

Making business better

INTERVIEW WITH TONY MALOUF

VICE PRESIDENT, AGEXPORT AND VICE PRESIDENT, CACIF



TONY MALOUF

graduated in Economics from North Carolina State University, from where he also holds a degree in Textile Engineering. A Director of Vestex (the Apparel and Textile trade office of Guatemala) and President of Guatemala's Apparel Sourcing Show for the last ten years, Mr Malouf is General Manager of Tejidos Corporativos, a textile company based in Guatemala City, Vice President of AGEXPORT (Guatemala's Export Association) and Second Vice President of CACIF, the body that coordinates the country's private sector industry associations.

Feel the width: Guatemala's private sector is gearing up to take advantage of the country's Association Agreement with Europe and looking beyond its traditional US markets

Guatemala has made significant economic and social progress since returning to peace two decades ago, and its macro-economic indicators are healthy by any standards.

In 2013, the country's economic activity expanded by 3.7 per cent, by 4.1 per cent last year, and is predicted to reach 4.5 per cent for 2015. Earlier this year, the International Monetary Fund praised the country's economic outlook, citing "prudent macroeconomic policies" and "relatively low inflation" that slowed to 3.4 per cent in July from 4.7 per cent a year earlier.

Guatemala's economy has recovered at a modest but consistent pace since the global financial crisis of 2008-09, thanks to prudent macroeconomic policies and a more diversified economy in comparison with other Central American countries, which has helped cushion the impact of external shocks. Growth in recent years has been driven by rebounding domestic demand, higher remittances from Guatemalans overseas, and generally favourable monetary conditions, all of which occurred against the backdrop of a recovery in the United States, Guatemala's main trading partner.

That said, Tony Malouf, Vice President of the Exporters' Association AGEXPORT and of CACIF,

the body that coordinates the country's private sector industry associations, argues that sustained growth will require doubling recent growth rates. In response, the private sector is working with the government and agencies, both private and public, to tick off a checklist of tasks that includes promoting innovation, increasing competitiveness, attracting more foreign investment, creating jobs and entrepreneurship, and boosting exports.

"Things are improving, that much is clear, and overall, the economic environment is getting better as well: we are tackling corruption and improving governance – which has been recognised by Transparency International – and we have also worked on improving life for businesses. The time it takes to set up a business now is just four days, an improvement that has been praised by the World Bank, among others – so, overall, the big picture is good. The challenge now is how to ramp up growth in the long term."

In the last 20 years, although the Guatemalan economy has grown by around 3.7 per cent annually, that rate is still too low to reduce poverty, which impacts 50 per cent of the population: Guatemala needs to grow at an annual average of 6 per cent, says the country's private sector.



“Guatemala is small country – our population is just under 16 million – and we are still relatively poor: our domestic market isn’t big enough to sustain output, so if we want to grow and create jobs we’re going to have to significantly increase our exports,” says Mr Malouf from his office close to the shop floor at the Tejidos Corporativos textile factory he runs in Guatemala City.

He believes Guatemala is well positioned to further boost the amount of goods and services it sells abroad: “We’re signatories to several trade agreements; we’re close to the NAFTA countries, and we have Pacific and Atlantic ports. We can ship to the United States, to Asia, and to Europe. In fact, the European market is particularly interesting to us; it’s harder to enter, but it’s more profitable.” Guatemala is already the largest exporter of manufactured products throughout Central America, and as trade barriers in the region begin to come down in the coming years, it will be well placed to enter its neighbours’ markets, says Malouf.

Guatemala’s private sector is gearing up to take advantage of the country’s Association Agreement with Europe and looking beyond its traditional US markets: the country sells more than 4,075 different products to more than 140 markets worldwide, but its flagship exports are clothing and textiles, which were worth more than US\$2.5 billion between 2012 and 2013, going mainly to the United States, Central America and Mexico.

Sugar has grown to become another important export for Guatemala, along with coffee, which goes mainly to markets in the United States, Japan, Germany, Canada, Belgium, and Italy. Mining and metals is a growing sector, and is now worth around

US\$1 billion a year. The country is also moving into information technology, a sector that has grown by 5 per cent a year since 2003.

“We are also a major exporter of speciality products such as snow peas, cardamom pods, and poinsettia stems, and are increasingly attracting attention for the quality of our fish and seafood products,” says Mr Malouf.

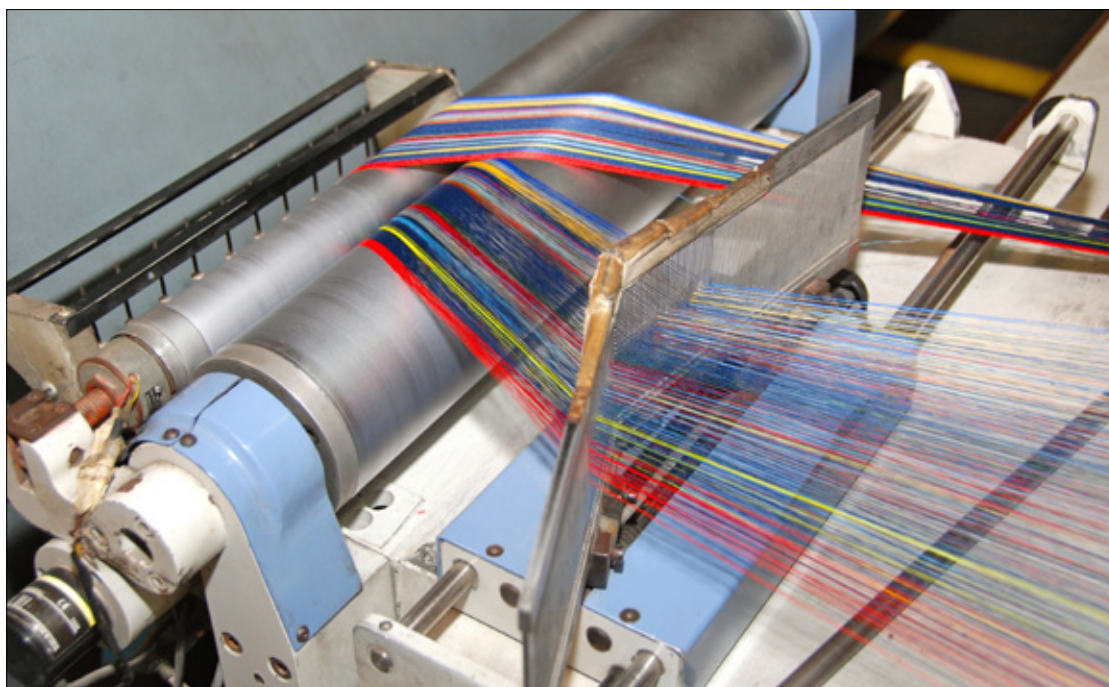
Improving foreign investment legislation

But despite the country’s huge investment potential, Mr Malouf says it’s proving hard to convince Guatemalan politicians to back the changes to the law the private sector says are needed to attract more foreign investment. “We’re pushing for a new investment and employment law, but there’s not enough support in Congress. Believe it or not, there is still opposition in many quarters to foreign investment, some legislators are fearful that outsiders will come in and take over the economy. As a result, it’s hard to attract investment.”

He accepts that last year’s cut in the country’s ratings by Fitch to BB, albeit with a stable outlook, hasn’t done much to improve international investor confidence. The agency said Guatemala hadn’t made sufficient progress to materially enhance its growth prospects, widen its revenue base and improve its fiscal flexibility. Mr Malouf says that tax reform aimed at boosting government revenue has limited the government’s ability to take on reforms that would boost growth.

In the meantime, CACIF has identified 25 main productive sectors in Guatemala that it wants the government to focus on, ranging from non-traditional agricultural exports, to tourism, business process

The time it takes to set up a business now is just four days, an improvement that has been praised by the World Bank, among others. The challenge now is how to ramp up growth in the long term



Ripping yarns: Guatemala’s clothing and textiles industries were worth more than US\$2.5 billion between 2012 and 2013

The country has three options to boost its economy and generate more employment: it can strengthen existing companies, attract foreign investment, or create new companies

outsourcing, construction, energy, chemicals and plastics, financial services, and pharmaceuticals.

“We analysed the bottlenecks that prevent us from achieving greater economic growth, to generate the necessary employment positions so the country can grow above an annual rate of 6 per cent. By working alongside members of these 25 sectors, we have been able to identify matters that should be confronted on a country level and prioritised,” says Malouf.

“We are also working hard to improve competitiveness and productivity, and to do that we need to innovate,” he adds, pointing out that Guatemalan companies still tend to work along the lines of seeing an opportunity in the market and building a business to address that need. What’s needed now is a high-growth approach to future opportunities: “These companies need to search where opportunities will be in two, three, or four years and ask themselves what they can do today to position themselves as leaders in that emerging market. They need to look at the long-term global trends and identify the ‘waves’ where demand will self-generate. In the agricultural world, for example, demand for organic products is growing faster than demand for non-organic products. Or take the example of our cardamom growers, who saw the market need in the Middle East and India.”

Historically, Guatemala has exported products that satisfy basic human needs, such as food, beverages, and clothing, a strategy that has worked as long as volumes are large and prices steady, says Mr Malouf. “Too many of our exports are commodities, so we do not have a lot of control over their prices; some years we earn a lot and some we don’t. In a context where our energy, logistic, and workforce costs are not the cheapest in the region, let alone the rest of the world, we must migrate to an economy that focuses on more sophisticated human needs, where we can charge a premium price. Generally speaking, people are willing to pay more for convenience versus time, for a product with high added value, like our Zacapa rum, or for something they identify with,” he says.

Creating jobs, creating entrepreneurs

Over the last 10 years, nearly 1.4 million people have entered the job market in Guatemala, but as Mr Malouf points out, the economic structure has only been able to generate 200,000 formal jobs. The majority of people who enter the job market are either underemployed, without employment, or have had to migrate to the United States of America, he says, highlighting the long-standing problem of child migration. “Our second-biggest source of foreign revenue in this country is remittances; many families have come to depend on money sent from relatives working in the United States. But aside from the fact

that these remittances will start to dry up in the coming years as families take root in the United States, there is also a huge social impact, with many families effectively being broken up because the father or mother, and often both, are working abroad, leaving the children to be brought up by their grandparents, who are unable to exercise the kind of parental authority needed, particularly on teenagers,” he explains.

“This situation illustrates the importance of promoting entrepreneurship. In the final analysis, the country has three options to boost its economy and generate more employment: it can strengthen existing companies, attract foreign investment, or create new companies,” says Mr Malouf. If Guatemala wants to close the employment gap, a dynamic entrepreneurial agenda must be defined to complement the work in the areas of competitiveness and investment promotion. This means improving coordination between organisations in the entrepreneurial ecosystem and closing specific support breaches, formalising the channels of risk financing, and enlarging markets for new companies through programmes for providers, as well as further improving the business environment for new companies, especially to facilitate their opening and closure.

At the same time, Guatemala is forging new trade alliances and agreements with the larger emerging economic powers, according to Mr Malouf. He highlights the work of the Foreign Ministry in linking trade to diplomacy, which has seen the country establish ties with India, one of the world’s biggest textile manufacturers.

“We have opened an embassy in India, and we have already had a number of visits from trade delegations. The Indians are impressed with our textile industry and know that we have the spare energy capacity to increase production. Our workforce is capable, and of course the Indians are interested in taking advantage of our location. They may be interested in building factories here that are close to the US market,” he points out.

Finally, there is the question of how the corruption scandal that has already brought down the Vice President and other senior government officials will affect the country’s business climate. “CACIF’s position is clear: we think that whatever happens, even if the entire cabinet resigns, what really matters here is that the money that has been stolen is returned. This money is our money, it belongs to all Guatemalans, and people are right to be angry about what has happened,” he says, adding that he believes Guatemala may have reached a turning point for the best.

“I’m optimistic about the future, and I’m buying more raw material. I’m investing in the country. It’s simple: people need jobs, and that is what the private sector is about: We’re fighting for the country economically by trying to make business better.” **F**