APRIL 2025

Assessing Guatemala as a Nearshoring Destination

By Christopher Hernandez-Roy, Andrea Casique, and Natalia Hidalgo

Introduction

Guatemala's geographic proximity to the United States and Mexico gives it an advantage when trying to lure North American businesses seeking to shorten and strengthen their supply chain routes. The country, which has the United States as its largest trading partner, has the potential to leverage the nearshoring movement and attract businesses seeking alternative hubs to Mexico, especially as the Guatemalan government continues to make efforts to enhance its competitiveness, promote investment opportunities, and work on reforms to support economic growth.

Although it will not replace its northern neighbor's established presence in the nearshoring movement, Guatemala is attracting foreign direct investment (FDI). Guatemala has the largest economy in Central America (its GDP in 2023 was greater than 11 individual U.S. states), with consistent growth above the regional average driven by a robust private sector. More than **200 U.S. and other foreign firms** have active investments in Guatemala, benefitting from the U.S. Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), under which the United States has a **trade surplus** with Guatemala.

> *Guatemala has the largest economy in Central America (its GDP in 2023 was greater than 11 individual U.S. states), with consistent growth above the regional average driven by a robust private sector.*

Investor **concerns** about Mexico's **judicial reform** and the country's process of electing judges by popular vote raise questions regarding the country's rule of law. This, in addition to the Trump administration's 20 percent tariffs on China and threatened 25 percent tariffs on Mexico, means that Guatemala could be seen as an attractive alternative for nearshoring and investment, if it can successfully promote itself and its advantages while at the same time addressing current challenges.

Government Efforts to Promote Investment

The Guatemalan government was an early mover in trying to take advantage of the nascent nearshoring phenomenon. In 2020, in partnership with the private sector, it launched a nation-wide, comprehensive, 10-year plan called ***Guatemala No Se Detiene***, or Guatemala Moving Forward, aimed at significantly increasing foreign investment in the country. The plan outlines Guatemala's investment advantages, citing its macroeconomic stability, solid economic growth trajectory, and stable risk ratings; its 15 free trade agreements with more than 40 countries; the availability of young and qualified labor, with 11.8 million people of working age; reliable and renewable energy; and free trade zones with enticing incentives that facilitate production and export of goods and services, among other **attractive features**. Through this plan, the government and the private sector believe that Guatemala can become a regional hub in the manufacturing of pharmaceuticals, medical equipment, toys, and electronics, as well as in business process and information technology outsourcing, by attracting foreign anchor companies in these sectors.

The government and the private sector also recognize that there are structural challenges that need to be addressed for the plan to become a reality. These include making progress in three key areas: human capital, the business climate, and infrastructure. Developing targeted, sectoral training programs, improving high schoolers' level of English before they come into the labor force, and aligning educational curricula with the labor demand in the country will all help strengthen the country's human capital. Improving the business climate will require reducing clearance times in import and export customs processes, having non-double taxation agreements with countries that are priority markets, and maintaining a clear long-term minimum wage policy that is aligned with job creation and investment attraction efforts. Improving the business climate will also involve facilitating the efficient granting of construction permits from different government agencies, a process that had improved with the introduction of a single window portal under a 2021 **anti-red-tape law**, but more recently has once again faced **slow-downs**. In addition, while the country adopted a **bankruptcy law** in 2022, there are currently no regulations in place to apply the law. Finally, not only do the country's road and port infrastructures need to be further developed, but areas of the country with existing competitive infrastructure must also be promoted as sites ideally suited to attract investments. In a **2024 report**, the government described an increase in FDI from $1.44 billion to $1.55 billion between 2022 and 2023 as a result of implementing some of the initiatives of *Guatemala No Se Detiene*.

> *Guatemala can become a regional hub in the manufacturing of pharmaceuticals, medical equipment, toys, and electronics, as well as in business process and information technology outsourcing.*

This progress also rests heavily on three incentive programs that have been in place for many years. The first is the **1989 Law for the Promotion and Development of Export Activities and Maquilas**, which is intended to encourage the production of goods destined for countries outside Central America, as well as to regulate export activity. The law mainly benefits the apparel and textile sector and services exporters. The government granted investors in these two sectors a **10-year** income tax exemption along with certain other tax benefits. The second program is the Free Trade Zone Law from 1989, amended in **2021**, which encourages and regulates the establishment of free trade zones (FTZs) in order to promote national development by strengthening foreign trade, promoting new national and foreign investment options, transferring technology to Guatemala, and generating employment. The benefits for businesses operating in the FTZs include a 10-year exemption from income tax payments, a 5-year property tax exemption, and no taxes or customs duties on imported machinery, equipment, tools, or materials used to build the zone's infrastructure, buildings, and facilities, nor on the fossil fuels used to generate electricity for the zone. Finally, there is also a separate class of free trade zone, known as special economic development zones or **ZDEEP**s, which have similar tax benefits as FTZs but have no limitation on the type of economic activity that can take place within their boundaries.

In addition to these long-standing legal incentives, the administration of President Bernardo Arévalo is actively courting international businesses and promoting Guatemala as a nearshoring destination. In April 2024, his administration **created** the National and Foreign Investment Attraction Agency, under the Ministry of Economy, whose responsibilities include formulating and executing investment policies. Its focus is on stimulating economic and social development through the generation of employment, which not only contributes to the country's growth, but also helps to reduce the main driver of migration. The agency was also initially tasked with simplifying the administrative procedures for establishing businesses, but this now rests with the Ministry of Economy's National Competitiveness Program, or **PRONACOM**. According to the 2023 Ibero-American Index of Bureaucracy, opening a small business in Guatemala requires an average of **4,870 hours**, equivalent to 203 days, to complete the necessary procedures. In contrast, El Salvador takes significantly less time, with the process averaging just 1,474 hours, or 66 days.

In September 2024, the Arévalo administration launched its **Trade Promotion Plan**, an economic diplomacy plan that covers not only the U.S. market but also the global economy. The plan is a global strategy that seeks to further position Guatemala as an attractive destination for foreign investment. Then in December 2024, the Ministry of Economy presented its **National Trade Facilitation Plan 2024–2028**, which aims to streamline foreign trade procedures, reduce logistics costs and operational times, and foster cooperation with the business sector to achieve national economic development. Under the plan, the government will digitize and centralize bureaucratic processes for foreign trade in a single electronic portal; adopt modern technology to upgrade ports, airports, and border crossings; introduce smart customs and a system for advance declaration of goods; adopt electronic signature and data protection measures; and support the integration of micro, small, and medium-sized enterprises (MSMEs) into global supply chains. Early in 2025, Guatemala's Vice Minister of Integration and External Commerce, Héctor Marroquín Mora, **said** that his ministry was working on various economic and commercial development initiatives, including creating a productive innovation fund to support MSMEs.

Guatemala has also been busy trying to grow its markets by pursuing **free trade negotiations** with the European Free Trade Association (EFTA), South Korea, Peru, and Canada. In February 2020, Guatemala signed a protocol of accession to the EFTA, which includes Switzerland, Norway, Iceland,

and Liechtenstein. As one of the last acts of the Giammattei administration in January 2024, the country signed a protocol of accession to the South Korea and Central America free trade agreement, which the other Central American countries had signed in 2019. In November 2024, Peruvian and Guatemalan officials met to negotiate a **trade protocol** to allow their 2011 free trade agreement to come into effect. Moreover, with respect to Canada, Guatemala has pursued an on-again-off-again free trade agreement for over 20 years without success. In the interim, it has relied on a Generalized System of Preferences with Canada, which expired on January 1, 2025, with the business community sounding alarm bells that this change would severely impact the **$142 million** in exports (as of 2023) that flow to Canada.

Strategic Sectors of the Economy for Nearshoring

To capitalize on nearshoring opportunities, Guatemala needs to perform a sector-by-sector analysis, identifying and nurturing industries where it holds a comparative advantage while steering clear of investments in sectors that may not provide long-term benefits. Some of the sectors it should prioritize are textiles, IT, business process outsourcing, mining, and auto parts production.

> *To capitalize on nearshoring opportunities, Guatemala needs to perform a sector-by-sector analysis, identifying and nurturing industries where it holds a comparative advantage.*

TEXTILES

With more than 500 companies in operation, Guatemala already has a strong textile industry. As a key component of its economy, the textile sector represents up to **14.2 percent** of the country's total exports and **8.9 percent** of its GDP. Guatemala can leverage trade agreements with the United States to enhance the sector's growth, especially as the country has already taken steps to establish itself as a key supplier to U.S. markets. In early 2023, Protela-Colombia committed to invest **$45 million** in the construction of a vertically integrated textile manufacturing facility in Guatemala to supply fabric for garment manufacturers in Central America; the facility is expected to directly employ 400 people. The Spanish textile business group **NEXTIL** evaluated multiple destinations in Central America for its new production plant before selecting Guatemala due to its proximity, stability, commercial conditions, infrastructure, and government support. With an investment of **$40 million**, the company opened a 130,000 square foot production plant in Fraijanes, Guatemala, in late 2024. This and another facility operated by the company are expected to create 1,300 direct jobs and 3,000 indirect jobs. Additionally, the South Korean company and garment manufacturer Hansae is investing approximately **$300 million** in a new sustainable manufacturing complex in Guatemala, while the Imperial Group is investing **$80 million** in the textile industry. Hansae's investment includes the creation of an all-in-one, vertically integrated, sustainable manufacturing facility that streamlines the production processes of yarn, fabric, dyeing, and sewing under one roof. Located in the Michatoya Pacífico free trade zone (see below) near the main Guatemalan port at Puerto Quetzal, this facility is emblematic of Guatemala's nearshoring potential.

Recently announced 20 percent **U.S. tariffs** on Chinese products will increase the prices of Asian garments, as would the threatened 25 percent tariffs on Mexican goods, enabling the Guatemala textile industry to further increase its competitiveness in the U.S. market. This could be an added incentive to move production to emerging textile manufacturing hubs like Guatemala.

INFORMATION TECHNOLOGY

Guatemala's growing tech sector represents a promising area for investment. Concentrated mainly in Guatemala City, the country's small but dynamic tech ecosystem has started attracting attention from investors. Promising **opportunities** exist in e-commerce, financial technologies, and digital services. High digital connectivity in the capital provides a solid foundation for the sector to grow, and the presence of tech talent in the city positions Guatemala to become an innovation hub. **ECDB**, an e-commerce data analysis company, estimates that by the end of 2024, e-commerce in Guatemala will reach **$381 million**, with an annual growth rate of 9.7 percent until 2028. This growth is expected to create more opportunities in sectors such as fintech, e-commerce, and digital services.

A major engine of this growth is **Campus Tec**, a technological innovation center that brings together entrepreneurs and companies to promote the development of new technologies. The campus houses almost 200 small high-tech companies in an IT park, the first of its kind in the region. Software development **outsourcing** is gaining traction as Guatemalan firms focus on staffing skilled engineering positions to support U.S.-based companies. Guatemala is emerging as a hub for tech startups, exemplified by **ventures** like Tu Potrero, which focuses on digitizing the livestock industry, and Sento, which analyzes call center data to enhance decision-making and improve customer experiences. These startups reflect the growing entrepreneurial spirit in the country, and are complemented by regional programs like the **DINAMICA II Initiative**, which aims to promote business and private sector development in Central America and the Dominican Republic.

In furthering the tech sector, Guatemala seeks to capitalize on its **recognition** of Taiwan, the largest manufacturer of chips worldwide, to establish a toehold in the semiconductor industry. In late 2024, it was **reported** that the Guatemalan government was in discussions with its Taiwanese counterparts to conduct a study evaluating Guatemala's infrastructure, universities, and economic environment to see if the country could support semiconductor packaging, with the potential for future expansion into testing and assembly. The results of the study are expected in six-to-twelve months; that is, late 2025. However, developing the semiconductor industry in Guatemala would require significant investments in infrastructure and workforce development in this specialized field. Some of the initial funding could come from the International Technology Security and Innovation Fund, commonly known as the **ITSI Fund**, which was established under the U.S. CHIPS+ Act to ensure semiconductor supply chain security and diversification, though Guatemala was not among the first group of four countries from Latin America selected to receive a grant.

PHARMACEUTICALS

The pharmaceutical industry in Guatemala has grown significantly in recent years, accelerating even more after the Covid-19 pandemic sparked greater interest in the production of specialized medications and more complex pharmaceutical products directly in Guatemala. This has led to the establishment of a number of modern production facilities owned by local and international companies. Today, Guatemala is home to 55 pharmaceutical manufacturing laboratories, **including** such internationally known companies as the German company Bayer and the Spanish company Exeltis Insud Pharma. In 2022, the industry exported almost **$275 million** in pharmaceutical products to the rest of Central America, Mexico, and some South American countries. The industry employs **70,000** people in Guatemala, with a highly skilled talent pool including pharmaceutical chemists, biologists, chemists, and laboratory specialists, representing the largest specialized pharmaceutical workforce in Central America.

The industry now has its sights set on entering the U.S. market, even though the country's regulatory system still needs to be **improved**. The Guatemalan Exporters Association (**AGEXPORT**), a private nonprofit entity that represents, promotes, and develops nontraditional exports of Guatemalan companies, has created an "Export Pharma to the USA" program. The **initiative** is helping companies prepare and adapt products and labeling according to U.S. regulations so that they can obtain necessary approvals, such as registration with the Food and Drug Administration. Given the United States' $602 billion pharma market in 2023 and an expected market of **1 trillion** by 2033, there is considerable room for growth of properly tested, proven, and licensed Guatemalan pharma exports to the United States.

BUSINESS PROCESS OUTSOURCING (BPO)

The business process outsourcing sector generates around **192,500 direct** and indirect jobs in Guatemala, offering services such as telemarketing, collections, data feeding, customer service, and the outsourcing of financial and administrative services. Leading **multinational companies** such as AT&T, Citibank, 3M, Alorica, [24]7.ai, Walmart, and Dell are using call centers in Guatemala. With strong telecommunications networks and a BPO market value of **$700 million**, businesses can save up to **70 percent** in labor costs by outsourcing to Guatemala. The country also boasts a bilingual workforce, strengthened by many migrant returnees from the United States, which is useful for many callers in North America. In addition, jobs in the sector are appealing as they offer salaries that are **60 percent** higher than minimum wage. Guatemala's location in the Central Standard Time Zone facilitates optimal communication for call center agents, clientele, and U.S.-based businesses. Over the past five years, the BPO industry has grown **17 percent**, and it holds tremendous potential for further employment generation, especially given the country's large youthful population.

MINING

Given China's near **monopolistic** control of many critical minerals and its willingness to impose **export bans** on some of the most sensitive minerals, nearshoring the production and refining of these materials is a vital national security interest for the United States and its allies. Guatemala's mining sector has immense potential despite currently contributing little to the country's GDP. In the early 2010s, flexible laws and policies combined with rich deposits drew metal mining investment to Guatemala, positioning the country as "one of the lowest-cost **gold producers** in Latin America." In 2023, there were 335 approved mining **concessions**, with Guatemala mainly **exporting** gold, silver, nickel, lead, and zinc; the country was the world's sixth-largest exporter of **ferro-nickel** in 2020. There are investment **opportunities** in copper, antimony, and chromium; the country also has deposits of uranium and cobalt. Guatemala, however, **lags behind** other Latin American countries with regard to mining due to inadequate infrastructure, lack of specialized labor, and significant opposition from environmental activists, local communities, and indigenous groups. In 2017, Guatemala's highest court ordered production at the **Escobal mine**, one of the largest silver mines in the world, to cease pending consultation processes with indigenous peoples. Similarly, in 2023, the Inter-American Court of Human Rights ordered an immediate stop to mining activities at the Fenix nickel mine because the government had violated **indigenous rights** by permitting the mine on tribal land almost two decades earlier.

Both mines remain closed as of early 2025. The Arévalo administration has also stopped at least four mining projects, including by invalidating impact assessment studies alleging **irregularities**. There are currently **several bills** under consideration in the Guatemalan congress which would impose a moratorium on new mining concessions to allow the government time to enact new mining laws and to design a policy for the sustainable exploitation of mineral resources and proper prior-consultation processes. This development, if successful, could unlock the potential of the Guatemalan mining sector, providing the United States and other buyers with an alternative source of critical minerals.

AUTO PARTS

Given its proximity to Mexico, and Mexico's deeply integrated automobile manufacturing sector under the United States-Mexico-Canada Agreement (USMCA), Guatemala is an emerging automobile parts manufacturing location, despite not previously having any footprint in this sector. In June 2022, **Yazaki North America**, part of the Yazaki Group, a Japanese automotive component maker which produces wiring harnesses, power distribution and control products, sensors, and hybrid and electric vehicle products, announced it was building a pilot factory in Guatemala with a $10 million dollar investment. Located in the department (province) of San Marcos, the facility **opened** in February 2023 and will eventually employ 1,000 people. This is the first of **several** facilities Yazaki plans to establish in CAFTA-DR countries, and it could be a model or anchor for other related auto parts manufacturing companies to invest in Guatemala.

As with semiconductors, Guatemala may be able to lean into its relationship with Taiwain to attract Taiwanese auto parts manufacturers. This is especially so after comments by Secretary of State Marco Rubio at a **press conference** in Guatemala City on February 5, 2025, in which he indicated that the United States would do all it can to facilitate more Taiwanese investment in Guatemala. The Taiwanese aftermarket auto parts sector dominates global supply chains with a **90 percent** market share, and the country is increasingly entering the original equipment manufacturer (OEM) space. Parts manufactured in Guatemala with Taiwanese investments and then integrated into the North American automobile supply chain system could begin to ameliorate the concerns about Mexico being a "**back door**" for Chinese auto part makers seeking to circumvent strict tariffs imposed by the United States.

Reasons to Invest in Guatemala

When making their business decisions, companies should consider several significant attributes of Guatemala, including the country's proximity to Mexico and the United States, its young population, cheap and renewable electricity, and the existence of free trade zones. In addition to these attractive features, there is a strong political consensus on both the right and left of the Guatemalan political spectrum on the need to have a robust private sector, unlike in neighboring **Honduras**, where the government has attacked the private sector, discouraging investment in the country. Moreover, the U.S. Chamber of Commerce has expressed **concerns** over Mexico's constitutional and legal reforms, especially the elimination of independent regulatory agencies, which could undermine the guarantees of protection for business operations in Mexico. These concerns may lead to some investors choosing Guatemala over its neighbors.

GEOGRAPHIC PROXIMITY

Guatemala's proximity to major economies, such as the United States and Canada, offers it significant advantages. Commercial ships sailing from Guatemala's Caribbean Sea ports can quickly reach the major U.S. ports on the eastern seaboard, such as Miami, Savannah, Baltimore, and Philadelphia. Container shipments from the port of Santo Tomás de Castilla on the Caribbean, for instance, can reach Miami in as little as **three days**, Savannah in four, and Philadelphia in seven. This proximity **optimizes** logistics, minimizes transportation costs, and facilitates operational synchronization (thanks to time zone alignment). The county's relatively compact geography and its Inter-Oceanic Highway allow for the movement of goods between both of its coasts. Furthermore, Guatemala's port at Puerto Quetzal (Empresa Portuaria Quetzal) on the Pacific Ocean has a container terminal that is the largest facility between the mega port of Lázaro Cardenas in México and the Panama Canal. The Puerto Quetzal port is an important destination in the maritime trade routes linking South America to ports in Mexico, California (e.g., Long Beach, Los Angeles, and the port of Hueneme), and Asia.

YOUNG POPULATION

Guatemala has the largest population proportion of youth in Latin America. With **almost half** of its population under the age of 19, Guatemalan youth offer the potential for a vibrant workforce and a strong human capital base in the coming years. This demographic dividend could greatly enhance the labor market and drive innovation with the right educational and professional investments from the government and the private sector through technical schools, universities, and institutions such as **INTECAP**, an autonomous government agency funded by the private sector and dedicated to the development of human talent and national productivity. However, with **2.7 million** children and adolescents out of school in 2023, a large percentage of Guatemala's population has not been equipped with essential basic education and job skills.

RENEWABLE AND RELIABLE ENERGY

Guatemala is rich in natural resources, affording it clean energy generation. As of 2021, the country produced **71 percent** of its energy from renewable sources—mainly via hydro-energy and bio-energy sources—and has a surplus that allows it to export to neighboring Central American countries and Mexico. The Guatemalan Association of Renewable Energies (AGER) **has calculated** that the country has the potential to integrate an additional 3,700 megawatts of renewable energy into Guatemala's electricity grid between 2024 and 2040, more than **doubling** the country's current electrical generation. The use of renewable energy for the production of consumer products provides marketing opportunities for environmentally conscious customers and allows firms pathways to meet ambitious ESG goals. Guatemala's electricity is also **cheaper** than in the Northern Triangle countries and Nicaragua, but more expensive than in Costa Rica, Panama, and especially Mexico.

Despite a reliable supply, there are increasing demands on the Guatemalan grid at the same time that new generating capacity has remained stagnant in recent years, largely due to a lack of new investment in electricity-generation projects and local and indigenous **opposition** to new hydroelectric plants. In early 2025, the National Electric Energy Commission authorized the connection of new generation projects to the national grid totaling **42 megawatts**, consisting of eight renewable projects and one natural gas-based plant. While this is good news, additional new investments are **needed**, especially in stable energy sources. Long-term power-purchasing agreements, which have been **resisted** by industry in Guatemala, are needed to guarantee price stability and consistent demand, and to make larger projects financially viable.

FREE TRADE ZONES

Guatemala's economic strategy includes a focus on developing industrial parks in FTZs and ZDEEPs. By providing a concentrated environment for businesses, these areas attract both domestic and foreign companies with appealing incentives such as the substantial tax breaks mentioned above, expedited customs procedures, and infrastructure supporting domestic and international operations. ZDEEPs are intended as sites for manufacturing, assembly, packaging, handling and distribution, and storage of a range of products. These two types of free trade zones also **foster** technological advancements and modernization. Specifically, when global companies establish operations in these zones, they contribute goods, finances, **best practices**, and innovative technologies.

Today there are **five FTZs**, all located in the department of Guatemala, which house 128 companies that offer more than **3,000 job** opportunities. There are also **23 ZDEEPs** concentrated in the departments of Escuintla, San Marcos, Zacapa, and Izabal. Five of these ZDEEPs—**Puerta del Istmo**, **Michatoya Pacífico**, **Puma 1** (which is dedicated to providing hydrocarbon fuels), **Zona Libre Quetzal,** and **Miel Verde**—are fully operational. Twelve others, including the largest, **Synergy Park** (which is also the largest in Central America), have been approved by the governing body (the Industry and Commerce Free Trade Zone Santo Tomas de Castilla, or **ZOLIC**) but are awaiting final approval from the country's tax authority. The remaining FTZs are still in the process of being established.

Nearshoring and Investment Challenges

CORRUPTION

The International Commission Against Impunity in Guatemala (**CICIG**) was established in 2007 as a UN-backed anti-corruption body with the mission to investigate and dismantle criminal networks within state institutions, which had emerged as a consequence of Guatemala's Civil War (1960-1996). Despite the CICIG successfully exposing several corruption scandals, the administrations of Presidents Otto Perez Molina, Jimmy Morales, and Alejandro Giammattei were likely some of the most corrupt in history, **according** to the founder of Acción Ciudadana, the Guatemala chapter of Transparency International. The year 2017 saw the crystallization of an alliance between presidents, members of congress, and corrupt businessmen seeking impunity, known as the **Pacto de los Corruptos**, or Pact of the Corrupt, when members of congress amended the Criminal Code to protect themselves from accusations of illicit electoral financing and corruption. The CICIG faced numerous attacks from these and other powerful interests and ultimately ceased operations in September 2019 when its mandate was not renewed by President Morales.

President Arévalo campaigned on an anti-corruption platform, and in the months since his victory in 2023, the Pact of the Corrupt made multiple attempts to derail his assumption of office. In particular, Attorney General María Consuleo Porras, some judges, and members of congress worked to harass Arévalo's political party Semilla with spurious charges, lifted immunity from prosecution for the magistrates of the Electoral Tribunal who had certified the election, and attempted to overturn the electoral results. In response, the United States imposed visa restrictions on nearly **300** Guatemalan congressmen and business leaders, while the Organization of American States (OAS), other international organizations, and much of civil society raised mounting cries to respect the outcome of the election. Consuelo Porras herself had already been **sanctioned** in 2022 by the Biden administration because she had "repeatedly obstructed and undermined anti-corruption investigations in Guatemala to protect her political allies and gain undue political favor." She benefits from a 2016 law **prohibiting** the president from firing the attorney general, and thus remains a powerful thorn in Arévalo's side, with numerous open **investigations** against the president. Consuelo Porras is also using her office as a tool of **repression**, persecuting political opponents, prosecutors who have only done their job, independent judges, and journalists, while also blocking justice for ordinary Guatemalan citizens. Investigating and prosecuting corruption cases is the sole purview Attorney General Consuleo Porras, who has systematically refused to do so.

Despite these headwinds, President Arévalo has spent his first year in power trying to advance his anti-corruption platform, **exposing corruption** via executive bodies such as the National Commission Against Corruption, the Solicitor General's Office, tax authorities, and key ministries. However, given the president's party's small numbers in congress, there is the risk that the lack of the needed congressional support will result in the return to old practices of corruption. Nevertheless, after a **12-year** consecutive decline in Transparency International's (TI) Corruption Perceptions Index, attributed to three successive administrations aligned with corrupt practices, President Arévalo has managed to improve the country's corruption perception. TI's **2024 index**, released on February 11, 2025, shows that Guatemala improved by two points because of new citizen participation channels and the digitalization of public functions, the latter meant to eliminate red tape but also reduce opportunities for corruption.

PUBLIC SAFETY AND ORGANIZED CRIME

The Northern Triangle of Central America has witnessed some of the highest homicide rates in the world, driven in large measure by gang violence. In Guatemala, most criminal activities revolve around robbery, property theft, and extortion, with the majority of these crimes occurring in the department of Guatemala. These crimes are increasing in frequency. While overall crime rates have increased in recent years, murders in the country have been steadily decreasing from a high of **46 per 100,000** inhabitants in 2009 to **16.1 per 100,000** inhabitants in 2024, lower than Mexico's rate of **23.2 per 100,000**, and quite a bit lower than in **some U.S. cities**.

Extortion is a particular problem that affects individuals and businesses alike and remains significantly underreported. One **report** showed that only 5 out of 10 cases of business extortion and 6 out of 10 cases of home extortion are reported. This crime is also getting worse. Between 2013 and 2021, extortion rates more than **doubled** in the country, and, in 2024, reported cases rose by **39 percent** over the previous year. Of course, this doesn't necessarily mean that extortion is skyrocketing. Rather, these numbers could simply reflect greater confidence in reporting the crime. An extensive study by the organization Global Financial Integrity, completed in 2022, revealed that proceeds from extortion against individuals are estimated at **$40–57 million** a year in Guatemala. The country is also plagued by organized crime, with InSight Crime **describing** Guatemala's criminal organizations as "among the most sophisticated in Central America." The drug trade and migrant smuggling form a significant part of organized criminal activity, especially in the Mexican border regions. The Mexican Sinaloa Cartel and the Jalisco New Generation are also **expanding** their presence in Guatemala. A final problem directly affecting commerce, which occurs throughout Central America and is a particular problem in **Mexico**, is cargo theft; criminal groups in Guatemala use **signal jammers** to block truck-borne GPS tracking systems and operator cell phones prior to assaulting cargo vehicles.

INFRASTRUCTURE DEVELOPMENT

Guatemala has Central America's highest logistics costs and important deficits in terms of the quality of its road infrastructure. According to the **Inter-American Development Bank** (IDB), between 2012 and 2017, logistics costs—measured as the percentage of a product's final value—increased from 23 to 29 percent and represented 40 percent of the overall costs for small and medium-sized enterprises. There are a total of **17,440 kilometers** of roads in the country, of which 7,420 kilometers are paved and 9,440 kilometers are unpaved dirt roads. Guatemala currently ranks **at 134** out of 141 countries in road connectivity, highlighting the urgent need for transportation improvements.

Guatemala's main **highways** include the Pan-American Highway (CA-1), connecting it to Mexico and El Salvador; the Interoceanic Highway (CA-9), from the port at Puerto Barrios to the port at Puerto Quetzal; and the Costanera Highway (CA-2) along the Pacific coast. The Pan-American Highway is key for regional commerce with El Salvador and Honduras, while the Interoceanic Highway is the main artery connecting the center of the country with both coasts. It connects the country's industrial areas with the port at Puerto Quetzal on the Pacific Ocean as well as the ports of Santo Tomas de Castilla and Puerto Barrios on the Caribbean, linking Guatemala to U.S. and European markets. In late 2022, the IDB approved a **$175 million** infrastructure project to improve the CA-9 road corridor that will significantly benefit the northeastern agricultural region, the source of most of the country's exports. In addition, the Guatemala No Se Detiene plan features 40 initiatives to improve transportation infrastructure. One key aspect is the plan to expand the road network to 37,952 kilometers over the next 15 years, under a law **approved** in November 2024 that prioritizes the main roads linking the Salvadoran and Mexican borders and the Interoceanic Highway. A month later, the Guatemalan Congress **approved** the Priority Road Infrastructure Law, which will regulate the contracting process for road projects by providing clear funding mechanisms for roads that are directly relevant for international trade by introducing new methods to increase the certainty of payment to suppliers, as well as by improving how construction, repairs, and maintenance of the country's road network are undertaken.

Officials have also been turning their attention to port infrastructure and operations as there are severe **bottlenecks** in the process, largely due to long queues for ships to dock. A project completed in 2024, undertaken with funding and support from the Washington D.C.-based Global Alliance for Trade Facilitation, sought to **modernize** port procedures for the arrival and departure of vessels in Guatemala. The **project** aimed to promote trade by introducing a digital single-window system, automating the documentation procedures involved at the country's four main cargo ports and creating greater uniformity and efficiency in line with international standards. The digital project also strengthens transparency and security processes in international trade. Port and shipping infrastructure are also being modernized. APM Terminals upgraded the port of Puerto Quetzal in 2017, after investing $180 million to raise the terminal capacity to 340,000 TEU (twenty-foot equivalent unit, used to measure vessel capacity), making the port the largest in the country. In June 2023, the port announced **plans** for a **$1 billion** investment over the next 25 years to enhance and enlarge the port in a series of phases. The port is looking for investors to finance these plans. In 2011, the port of Santo Tomás de Castilla, located in Izabal, added **new berths** to accommodate an increase in seaborne traffic and to reduce loading and unloading times. Under Guatemala No Se Detiene, the port of Santo Tomás de Castilla, as well as the Champerico port, located in the department of Retalhuleu on the Pacific Ocean, will also undergo expansions.

At a January 2025 **press conference** in Guatemala City, Secretary Rubio, standing alongside President Arévalo, announced he had signed a letter of support for a partnership between Guatemala and the U.S. Army Corps of Engineers to plan two new port expansion facilities, along with highway and railroad interconnections, so that "Guatemala can become an economic hub of trade and commerce."

OUTDATED LABOR LAWS AND LABOR COSTS

Guatemala has a relatively high minimum wage, though it varies across sectors—agriculture, non-agriculture, maquila, and export—and between the department of Guatemala and the rest of the country. Guatemala has the **sixth-highest** minimum wage compared with 18 countries in Latin America, just below Mexico, but ahead of its Central American counterparts El Salvador, Honduras, and Panama. A government order that came into effect on January 1, 2025, raised minimum salaries by **10 percent** for agricultural and non-agricultural sectors and 6 percent for export and maquila work.

Guatemala's labor laws are stringent and add opportunity costs for workers looking for change and companies seeking to invest, which ultimately **hinders** the country's competitiveness in the race to attract nearshoring opportunities. The work week is regulated according to the time of day worked. Daytime employees can work up to **44 hours** per week within a narrow 6:00 a.m. to 6:00 p.m. window, nighttime workers are limited to 36 hours per week, and mixed-shift workers can work up to 42 hours weekly. Further limiting flexibility, only indefinite-term contracts, fixed-term contracts, and project contracts are permissible. Guatemala **ratified** an International Labor Organization convention empowering firms to offer part-time contracts in 2017, only to see its constitutional court temporarily **suspend** the framework. Rigid labor laws, as well as insufficient employment in the formal economy, fuel Guatemala's large **informal sector**, which employed over 70 percent of the workforce and accounted for **49 percent** of GDP in 2023.

LACK OF EDUCATED HUMAN CAPITAL

Despite its potential in the BPO market, Guatemala faces significant obstacles in equipping its workforce with the education and skills needed to harness these opportunities. While primary school enrollment rates in Guatemala have progressed significantly over the past 20 years, challenges remain in the quality of education, learning outcomes, and the transition rates of students into secondary and higher education. In 2020, Guatemala's Human Capital Index was **0.46**, meaning the average child born in that year is estimated to be only 46 percent as productive as they would be with a full education and healthcare. In the Organization for Economic Cooperation and Development's (OECD) 2022 Programme for International Student Assessment, Guatemala **ranked poorly** in reading and math, with students scoring well below the OECD averages. Perhaps most concerningly, the 2023 Global Talent Competitiveness Index **ranked** Guatemala at 104 out of 134 countries evaluated, though Guatemala did fare very well in the index's measurement of enrollment in vocational education (20) and on-the-job training (13)—much better than regional GTCI leaders Chile, Uruguay, and Costa Rica.

One of the most significant barriers for the BPO and IT sectors is the lack of English language proficiency. Around **80 percent** of BPO roles demand proficiency in English, but most candidates only possess basic skills and struggle with conversational fluency. One **study** from 2024 by the Inter-American Dialogue showed that there are 10-15,000 jobs in Guatemala, a majority of them in the BPO sector, that are not being filled due to the lack of candidates with the necessary English skills. This proficiency gap is partly due to the severe shortage of specialized English teachers. To address this, a coordinated strategy between the government, ministries, and business sector is needed and must include expanding English instruction and reforming the curriculum. Under the education pillar of Guatemala No Se Detiene, from 2022 to 2024, **44,902** scholarships to learn English were provided and 1,087 English teachers were trained. The Ministry of Education also offers **20,000** English scholarships for young people each year. Despite these numbers, in 2024, the Inter-American Dialogue study concluded that Guatemala needs to implement a strategy to strengthen the teaching of English, ensure there are enough qualified English teachers, expand the number of available scholarships, ensure consistency in the certification of educational institutions, and encourage greater communication between industry needs and educational institutions.

Policy Recommendations

Guatemala's proximity to the United States, youthful population, nascent IT sector, natural resources, dependable and renewable electricity, and free trade zones are all elements that add up in the "plus" column when companies make their calculations evaluating where to nearshore their supply chains. Guatemala is also generally politically stable, despite efforts to prevent President Arévalo from taking office, and does not have the levels of cartel violence that occur in Mexico, or the guerillas and criminal syndicates that are present in Colombia. Some of the challenges that Guatemala presents—such as public safety concerns and corruption—are either not as grave as in neighboring Mexico, Honduras, Colombia, or even Costa Rica (consider **homicides**, for instance) or not significantly worse (like corruption in Mexico). Guatemala scored 25 out of 100 points in Transparency International's 2024 **Corruption Perceptions Index**, and Mexico scored only 1 point better. Those two issues, at least in comparison with Mexico, which is the leading nearshoring destination in the Americas, should therefore not constitute "minuses" in the nearshoring calculation. To improve the attractiveness of Guatemala, the country could take the following steps, some of which it is already working on:

1. **Lean in to Taiwan and be a bulwark against the People's Republic of China (PRC):** During his trip in early February 2025 to Central America, Secretary of State Marco Rubio indicated President Trump's clear desire to roll back China's presence in the region. For Guatemala, as the most populous country in the world to maintain formal diplomatic ties with Taiwan, this represents an opportunity to further lean in to that relationship diplomatically and economically, and in so doing, also increase the chances that the United States will make the investments in Guatemalan infrastructure outlined in the secretary of state's letter of support. For the United States, this would be a "win" against the PRC and would also signal to other Central American countries the benefits of reducing their exposure to the PRC. In addition, Guatemala should be a priority country in the event that the Western Hemisphere Nearshoring Act becomes law. **The bill**, reintroduced in the 119th Congress, would provide assistance through the Development Finance Corporation to businesses that move operations from China to countries in Latin America or the Caribbean, in addition to duty-free treatment on the products those businesses produce.
2. **Continue efforts to fight corruption:** President Arévalo has just completed his first year (2024) in power. He has had some modest success in fighting corruption, as reflected in the country's improved standing in Transparency International's Corruption Perceptions Index, and should continue those efforts despite them being limited to the executive branch. Given that the Pact of the Corrupt will continuously try to outmaneuver him and even remove him from power

through the efforts of Attorney General Consuelo Porras (whose term does not expire until 2026), Arévalo needs international support from the United States and the European Union to keep those efforts at bay.

3. **Cut red tape and make it easier to do business in Guatemala:** The government has made efforts to implement the country's 2021 anti-red-tape law with initiatives like the single-window portal for construction permits. However, as of August 2024, only **252 of the 1,194** administrative procedures across all government agencies that need to be redesigned and simplified have in fact been digitized. The Presidential Commission on Open Electronic Government reported in September 2024 that **80 percent** of all state agencies had built new electronic processes, but were awaiting **regulatory laws** to be able to launch their systems. These laws need to be prioritized to make it easier to do business and to help with transparency. Digitalization of procedures has real impact. The Global Alliance for Trade Facilitation digitalization project, for instance, cut document processing times at Guatemala's ports by **85 percent**, which led to projected annual savings of $4 million.
4. **Increase workforce training and education**: Guatemala needs a strategy to leverage all the private and public educational institutions to meet the needs of businesses interested in investing in the country and to ensure that there is a common standard and certification process. Increasing the pool of trained human capital by strengthening English language skills, increasing the number of teachers, and providing the skills necessary for emerging industries like BPOs and the IT sector will make the country more competitive vis-à-vis its neighbors.
5. **Fast-track the pending ZDEEP approvals:** The reform to the FTZ law allowing many more industries to operate in these tax-free environments is certainly an attractive feature for companies thinking of nearshoring. The Guatemalan tax authority should fast-track its approval of the 12 ZDEEPs that have already received approval from ZOLIC, and the latter should do the same with respect to the six FTZs that are in different stages of development. The Guatemalan tax authority also needs to ensure that its oversight of the FTZs is appropriate but not too onerous as to be an obstacle to the operations of the companies operating within their boundaries. Moreover, Guatemala should review its tax incentives to ensure that they are competitive within the CAFTA-DR block as well as with Mexico, and consider adjusting them as appropriate.
6. **Invest more in infrastructure:** Importing production inputs and exporting finished goods to international markets in a timely, cost-effective manner is one of the first considerations for nearshoring, especially regarding the infrastructure around the existing ZDEEPs and the ones that are being planned. The government and the private sector have outlined ambitious plans, including through Guatemala No Se Detiene, for infrastructure improvements, but still need to attract private capital and international financing. A 2021 **IDB Study** pointed to the need for Guatemala to invest $1.9 billion in new road construction, and a further $3.4 billion in maintenance for existing roadways. The ***Americas Crece* 2.0** strategy could be an important vehicle for part of this financing. The country also needs to take legislative action, following up on a newly approved law governing **maritime ports**. It should **update** the 2010 Law on Partnerships for the Development of Economic Infrastructure to establish standards around economic infrastructure projects, both at the national and municipal levels, and the

government needs to present legislation to reform the **aeronautical system** and improve infrastructure at airports.

7. **Pass a comprehensive mining law to unlock the potential of the sector:** The government should prioritize the drafting and socializing of new mining regulations and legislation containing effective environmental safeguards, provisions for social programs and local economic development in affected localities, and a transparent process for determining royalties to be paid to the state. Special emphasis needs to be placed on the generation of social license to mine, through genuine community and indigenous participation, given the history of social conflict around mining in Guatemala. ■

Christopher Hernandez-Roy *is a senior fellow and deputy director of the Americas Program at the Center for Strategic and International Studies in Washington, D.C.* ***Andrea Casique*** *and* ***Natalia Hidalgo*** *are interns with the Americas Program at CSIS.*

This report is made possible by general support to CSIS. No direct sponsorship contributed to this report.