence farms.

As in most other Central American countries, landownership is highly concentrated. The 1964 agricultural census showed the following distribution of farms, with size in acres and the number of units and the area in percent:

| FARM SIZE | NUMBER OF UNITS | AREA |
|---|---|---|
| Under 1.7 | *20.4* | *0.9* |
| 1.7 to 17 | *67.0* | *17.7* |
| 17 to 109 | *10.4* | *18.8* |
| 109 to 2,176 | *2.1* | *36.6* |
| Over 2,176 | *0.1* | *26.0* |
| | *100.0* | *100.0* |



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Of the some 417,000 farm units, 2% contained nearly two-thirds of the agricultural land. The average size of these farms was about 1,960 acres. At the other extreme, 87% of the farm units accounted for less than one-fifth of total agricultural land. With an average size of only 4 acres, these units generally provide neither enough food nor adequate employment for their owners. As a result, most of these subsistence farmers supplement their incomes by undertaking seasonal work on large plantations. The abundant supply of cheap labor, in turn, has permitted the development of profitable commercial export operations.

Agrarian reform has been a goal of successive governments for many years, but progress has been slow. The Arana government's agrarian reform program has been focused on clearing and colonizing government-owned forestlands in the northern departments. These efforts are being coordinated by the National Institute for Agrarian Reform (INTA) and by the Agency for the Promotion and Development of the Peten (FYDEP). The Arana administration sharply accelerated agrarian reform and in 1971 distributed some 136,000 acres to 1,800 families. Most of this land was given to seven cooperatives composed of 1,290 families.

Under a program initiated in 1966, the government also plans to transfer ownership of some 40 state-owned coffee plantations to cooperatives made up of the employees. These farms, located in the cental highlands, encompass about 250,000 acres of land and employ 20,000 workers. Progress on the program has been slow, however, and only three farms had been transferred by the end of 1971.

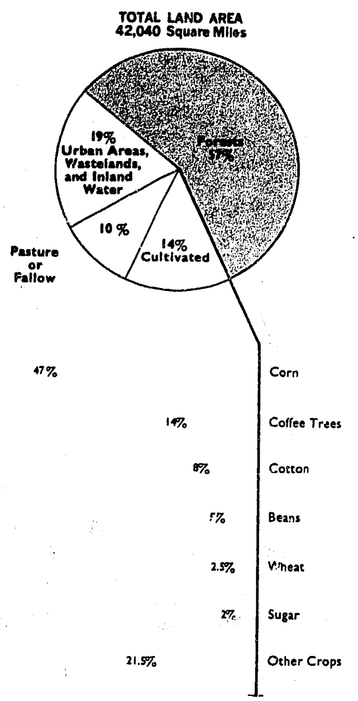


**FIGURE 3. Land use, 1967 (U/OU)**

### *b. Agricultural inputs and productivity*

Agricultural productivity varies greatly between the commercial export sector and subsistence farming. Many large commercial farms use modern equipment and are operated efficiently, while crop yields on subsistence farms are extremely low. These small farms are characterized by continued cultivation of exhausted land with primitive tools, and use of advanced agricultural inputs such as commercial fertilizer and improved seed is almost unknown, although the Arana government is attempting to increase technical and financial assistance to subsistence farmers. The availability of cheap labor has slowed agricultural mechanization even on large farms and plantations. Although the use of machinery is increasing on cotton, sugarcane, and banana plantations, many other commercial farms still use the hoe and machete as the principal implements.

The general lack of credit to small farms has been a factor impeding the spread of modern agricultural practices. During 1960-70, between 80% and 90% of commercial bank credit to agriculture was channeled to the export sector. In 1971, however, the government formed the National Agricultural Development Bank (BANDESA) to finance small- and medium-farm purchases of seed, fertilizer, insecticides, and equipment, primarily to increase grain production.

The lack of adequate storage and marketing facilities and the extremely limited feeder-road network also inhibit agricultural growth. These problems are largely responsible for seasonal shortages of foods, extreme price fluctuations, and the wide spread between producer receipts and consumer prices

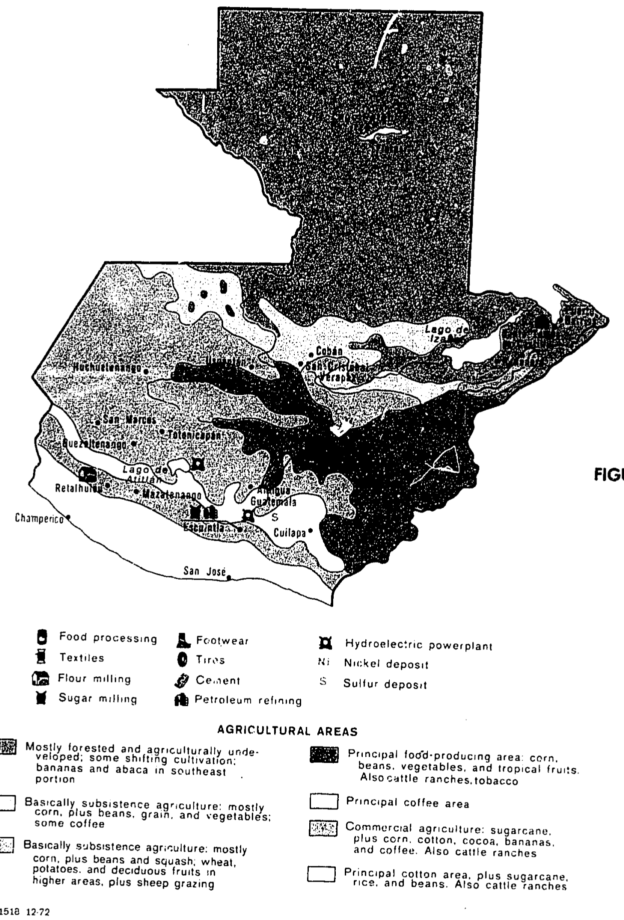


**FIGURE 4. Economic activity (U/OU)**

as well. In an effort to improve the situation, the government created the Agricultural Marketing Institute (INDECA) in December 1970.

*c. Principal crops*

Because of its diverse climatic conditions, Guatemala produces a wide variety of temperate-zone and tropical crops both for domestic consumption and as an important source of foreign exchange earnings. The country is self-sufficient in two important food crops, corn and rice, but is partially dependent on imports for wheat and beans.

(1) *Export*—Coffee, cotton, bananas, and sugar are the principal export crops. Coffee (Figure 5) is still Guatemala's largest single foreign exchange earner, but diversification efforts have resulted in a decline in its relative importance from almost three-fifths of total exports in the early 1960's to 34% in 1970. Although the crop is grown on 12,000 plantations located in almost every department of the country, about 80% of

FIGURE 5. Coffee, Guatemala's most important export crop, is harvested by hand; the picker selects the ripe red cherries, leaving the green ones for later harvesting. The availability of cheap labor has encouraged the development of large commercial plantations, which pay wages of less than $1 a day. (U/OU)

**FIGURE 6. Production and planted area of principal crops (U/OU)**
*(Production in thousands of metric tons; area in thousands of acres)*

| | 1965 | | 1968 | | 1969 | | 1970 | | 1971 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Production | Area | Production | Area | Production | Area | Production | Area | Production | Area |
| Export crops: | | | | | | | | | | |
| Coffee | 123 | 585 | 104 | 585 | 105 | 585 | 108 | 585 | 110 | 585 |
| Bananas | 117 | 9 | 140 | 8 | 145 | 10 | 255 | 10 | 280 | *na* |
| Cotton | 86 | 222 | 73 | 213 | 53 | 219 | 52 | 186 | 54 | 181 |
| Sugar (raw) | 132 | 45 | 152 | 52 | 178 | 60 | 196 | 72 | 204 | *na* |
| Domestic food crops: | | | | | | | | | | |
| Corn | 676 | 1,736 | 736 | 1,920 | 736 | 2,065 | 760 | 2,085 | 782 | 2,094 |
| Beans | 40 | 299 | 69 | 355 | 58 | 371 | 66 | 375 | 66 | 377 |
| Rice | 17 | 28 | 29 | 37 | 25 | 35 | 30 | 35 | 26 | 35 |
| Wheat | 30 | 97 | 34 | 106 | 36 | 101 | 28 | 99 | 32 | 94 |

*na* Data not available.

production comes from 1,500 large farms located mainly in the upper Pacific piedmont area. Guatemala's coffee is a high-quality, mild variety that is used for blending and is competitive with quality coffee from other Central American countries and Colombia.

After reaching a peak in 1965, coffee production leveled off in 1968-71 (Figure 6), as supplies exceeded Guatemala's export quota under the International Coffee Agreement (ICA). The National Coffee Association (ANACAFE), which represents the coffee growers, has sought to develop new markets outside the ICA, but these efforts have met with little success. The government, for its part, has tried to discourage coffee production through various measures and has utilized part of the coffee export tax receipts to help finance diversification. Although this program thus far has had little effect on acreage devoted to coffee production, surplus coffee stocks had declined to about 4,200 metric tons by 1971.

Cotton production, introduced in the early 1950's grew rapidly and reached a peak in 1965. Since then, production has declined by about 40% as growers were faced with poor weather conditions, rising production costs, and falling world prices. Farmers shifted about 82,000 acres of land out of cotton to pastures for more profitable livestock raising between 1967 and 1971. In 1971 nearly 90% of the cotton grown was exported, mainly to Japan and Western Europe.

Bananas, once the second most important export, suffered serious production setbacks in the early 1960's because of Panama disease and bad weather. After reaching a 23-year low in 1965, banana production recovered rapidly with the introduction of new disease-resistant strains, and output doubled between 1969 and 1971. The United Fruit Co., which closed its Pacific coast operations in 1964, has established new plantations near Bananera in the Caribbean lowlands and also purchases bananas from independent farmers. This purchasing arrangement provides an important incentive to local producers, who supplied nearly one-fifth of banana exports in 1971.

Sugar production increased at an average annual rate of nearly 8% during 1968-71. Rising domestic demand absorbs about 65% of output, and the rest is exported—almost exclusively to the U.S. preferential market. Despite increased production and steadily rising sales under the U.S. quota, sugar accounted for less than 5% of export earnings in 1970.

(2) *Domestic*—Corn is the major domestic crop and main food staple, accounting for about half the diet of some 75% of the population in 1971. The area devoted to corn far exceeds that planted to any other crop, and production reached a record high in 1971 (Figure 6). Almost every rural family grows corn on small plots, and it is the principal cash crop of the Indian population. About half of the corn produced is consumed on the farm, the remainder being sold or bartered. The government is encouraging expansion of acreage and higher yields by providing technical assistance, loans, and improved seed to small farmers.

The other important domestic crops are black beans, rice, wheat, potatoes, and vegetables. Production of these crops has increased considerably since the early 1960's, but imports of beans and wheat still are needed to meet domestic demand. Beans—the chief source of protein for the rural population—are grown throughout the country, and most farmers plant them between rows of corn. Rice production has increased substantially because of improved seeds, and in years of good weather surpluses are exported.

*d. Livestock*

Cattle raising is the dominant livestock activity. Most beef cattle are raised on large ranches located in the Pacific lowlands and the central highlands around Lago de Izabal. The beef cattle population was estimated at 1.5 million head in 1971, a 5% increase over the previous year. Although there are increasing numbers of improved breeds, largely Brahman and Santa Gertrudis, native (criollo) breeds predominate. Since 1971, the Ministry of Agriculture has broadened the cattle development program by assisting small- and medium-sized ranchers to finance imports of purebred cattle and purchases of equipment and feed.

Guatemala has been a beef exporter since 1961, when about 900 metric tons were shipped abroad, mainly to the United States. The rapid growth of beef exports has been partly at the expense of domestic consumption. Between 1960 and 1971 per capita beef consumption declined from an already low 20 pounds to 16 pounds annually. To channel additional beef supplies to the domestic market, the government removed price controls in 1971. Commercial beef production and exports during 1967-71 were as follows (in thousands of metric tons):

| | 1967 | 1968 | 1969 | 1970 | 1971 (*est.*) |
|---|---|---|---|---|---|
| Production .... | 49.1 | 57.8 | 57.3 | 57.3 | 62.7 |
| Exports ....... | 8.8 | 9.4 | 12.3 | 12.1 | 17.1 |

The dairy industry is relatively undeveloped, mainly because of retail price controls, poor marketing facilities, and the lack of government incentives. Because dairying is generally unprofitable, many farmers slaughter or export their cattle. Few hogs, sheep, and goats are raised commercially, but Indians in the central highlands traditionally raise these animals, whose numbers in 1971 were estimated as follows:

| | |
|---|---|
| Hogs ...................... | 809,000 |
| Sheep ...................... | 670,000 |
| Goats ...................... | 80,000 |

The sheep are raised chiefly for wool to supply the domestic textile industry, and few are slaughtered for food. Poultry is produced mostly on small farms for domestic consumption, and production thus far has shown little growth.

*e. Forestry and forest products*

Forests containing several hundred species cover 57% of the total land area. In the central highlands, tropical species give way to temperate zone hardwoods and conifers. About 11 million acres, or about three-fourths of the forested area, contain commercial timber, but accessibility to much of the area is limited. In the Peten region, which contains two-thirds of the country's forests, exploitation has been restricted to small areas of high-value species. Forests located near densely populated areas, on the other hand, have been severely overcut.

The forest products industry consists of 107 sawmills, two plywood plants, and a particle board factory. Logging operations generally are small-scale operations using primitive methods with little regard for reforestation. Some commercially valuable woods, such as mahogany and cedar, are exploited, but most of the wood cut is used for fuel. Efficient exploitation of forest resources would require large-scale investment in infrastructure coupled with a concerted reforestation program.

Rubber is becoming one of the more important products of Guatemala's forests. Production rose from 650 metric tons in 1960 to almost 4,000 tons in 1969. Government goals include extending rubber tree plantings to 75,000 acres, raising crop output to $24 million annually, and creating an industry of some 17,000 workers. Existing rubber plantations cover 30,000 acres, but only one-third of this area is in production because most of the trees have not reached maturity. Production barely covers increasing domestic demand, but future exportable surpluses will have a ready market within CACM.

*f. Fisheries*

Although Guatemala has coastlines on both the Pacific Ocean and the Caribbean Sea, per capita consumption of seafood is among the world's lowest. Shrimping is the principal activity of the small commercial fishing industry. The fishing fleet, consisting of 30 craft, only 15 of which are operational, works mainly off the Pacific coast and supplies shrimp and fish to a processing plant at Champerico. The only sizable commercial processing plant, the Champerico facility freezes shrimp for export and also for sale in the capital. Shrimp production increased from 700,000 pounds in 1960 to 3.1 million pounds in 1966 but declined to 2.1 million pounds in 1969.

Inland lakes and rivers are fished chiefly for local consumption, with small-scale commercial operations supplying towns and villages in the area. Since the 1950's the government has attempted to increase freshwater fish production by stocking inland waters. This program has not been very successful, however, mainly because of a lack of scientific knowledge concerning the effects on existing species of introducing new fish varieties.

### 2. Fuels and power

#### *a. Fuels*

Guatemala has few developed sources of energy. Bituminous coal and lignite deposits exist, but commercial quantities have not been located. An estimated 6 million to 8 million cubic meters of firewood are cut annually. Almost all household demand and some commercial requirements are satisfied with firewood, but supplies of this fuel are rapidly being depleted in densely populated areas. In the south, bagasse (a byproduct of sugarcane) is occasionally used as fuel.

Imported petroleum provides about 90% of commercial energy supplies. Petroleum exploration, begun in 1959, has not yielded any commercially exploitable oil deposits, but foreign oil companies are still active in the area. Their activities include exploration of the Pacific continental shelf by Esso and Texaco, drilling in the Department of Izabal and the Caribbean Sea by Centram (a subsidiary of the International Nickel Co.), and exploration in the Peten region by several other foreign companies.

Guatemala has two refineries. The Texaco refinery, located at Escuintla, has a capacity of 14,000 barrels of crude oil per day (b.p.d.). The Guatemala-California Petroleum Refinery, Inc. (GUATCAL), jointly owned by Standard Oil of California (60%) and Shell (40%), is located at Santo Tomas de Castilla[1] and has a capacity of 12,000 b.p.d. Crude oil imports to supply the two refineries reached nearly 5.3 million barrels in 1970 and came almost entirely from Venezuela. These refineries serve most of Guatemala's needs, but imports of specialized petroleum products such as lubricating oils, tar, resin, additives, and aviation gas are also required.

#### *b. Electric power*

Although electric power capacity and output have been increasing, supply has not kept up with demand. In 1971 installed capacity reached 178,600 kilowatts (kw.) and output reached almost 1,050 million kilowatt-hours (kw.-hr.). Since 1970 hydroelectric capacity has exceeded thermal by about 10%, and still untapped hydroelectric sources are extensive. Guatemala's numerous rivers could provide a generating capacity of at least 1.5 million kw.

About 80% of total installed capacity is concentrated in the central zone (Guatemala City, the capital, and the Departments of Escuintla, Guatemala, and Sacatepequez). Nearly all industry is located in this area, and annual per capita output exceeds 300 kw.-hr. (the national average is about 180 kw.-hr.). The principal facility is the new 60,000-kw. Jurun-Marinala hydroelectric powerplant, 30 miles southwest of Guatemala City.

Public utility powerplants account for about 90% of total capacity. The transmission and distribution grid connects 90% of installed generating capacity but is confined chiefly to the area surrounding and west of Guatemala City. There are no international exchanges of power. Power consumption (excluding powerplant usage and transmission losses) amounted to an estimated 800 million kw.-hr. in 1971 and was distributed as follows in percent:

| | |
|---|---|
| Industrial | 52 |
| Residential | 25 |
| Commercial | 12 |
| Governmental | 11 |

The National Electrification Institute (INDE), under the Ministry of Communications and Public Works, exercises control over planning, development, construction, and regulation of the electric power industry. The Guatemalan Electric Company (EEGSA), formerly owned mainly by Boise Cascade Corporation, supplies the central zone and owns all transmission and distribution lines throughout the zone. INDE owns and operates the lines outside the central zone and also sends electricity into the central zone to supplement EEGSA's supply. Shortly after the contract with the U.S. owners of EEGSA expired in May 1972, the government arranged to purchase the company.

Several major hydroelectric projects are under consideration including installations on the Rio Salinas between Uspantan and San Cristobal, Verapaz. As in the past, further hydroelectric expansion probably will be financed by the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), and other foreign sources of economic assistance.

### 3. Metals and minerals

The mining industry so far has been of little importance. Although Guatemala may possess extensive mineral deposits in its rugged mountains, few surveys have been made, and commercial deposits of only a few minerals have been found. Production of

[1]For diacritics on place names see the list of names at the end of the chapter.

metallic minerals thus far is limited to small amounts of iron ore, lead, zinc, antimony, cadmium, and silver.

The most promising development in the mining industry is the planned exploitation of extensive ferronickel deposits near Lago de Izabal by Exploraciones y Explotaciones Mineras Izabal, S.A. (EXMIBAL), the local consortium of the International Nickel and Hanna Mining Companies. The corporation is to extract and refine the ore under a 40-year concession granted in February 1971. As originally conceived, the project involved an investment of $260 million and was expected to generate nickel exports valued at $41 million in its first year of operation and double this amount in 10 years. Because of uncertainties prevailing in international capital markets and depressed world nickel prices, the project was being reevaluated in 1972. At that time, the consortium was considering a $120 million operation treating 700,000 tons of ore and producing 12,000 metric tons of nickel annually—less than half the output orginally planned.

Nonmetallic mineral production is confined to small amounts of lime, gypsum, quartz, volcanic ash, salt, limestone, and cement. During 1967-68 foreign investors attempted to develop deposits of volcanic sulfur in the Department of Santa Rosa. The project was suspended, however, because of technical problems, smaller than anticipated reserves, and high production costs.

### 4. Manufacturing and construction

Guatemala's manufacturing sector, the largest in Central America, is the fastest growing economic sector and includes a number of modern plants. Stimulated by rising domestic demand and the formation of CACM, manufacturing output grew 9% annually during 1961-70. Although the domestic market still absorbs about 80% of manufacturing output, CACM has been an increasingly important sales outlet. Chiefly because of a sharp decline in export sales after Honduras reestablished duties on imports from CACM, the manufacturing growth rate slackened to 7% in 1971.

Manufacturing facilities are concentrated around Guatemala City and Quezaltenango. A 311-acre industrial park established in Escuintla also has attracted substantial new investment, partly because of an assured electric power supply by the Guatemalan Electric Company, the park's promoter. Other geographic diversification efforts have been slowed by inadequate transportation links, as well as a lack of electric power facilities.

The government has used mainly financial incentives to stimulate manufacturing development. The most important of these is the 1959 law granting new industries 5- to 10-year duty exemptions of various types. The largest benefits have accrued to new industries designed to serve CACM. Further manufacturing development is one of the main goals of the 1971-75 economic development plan. Under this plan, the Industrial Development Bank (CORFINA) has been created to provide loan and equity capital, as well as technical assistance to small- and medium-sized enterprises.

#### *a. Principal branches of manufacturing*

The last industrial census, in 1965, counted more than 16,500 manufacturing establishments. Most of these, however, were small cottage industries making handicrafts. Almost three-fourths of all industrial production came from 2,100 factories, and of these only 1,200 were incorporated firms.

Food processing and tobacco and beverage production constitute the most important manufacturing component, employing more than 30% of the industrial labor force and contributing nearly 43% of the value added in manufacturing in 1970 (Figure 7). Many firms engaged in food processing are small and antiquated and often are nothing more than onfarm operations or small local mills. The number of modern plants producing sugar, tobacco, dairy items, animal feed concentrates, and edible fats and oils has been growing rapidly, however.

Although most sugar mills are operated by big growers for their own use, a $6-million mill and refinery near Escuintla, opened in 1969, offers centralized processing facilities. This mill is the first in Guatemala to produce white refined sugar for the domestic market, as well as raw sugar for export. A number of rice mills also produce for both the domestic and export markets. Wheat mills, which process a blend of domestic soft and imported hard wheat, have not kept pace with the growth of demand, and flour imports have steadily increased.

Other food processing activities include canning, meatpacking, and cereal production. The largest manufacturer of canned foods is Coffee Industry, Inc. (INCASA), which produces not only soluble coffee but also canned vegetables and juices. The meatpacking industry expanded rapidly in the last decade in response to the government's export diversification program. Because of a new $1 million plant constructed by Kellogg Co. in 1971, Guatemala is to produce the full line of cereal and snack products formerly imported by all of CACM.



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FIGURE 7. Composition of manufacturing output* (U/OU)

| | VALUE ADDED | | PERCENT OF TOTAL | |
|---|---|---|---|---|
| | 1961 | 1970 | 1961 | 1970 |
| | *Millions of 1968 quetzales* | | | |
| Food processing | 41.0 | 77.0 | *29.5* | *26.1* |
| Tobacco products | 11.1 | 17.6 | *8.0* | *6.0* |
| Beverages | 23.8 | 32.0 | *17.1* | *10.8* |
| Textiles | 11.9 | 33.8 | *8.5* | *11.4* |
| Clothing (including footwear) | 20.2 | 34.0 | *14.5* | *11.5* |
| Furniture and wood | 7.9 | 12.0 | *5.7* | *4.1* |
| Metal products (excluding machinery) | 1.9 | 27.9 | *1.4* | *9.4* |
| Machinery (including electrical) | 0.6 | 9.5 | *0.4* | *3.2* |
| Nonmetallic minerals | 6.4 | 10.1 | *4.6* | *3.4* |
| Chemicals | 5.1 | 10.0 | *3.7* | *3.4* |
| Printing and publishing | 2.4 | 5.4 | *1.7* | *1.8* |
| Other | 6.9 | 26.0 | *5.0* | *8.8* |
| Total | 139.2 | 295.3 | *100.0* | *100.0* |

*Figures may not add to totals because of rounding.

Rising domestic demand for tobacco products has been matched by increasing production and a broadened product line. Guatemala's only cigarette factory, located in Guatemala City, increased production to 150 million packs in 1970, compared with 94 million in 1960.

Textile and clothing production accounted for about one-fourth of the value added by manufacturing in 1970. Responding to rising domestic demand, CACM export opportunities, and increased cotton supplies, the textile industry expanded from 1,400 looms in 1966 to 1,900 in 1971. Fine cotton yarns and fabrics and most synthetic fibers, however, are still largely imported. The clothing industry spans a range of activity from cottage piecework to modern plants owned largely by foreign firms. Shoe manufacturing includes both modern facilities producing a wide array of footwear and handicraft shops in Indian communities. Because the industry is the most efficient in CACM, clothing and textile exports increased from $7 million in 1965 to nearly $26 million in 1970.

Several intermediate product industries also have been established to supply the regional market. The foremost example is the rubber industry, which includes 19 firms manufacturing automobile tires and numerous other products from natural and synthetic rubber. Despite the larger regional market, most of these industries still operate well below capacity and, consequently, at relatively high cost. Other manufacturing activities benefiting from CACM sales include those producing metal, glass, and paper products.

### *b. Construction*

After expanding at a very low average annual rate of 2.5% during 1966-70, construction activity rose 11% in 1971. The accelerated activity was due to increased public investment in highways, irrigation projects, and school construction. Other major public construction projects underway or in the planning stage include a feeder road network in various departments on the Pacific coast, rural water supply systems, a new port near San Jose, agricultural irrigation projects, and a regional hospital building program. Public investment outlays in 1971 more than offset a slowdown in private construction, which in earlier years had been transforming the capital city with new apartment and office buildings.

The government also is trying to provide low-cost housing, chiefly in urban areas, but the construction rate lags behind the country's needs. The housing deficit amounted to 653,000 units in 1964 and increased substantially during the rest of the decade. Population growth and replacement needs added approximately 27,000 units in new requirements, while construction provided less than 5,000 units annually. The National Institute of Housing (INVI) and the National Institute for Agrarian Reform (INTA), the two decentralized government agencies charged with planning and executing housing programs, have been constrained mainly by inadequate financing.

## 5. Domestic trade

Despite its size, Guatemala is not a fully integrated domestic market. Rather, it is divided into a number of separate markets linked by inadequate transportation facilities. The country's wholesale and retail trade is dominated by Guatemala City, the main population, manufacturing, financial, and transportation center. Guatemala City and ports on the Pacific and Caribbean coasts are the principal distribution points for most imported consumer and capital goods. Goods are shipped from the ports of Puerto Barrios and Santo Tomas de Castilla on the Caribbean coast, from San Jose and Champerico on the Pacific coast, and from Guatemala City by truck and (to a lesser extent) by railroad. Other centers of commercial activities include Quezaltenango, Mazatenango, Escuintla, Antigua Guatemala, and Retalhuleu.

Even in the capital and other relatively large urban centers, consumer goods are sold in a diverse array of outlets, including supermarkets, department stores, small specialty shops, street stalls, and outdoor markets. Small general or neighborhood stores that traditionally operate on low volume and high markup also abound. Most of these stores are family owned and operated.

The Indians—about 40% of the total population—live outside or at the margin of the market economy. The Indian communities hold open-air markets on fixed days which never coincide with those in neighboring areas. The most important commodities exchanged in these markets are grain and cattle; prices are established by bargaining. Little money is used, and trade is more of a social than an economic activity.

The agricultural distribution system is extremely inadequate, and storage and warehouse facilities are scarce throughout the country. This deficiency, together with poor feeder roads in most agricultural producing areas, results in marked seasonal price fluctuations. Moreover, the near monopoly position of truckers and middlemen produces substantial price differentials between farmgate and retail prices, most of which accrues to distributors.

## C. Economic policy and development (U/OU)

### 1. Policy

Powerful special interest groups traditionally have kept government economic intervention to a minimum. The government influences economic activity through public investment expenditures and credit allocation, but state ownership in economic enterprises is not extensive. The most important government enterprises include the Agricultural Marketing Institute (INDECA); the National Electrification Institute (INDE), serving mainly rural areas; the Municipal Development Institute (INFOM), which operates public water systems and slaughterhouses; and the INVI, which provides low-cost urban housing. In addition, the government owns the Guatemalan International Telecommunications Enterprise (GUATEL), the Guatemalan Aviation Enterprise (AVIATECA—the national airline), Railways of Guatemala (FEGUA—the national railroad), and the Port Authority.

The Mendez government, which completed its 4-year term of office in June 1970, attempted to carry out a program of moderate economic reform and achieved some success in its two major goals—fiscal and agrarian reform. The Arana government has pursued economic and social development more forcefully than had been anticipated. It has adopted the 5-year economic development plan prepared by the Mendez administration and has concentrated its efforts, in particular, on increasing agricultural production and improving health, education, and social services in rural areas. The Arana government also is strongly supporting agrarian reform, mainly through development and colonization of unused public lands.

As in other Central American countries, income distribution is very unequal, with approximately 20% of the population receiving 80% of the national income. Previous government efforts to improve the lot of lower income groups have included minimum wage laws, a progressive income tax, agrarian reform, and social security legislation, but these efforts had not been carried very far. Faced with continuing counterpressures from the politically powerful wealthy classes, the Arana government has focused its income redistribution efforts on socioeconomic development programs. For example, it is attempting to increase technical and financial assistance to subsistence farmers and to improve health and educational programs for all low-income groups.

#### *a. Public finance*

The central government dominates the financial operations of the public sector, which also includes 32 regional departments, 325 municipalities, and 23 public enterprises and decentralized institutions. The central government collects 70% of total public revenues and accounts for nearly 75% of total public expenditures. One-fourth of central government revenues are channeled into investment through direct outlays and through transfers to other public sector components.

FIGURE 8. Revenues and expenditures of the central government* (U/OU)
*(Millions of quetzales)*

| | 1967 | 1968 | 1969 | 1970 | 1971 PROVISIONAL | 1972 BUDGET |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Income taxes | 14.0 | 16.0 | 16.6 | 18.7 | 20.5 | 25.1 |
| Property tax | 4.8 | 6.1 | 5.5 | 6.0 | 5.8 | 7.9 |
| Foreign trade taxes | 35.3 | 34.4 | 39.9 | 46.1 | 41.8 | 52.6 |
| Import duties | (29.8) | (29.6) | (33.6) | (37.4) | (34.8) | (42.7) |
| Export duties | (5.5) | (4.8) | (6.3) | (8.7) | (7.0) | (9.9) |
| Taxes on production and consumption | 55.6 | 66.1 | 72.1 | 77.0 | 78.2 | 88.0 |
| Nontax revenue | 14.3 | 13.7 | 15.6 | 17.4 | 20.2 | 16.3 |
| Other | 2.5 | 2.2 | 2.2 | 0.9 | 10.2 | 0.6 |
| Total revenues | 126.5 | 138.5 | 151.9 | 166.1 | 176.7 | 190.5 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Wages | 71.2 | 72.2 | 75.6 | 80.1 | *na* | 90.0 |
| Goods and services | 25.6 | 23.9 | 26.5 | 38.9 | *na* | 33.2 |
| Interest on public debt | 6.8 | 7.7 | 7.7 | 8.0 | 9.4 | 10.8 |
| Transfers to public sector | 6.4 | 6.3 | 10.6 | 9.9 | *na* | 13.8 |
| Other transfers | 8.5 | 9.0 | 8.9 | 10.9 | *na* | 14.1 |
| Total current | 118.5 | 119.0 | 129.3 | 147.8 | 160.0 | 161.9 |
| Capital: | | | | | | |
| Fixed capital formation | 18.0 | 18.0 | 23.3 | 23.7 | *na* | 46.9 |
| Transfers to public sector | 14.9 | 17.0 | 11.6 | 19.4 | *na* | 23.2 |
| Total capital | 32.9 | 35.0 | 34.9 | 43.1 | 43.6 | 70.2 |
| Total expenditures | 151.4 | 154.0 | 164.2 | 190.9 | 203.6 | 232.1 |
| Deficit | −24.9 | −15.5 | −12.3 | −24.8 | −26.9 | −41.6 |

*na* Data not available.
*Figures may not add to totals because of rounding.

Central government revenues grew at an average annual rate of about 9% during 1968-71 (Figure 8), principally because of new tax measures and rapid economic growth. Nevertheless, revenues consistently fell short of expected levels because of inefficient tax administration and declining foreign trade taxes. Although the government has achieved modest success in reducing income tax evasion, it has been less successful in administering taxes on production and consumption, which provide nearly half of government tax revenues. Moreover, between 1967 and 1971 the share of receipts from import duties fell from 24% to 20%—a continuation of the gradual decline since the early 1960's resulting from rising duty-free trade with CACM and, to a lesser extent, from import duty exemptions granted under the Industrial Incentives Law.

Central government expenditures rose only 4% annually during 1968-69, reflecting an austerity program that allowed virtually no growth in capital outlays and only moderate growth in current expenditures. In 1970, however, expenditures rose 16%, mainly as a result of extraordinary military outlays but also because of increased capital transfers to public enterprises. Total expenditure growth in 1971 slowed to 7% as the government held capital expenditures to the 1970 level but increased current outlays some 8% over the previous year's level. The 1972 budget calls for a 14% expenditure increase, due almost entirely to sharply accelerated capital outlays, but revenues are expected to rise only by 8%. Current expenditures accounted for an average of 78% of total expenditures in 1967-71, but the 1972 budget indicates a decline to 70%. The growing share of capital outlays reflects both increased direct capital expenditures—largely for health and housing facilities—and transfers to regional departments and public enterprises.

Under Mendez' fiscal reform program, budget deficits in 1968 and 1969 averaged a relatively low 9% of total expenditures. Because of the spending spurt, the budget deficit as a share of total expenditures rose to an average of about 13% during 1970-71, and the 1972 ratio is expected to rise to nearly 18% (Figure 9) Earlier deficits had been covered chiefly by foreign loans and bond sales. Since 1969, the government has increasingly relied on domestic resources but, insofar as possible, has used bond issues and other noninflationary means to finance its deficits.

### *b. Banking, money supply, and prices*

The banking system consists of the Bank of Guatemala (the central bank), eight private commercial banks (including two branches of foreign banks), and specialized state-owned credit institutions providing agricultural, commercial, and mortgage financing. The system is under the supervision of the Superintendency of Banks, an agency of the central government. Supplementing the banking system are two finance companies, a small number of savings and loan institutions, and 22 insurance companies—10 of which are foreign-owned. There is no stock market, but a bond market floats securities issued by the central government, public sector entities, and state-owned credit institutions. The financial system is fairly adequate, save for a shortage of long-term financing resources.

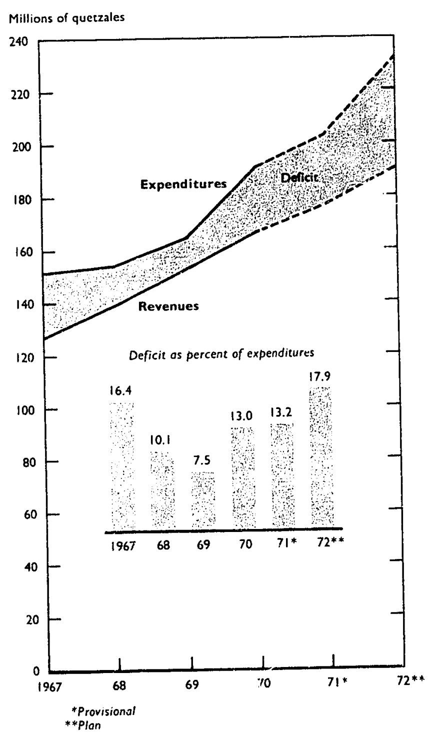



**FIGURE 9. Trends in the central government deficit (U/OU)**

Monetary policy is determined by the Monetary Board, appointed by the government, and is executed by the Bank of Guatemala under the board's supervision. The bank is legally endowed with the customary tools of monetary management, having the power to regulate reserve requirements, rediscount rates, and commercial interest and loan rates; to conduct open market operations; and to fix portfolio ceilings for commercial use. Circumstances have not generally required forceful use of these instruments.

The government provides short- and medium-term financing through its financial intermediaries—notably the National Mortgage Bank (BCHN) and the National Agricultural Development Bank (BANDESA). The BCHN is the country's largest commercial bank, accounting for 11% of the banking system's total assets in 1970. Established in 1940, it now has 14 branches and services both urban and rural needs. The BANDESA, a 1970 outgrowth of two former state-owned financial institutions, supplies short- and medium-term credit for both agroindustrial and agricultural development. In addition to these institutions, the government also participates as a minority stockholder in the Workers' Bank, which was organized in 1965 to provide credit for workers and labor organizations.

Government monetary policy has been relatively conservative, limiting total money supply expansion since the mid-1960's to about 5% annually (Figure 10)—a rate commensurate with real output growth. Domestic credit, which grew by about 9% annually during this period, continued to go mainly to the private sector although the government's share rose from 26% to 30%. Because of increasing public confidence, private sector holdings of quasi-money (time and savings deposits) has risen by 80% since 1966.

As a result of noninflationary budget financing and rising confidence on the part of the private sector, Guatemala has managed to maintain relative price stability. Official price data indicate an average rise of only 2.3% in the wholesale price index and an average increase of less than 2% annually in the consumer

**FIGURE 10. Assets and liabilities of the banking system (U/OU)**
***(Millions of quetzales at end of year)***

| | 1966 | 1967 | 1968 | 1969 | 1970 | 1971* |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Foreign assets (net) | 21.3 | 15.1 | 13.3 | 22.7 | 47.9 | 60.3 |
| Domestic credit | 239.4 | 264.3 | 294.9 | 322.3 | 339.4 | 356.9 |
| Of which: | | | | | | |
| Claims on the public sector | (34.0) | (35.1) | (39.6) | (43.8) | (41.0) | (57.7) |
| Claims on the private sector | (178.1) | (199.4) | (219.2) | (234.9) | (249.1) | (248.5) |
| Total | 260.7 | 279.4 | 308.2 | 345.0 | 387.3 | 417.2 |
| Liabilities: | | | | | | |
| Money | 140.7 | 145.5 | 150.8 | 161.1 | 173.2 | 165.0 |
| Quasi-money | 98.7 | 112.2 | 129.7 | 153.6 | 176.9 | 210.0 |
| Other liabilities | 21.3 | 21.7 | 27.7 | 30.3 | 37.2 | 42.2 |
| Total | 260.7 | 279.4 | 308.2 | 345.0 | 387.3 | 417.2 |

*September data.

price index during 1967-71. This performance compares favorably with both Central American and world averages. According to preliminary data for 1972, however, price inflation in Guatemala, because of imported inflation, may have been much higher than in previous years.

## 2. Development

The government's initial 5-year plan (1966-70) proved unrealistic. Projections of domestic savings, government revenues, and foreign investment resources were overly optimistic, and the plan was virtually abandoned in favor of executing specific investment projects. The newest development plan (1971-75) may be followed more closely because it is more balanced. It was drafted by the National Economic Planning Council after the council was thoroughly reorganized, and the Arana government already has implemented many of the essential institutional reforms recommended by the new council. The plan's major objectives include raising the economic growth rate to an average of 7.8% annually, reducing fluctuations in export earnings, and improving income distribution.

The plan also calls for increasing investment to 20% of GDP, compared with the average of only 13% achieved in 1967-70. The investment ratio fell considerably short of this goal in 1971, however, reaching only an estimated 15% of GDP. Although private investment expenditures provide about 80% of total investment, public investment outlays are an important factor in economic growth, and the current plan seeks to increase government savings largely through improved tax administration. A large share of public investment expenditures will continue to go to transportation and electric power projects, but an increasing portion will be spent on agriculture, health, education, and other social services. The percentage distribution of fixed public investment among major economic sectors under the 1971-75 plan is as follows:

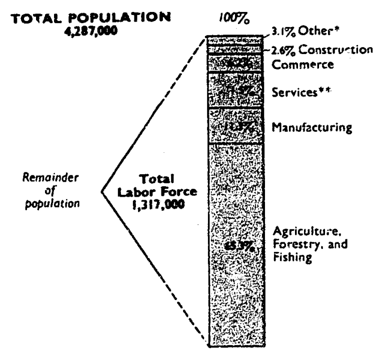
| | |
|---|---|
| Agriculture | *14.6* |
| Education | *7.7* |
| Health | *13.6* |
| Housing | *5.0* |
| Transportation | *21.1* |
| Communications | *7.7* |
| Electric power | *12.4* |
| Tourism | *2.0* |
| Natural resources | *1.7* |
| Other | *14.2* |
| Total | *100.0* |

The government has encouraged private investors to play a significant role in the development process and, while offering guidance and direction, has imposed few restrictions on their activities. As a result, private investment expenditures increased at an average annual rate of 10.5% during 1967-71. The major part of these outlays flowed into the manufacturing sector, stimulated by the integration process within CACM, related protective tariff measures, and fiscal incentives provided under the Industrial Incentives Law. Private investment in both construction and agriculture has also been increasing, although at a somewhat slower pace. Foreign investment generally has been encouraged and accorded the same guaranties as domestic investment. Apart from minor restrictions, there are no requirements for minimum participation by domestic capital, and profits can be freely remitted if the investment is registered with the monetary authorities. For the most part, foreign companies have not encountered major problems in dealing with the government.

### 3. Manpower

In Guatemala, persons 7 years of age and over who are employed or seeking employment make up the economically active portion of the population, or the labor force. In 1964—the date of the last official census—the labor force comprised about 31% of the total population. This ratio is about average for Latin America but substantially below those of more economically advanced countries where a large portion of females are economically active. Although females represented 50% of the Guatemalan population in 1964, only 10.4% of those over 7 years of age participated in the labor force (Figure 11). The 1964 census indicated that of the 3.2 million people 7 years of age and over, 1.9 million were economically inactive. Most of these people could be considered labor reserve, especially the students and housewives. In standard U.S. terms, the working age population (ages 15 to 64) numbered 2.2 million in 1964, or 51% of the population. Of these, 1.1 million were economically inactive.

Unemployment is a chronic problem and has been far greater than government data have indicated. Underemployment also is a very serious problem, especially in rural areas, where about two-thirds of the labor force is located (Figure 12). In the central highlands, for example, endemic underemployment and unemployment generate seasonal migrations to coffee, cotton, and sugarcane plantations, involving from 250,000 to 400,000 laborers annually, or some 20% to 30% of the 1964 labor force. Rural-urban migration has far exceeded employment opportunities in the cities and has given rise to serious socioeconomic problems. There is little unemployment among skilled




*Including transportation, storage, and communications; and mining and quarrying

**Including utilities

FIGURE 12. Labor force by major economic sector, 1964 (U/OU)

FIGURE 11. Labor force participation by age group and sex, 1964 (U/OU)

| | MALE | | FEMALE | | BOTH SEXES | |
|---|---|---|---|---|---|---|
| AGE GROUP | Active (Thousands) | Percent of age group | Active (Thousands) | Percent of age group | Active (Thousands) | Percent of total age group |
| 7-9 | 21 | 11.5 | 4 | 2.0 | 25 | 6.8 |
| 10-14 | 92 | 33.5 | 13 | 4.8 | 105 | 19.6 |
| 15-19 | 165 | 81.1 | 34 | 15.5 | 199 | 47.1 |
| 20-24 | 155 | 95.2 | 25 | 14.4 | 180 | 53.4 |
| 25-29 | 136 | 97.3 | 19 | 12.8 | 155 | 53.6 |
| 30-34 | 127 | 97.9 | 16 | 12.3 | 143 | 55.2 |
| 35-39 | 114 | 98.1 | 14 | 11.9 | 128 | 54.4 |
| 40-44 | 90 | 97.9 | 11 | 12.5 | 101 | 55.6 |
| 45-49 | 72 | 97.2 | 9 | 13.3 | 81 | 56.8 |
| 50-54 | 56 | 96.6 | 8 | 12.9 | 64 | 53.7 |
| 55-59 | 40 | 95.0 | 5 | 11.7 | 45 | 53.6 |
| 60-64 | 38 | 90.8 | 4 | 10.5 | 43 | 51.1 |
| 65 and over | 44 | 74.4 | 4 | 7.5 | 48 | 41.4 |
| | 1,150 | 72.8 | 166 | 10.4 | 1,317 | 41.5 |

and technical workers, but most of the rural migrants are unskilled and often illiterate.

Labor productivity generally is low because of inadequate technical training, limited general education, lack of incentives, poor health, and the use of antiquated tools and methods. Having little or no education, most workers acquire labor skills only slowly and require almost constant supervision. Because economic and social mobility is limited and very few workers move up into the middle class, incentives are limited. Productivity among subsistence farmers and even in some processing industries is greatly reduced by continued use of tools and methods dating from colonial and precolonial days. Although still preponderantly an agricultural country, Guatemala has only one school of agriculture, which graduates about 50 students annually. Poor health also seriously limits labor productivity; nearly all workers suffer from intestinal disorders, malnutrition, or other diseases.

At the beginning of 1971, minimum wage rates were in effect for about 22 different types of enterprises comprising most of the urban manufacturing and service industries; enforcement, although improving, is still deficient, especially in areas outside the capital. Collective bargaining is allowed by law and is gradually being extended to more business establishments in the private sector. Unionization is not widespread, and except for a few powerful unions—such as the teamsters and railway workers—the labor movement is weak. Labor disputes are usually settled by the parties involved, but the government can, and often does, play a decisive role on an informal basis. A strike cannot legally be called until the parties involved have submitted their case to a number of conciliation offices and tribunals.

## D. International economic relations (U/OU)

### 1. Foreign trade

Foreign trade is highly important to the modern sector of the economy. The increase in exports, which equaled 19% of GDP in 1970, has played a major role in achieving an increased economic growth rate. Guatemala's foreign trade benefited considerably from the creation of CACM in 1961 when the elimination of tariff and other restrictions on all but a small portion of intraregional trade provided a wider basis for economic expansion. Exports of manufactured products to other CACM countries increased from less than $9 million in 1962, equal to 7% of total exports, to about $95 million in 1970, or about one-third of total exports.

Guatemala's exports of manufactured products have been adversely affected to some extent by CACM's continuing crisis following the July 1969 conflict between El Salvador and Honduras, which resulted in the closure of the Honduran border to Salvadoran products. Honduras introduced duties on imports from other CACM countries in January 1971 and virtually withdrew from active participation in the common market. Moreover, in June 1971 Costa Rica reinstated quotas on selected imports from other CACM countries to correct balance of payments difficulties. As a result of these actions, Guatemala's exports to the common market declined by an estimated 10%, to about $90 million, in 1971.

#### *a. Composition of trade*

Guatemala's traditionally heavy dependence on coffee and other tropical agricultural commodities declined considerably during the 1960's. The most rapid export growth occurred in manufactured goods (Figure 13). Manufactures—mainly processed agricultural products, chemicals, textiles, clothing, and paper and rubber products—accounted for 44% of total exports in 1970. Although coffee is still the largest single export product and earnings rose appreciably during the 1960's, this product's share of total export earnings had dropped to 34% by 1970. Earnings from other agricultural products, mostly cotton and bananas accounted for about one-fifth of the total in 1970. Cotton export earnings have declined sharply, partly because of poor weather, but banana sales have staged a moderate recovery from their earlier depressed levels.

Raw materials and intermediate products for the rapidly expanding manufacturing sector are the largest and fastest growing category of imports (Figure 14). These products accounted for nearly half of total imports in 1970 and consisted chiefly of petroleum, steel, chemicals, and cement. Consumer goods imports are still the second largest category, but their share had declined to about 30% by 1970. The most important consumer goods imported are wheat, pharmaceuticals, home appliances, fine and synthetic textiles, and automobiles. Capital goods imports have more than doubled since 1962, reaching one-fifth of total imports in 1970.

#### *b. Direction of trade*

The United States is still Guatemala's single most important trading partner, but CACM countries together represent Guatemala's largest market—

FIGURE 13. Commodity composition of exports (U/OU)
*(Millions of U.S. dollars)*

| | 1962 | 1965 | 1968 | 1969 | 1970 | 1971 (EST.) |
|---|---|---|---|---|---|---|
| Agricultural products | 98.7 | 142.4 | 142.7 | 157.1 | 163.4 | 159.0 |
| Coffee | (67.1) | (91.7) | (73.4) | (81.5) | (100.6) | (96.0) |
| Cotton | (15.2) | (34.4) | (41.0) | (40.4) | (27.2) | (25.0) |
| Bananas | (9.5) | (4.3) | (14.1) | (18.9) | (19.7) | *na* |
| Other | (6.9) | (12.0) | (14.2) | (16.3) | (15.9) | *na* |
| Minerals | 0.3 | 0.4 | 3.7 | 4.4 | 4.4 | 2.5 |
| Manufactures | 20.0 | 44.8 | 87.1 | 101.0 | 130.5 | 132.0 |
| Processed agricultural products | (10.4) | (16.1) | (29.1) | (32.9) | (40.1) | *na* |
| Textiles | *na* | (4.9) | (10.0) | (11.6) | (13.9) | *na* |
| Footwear and apparel | *na* | (2.4) | (7.9) | (9.2) | (11.9) | *na* |
| Paper and cardboard | (0.2) | (0.8) | (1.3) | (1.5) | (2.3) | *na* |
| Tires and tubes | (0.4) | (1.9) | (4.1) | (3.8) | (4.3) | *na* |
| Chemicals | *na* | *na* | (11.9) | (14.5) | (19.5) | *na* |
| Other | (3.8) | *na* | (22.8) | (27.5) | (38.5) | *na* |
| Total | 119.0 | 187.6 | 233.5 | 262.5 | 298.3 | 293.5 |

*na* Data not available.

FIGURE 14. Commodity composition of imports (U/OU)
*(Millions of U.S. dollars)*

| | 1962 | 1965 | 1968 | 1969 | 1970 | 1971 (EST.) |
|---|---|---|---|---|---|---|
| Consumer goods | 44.0 | 74.5 | 77.9 | 78.7 | 87.4 | 89.0 |
| Nondurables | (30.9) | (50.0) | (52.5) | (54.2) | (60.2) | *na* |
| Durables | (13.1) | (24.5) | (25.4) | (24.5) | (27.2) | *na* |
| Raw materials and intermediate products | 61.7 | 105.6 | 126.9 | 124.3 | 141.1 | 145.0 |
| Of which: | | | | | | |
| Lubricants and fuels | (11.8) | (14.3) | (14.3) | (11.9) | (14.4) | (15.5) |
| Construction materials | (7.7) | (12.0) | (15.8) | (17.8) | (18.5) | (20.0) |
| Capital goods | 29.5 | 43.9 | 57.9 | 57.3 | 61.3 | 66.0 |
| Other | 0.6 | 5.3 | 2.4 | 2.6 | 2.6 | 0.5 |
| Total | 135.8 | 229.3 | 265.1 | 262.9 | 292.4 | 300.5 |

*na* Data not available.

buying more than one-third of total exports in 1970 (Figure 15). Rapidly rising sales to CACM consist largely of manufactured goods, and Guatemala increasingly is shifting to this area as a source of some of the agricultural and manufactured imports previously obtained from Western Europe and the United States. Nevertheless, CACM is still a distant second to the United States as a supplier. Imports from the United States consist mostly of machinery, transport equipment, chemicals, and wheat, while sales to this market are mainly coffee, meat, sugar, and bananas.

*c. Trade regulations*

Guatemala relies on tariffs both as a source of revenue and as the main instrument to regulate trade. The major consideration shaping its tariff policies since the early 1960's has been the protection of selected domestic industries. Guatemala also uses such protective devices as import surcharges. In August 1968, along with other CACM countries, it introduced a 30% import surcharge on most nonessential imports from countries outside the market. This surcharge was extended to cover non-CACM imports of raw materials and intermediate products in September 1970.

Guatemala's tariff schedule is based on the Uniform Central American Customs Nomenclature (NAUCA) and applies the scale of import duties agreed upon by CACM. Most goods are subject to a specific duty based on weight and an *ad valorem* duty based on

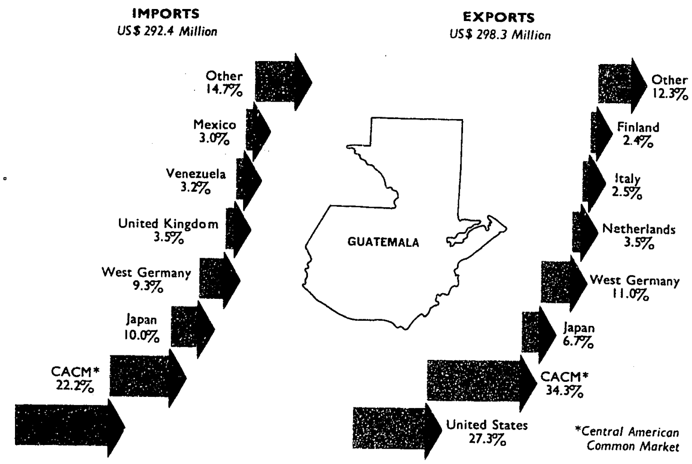



**FIGURE 15. Geographic distribution of trade, 1970 (U/OU)**

c.i.f. value. As a member of CACM, Guatemala has consented to duty-free flows of an increasing number of goods within the market. This favorable trend was interrupted in January 1971, however, when Honduras imposed tariffs on some previously duty-free imports from other CACM countries. In retaliation, Guatemala and the other three CACM members levied import duties on Honduran commodities that had previously been exempted.

Guatemala maintains a unified exchange rate system, with all foreign exchange transactions carried out at the official rate of one quetzal to US$1. The government continued to maintain this rate following *de facto* devaluations of the U.S. dollar in August 1971 and February 1973. Exchange controls involve only minor restrictions on the sale of foreign exchange for travel, family maintenance, and student expenses—all of which were substantially liberalized in August 1970.

### 2. Balance of payments

Guatemala's balance of payments has improved significantly, largely because of the continued brisk pace of export expansion combined with restrained import growth. Exports during 1963-70 grew at an average of 12% annually while imports rose almost 20% annually through 1965 and then slowed to about 4% (Figure 16). As a result, the foreign trade balance

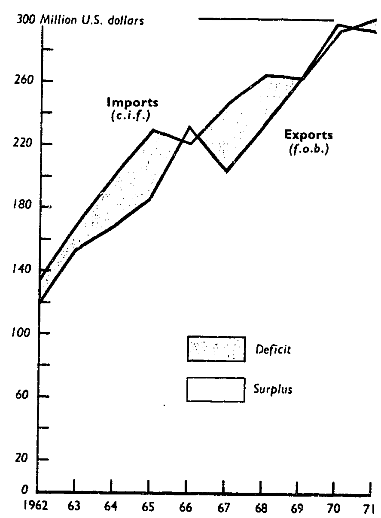



**FIGURE 16. Balance of trade (U/OU)**



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turned gradually from a $43 million deficit in 1967 to a $6 million surplus in 1970. Although the net outflow on services changed little during the period, the current account deficit fell to $13 million in 1970, compared with $66 million in 1967. The current account deteriorated in 1971, however, when exports declined slightly because of CACM trade problems, and the services deficit increased as a result of liberalized travel allowances.

Current account deficits have been more than covered by capital inflows since 1967 (Figure 17). Private long-term capital, chiefly in the form of direct investment, averaged more than $35 million annually during these years and provided the major share of net capital receipts. After reaching a peak in 1968, the capital account surplus dropped in 1969 owing to a marked outflow of short-term capital engendered by government restrictions on the private sector's short-term foreign commercial liabilities. Although short-term capital losses continued in 1970-71, a sharp rise in long-term official loans brought a substantial recovery in net capital inflows.

Guatemala's improved balance of payments performance led to a $48 million increase in net foreign reserves during 1968-71. This accumulation was aided by two Special Drawing Rights allocations from the International Monetary Fund in 1970 and 1971, totaling $8 million. By the end of 1971, net foreign reserves had reached an alltime high of $84 million.

The country's public foreign debt, although still relatively small, has more than doubled since the mid-1960's, reflecting increased central government borrowing to finance public investment programs. Total indebtedness rose from $66 million in 1966 to $135 million at the end of June 1971, and the central government's share increased from 73% to 79%. Servicing payments are not very burdensome, amounting to an estimated $30 million in 1971, or some 8% of foreign exchange earnings on current account—a relatively low ratio by Latin American standards. Nevertheless, the government has become increasingly concerned about the debt structure and has taken steps to reduce short- and medium-term obligations.

Guatemala has not been a major recipient of foreign economic assistance. Credits and grants from the United States and international institutions since 1961 have totaled some $300 million. About two-thirds of this assistance was provided by the U.S. Government, mainly the Export-Import Bank and the Agency for International Development. Among international financial institutions, the Inter-American Development Bank has been by far the most important, providing $62 million in financing for roads, electric power, telecommunications, and agricultural projects. The International Bank for Reconstruction and Development has also extended $32 million in credits, mainly for infrastructural development.

**FIGURE 17. Balance of payments* (U/OU)**
***(Millions of U.S. dollars)***

| | 1967 | 1968 | 1969 | 1970 | 1971 (EST.) |
|---|---|---|---|---|---|
| Current account: | | | | | |
| Balance on goods and services | -75.5 | -65.5 | -31.1 | -29.6 | -50.0 |
| Trade balance | (-43.3) | (-31.6) | (-0.4) | (5.9) | (-7.0) |
| Services | (-32.1) | (-33.9) | (-30.7) | (-35.5) | (-43.0) |
| Transfer payments | 9.1 | 11.1 | 13.8 | 16.3 | 18.5 |
| Total current | -66.4 | -54.4 | -17.3 | -13.3 | -31.5 |
| Capital account: | | | | | |
| Direct investment | 18.2 | 22.8 | 24.4 | 22.5 | 19.0 |
| Other private long-term | 12.5 | 11.5 | 12.4 | 16.2 | 17.5 |
| Private short-term | 5.0 | 4.7 | -17.2 | -20.8 | -20.7 |
| Official loans | 15.3 | 15.5 | 9.1 | 21.6 | 25.7 |
| Special Drawing Rights allocations | ... | ... | ... | 4.2 | 3.9 |
| Other | -0.3 | 3.2 | -0.3 | -1.4 | 0.9 |
| Total capital | 50.7 | 57.7 | 28.4 | 42.3 | 46.3 |
| Net errors and omissions | 10.0 | -1.6 | -0.7 | -4.2 | -3.0 |
| Balance of payments surplus or deficit (-) | -5.7 | 1.7 | 10.4 | 24.8 | 11.8 |
| Net change in reserves (increase = -) | 5.7 | -1.7 | -10.4 | -24.8 | -11.8 |

... Not pertinent.
*Figures may not add to totals because of rounding.

# Glossary (U/OU)

| Abbreviation | Spanish | English |
|---|---|---|
| ANACAFE | *Asociacion Nacional de Cafe* | National Coffee Association |
| AVIATECA | *Empresa Gautemaltcca de Aviacion* | Guatemalan Aviation Enterprise |
| BANDESA | *Banco Nacional de Desarrollo Agricola* | National Agricultural Development Bank |
| BCHN | *Banco Credito Hipotecario Nacional* | National Mortgage Bank |
| CACM | | Central American Common Market |
| CORFINA | *Corporacion Financiera Nacional* | Industrial Development Bank |
| EEGSA | *Empresa Electrica de Guatemala* | Guatemalan Electric Company |
| EXMIBAL | *Exploraciones y Explotaciones Mineras Izabal, S.A.* | Exploration and Exploitation of Izabal Mines |
| FEGUA | *Ferrocarriles de Guatemala* | Railroads of Guatemala |
| FYDEP | *Empresa Nacional de Fomento y Desarrollo* | Agency for the Promotion and Development of the Peten |
| GUATCAL | *Refineria Petrolero de Guatemala California, S.A.* | Guatemala—California Petroleum Refinery, Inc. |
| INCASA | *Industria del Cafe, S.A.* | Coffee Industry, Inc. |
| INDE | *Instituto Nacional de Electrificacion* | National Electrification Institute |
| INDECA | *Instituto Nacional de Comercializacion Agricola* | Agricultural Marketing Institute |
| INFOM | *Instituto de Fomento Municipal* | Municipal Development Institute |
| INTA | *Instituto Nacional de Transformacion Agraria* | National Institute for Agrarian Reform |
| INVI | *Instituto Nacional de Vivienda* | National Institute of Housing |
| NAUCA | *Nomenclatura Arancelaria Uniforme Centroamericano* | Uniform Central American Customs Nomenclature |

Places and features referred to in this Chapter (U/OU)

| | COORDINATES | |
|---|---|---|
| | ° ′N. | ° ′W. |
| Antigua Guatemala | 14 34 | 90 44 |
| Bananera | 15 28 | 88 50 |
| Champerico | 14 18 | 91 55 |
| Escuintla | 14 18 | 90 47 |
| Guatemala City | 14 38 | 91 31 |
| Lago de Atitlán (*lake*) | 14 42 | 91 12 |
| Lago de Izabal (*lake*) | 15 30 | 89 10 |
| Mazatenango | 14 32 | 91 30 |
| Puerto Barrios | 15 43 | 88 36 |
| Quezaltenango | 14 50 | 91 31 |
| Retalhuleu | 14 32 | 91 41 |
| Río Salinas (*stream*) | 16 28 | 90 33 |
| San Cristóbal Verapaz | 15 23 | 90 24 |
| San José | 13 55 | 90 49 |
| Santo Tomás de Castilla | 15 42 | 88 37 |
| Uspantán | 15 23 | 90 50 |

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