



6. GARMENTS & TEXTILES

#INVESTINGUATEMALA

Industry in Guatemala

General information of the country

Capital City	Guatemala
Currency	Quetzal
Exchange Rate (2013)	1US\$ = 7.86 quetzales
Official Language	Spanish
Population	15,438,384
Labor Force (2013)	5.9 Million
GDP (2013)	US\$53.8 Billion
FDI inflows (2013)	US\$1.3 Billion
Exports (2013)	US\$10.1 Billion

Source: Bank of Guatemala and National Institute of Statistics

GARMENTS & TEXTILES in Guatemala

The Garments and Textiles industry is very important for the Guatemalan economy. During 2013 its production raised to US\$1.5 billion, having a growth of around 70% during the last decade.

It is a well organized industry, supported by a complete supply chain sector composed of companies dedicated to the production of: accessories, services, thread, buttons, tags and logistic services; and it has one of the most united and best established Cluster in the entire Central American region.

GARMENTS & TEXTILES

at Glance

Total earnings (2013)	US\$1,500 Millions
Jobs (2013)	90,000 Direct employment
Femenine work force	46%
Direct Foreign Investment (2007-2013)	US\$210.2 Millions
Exports (2013)	US\$1,512 Millions

Why invest in this industry?

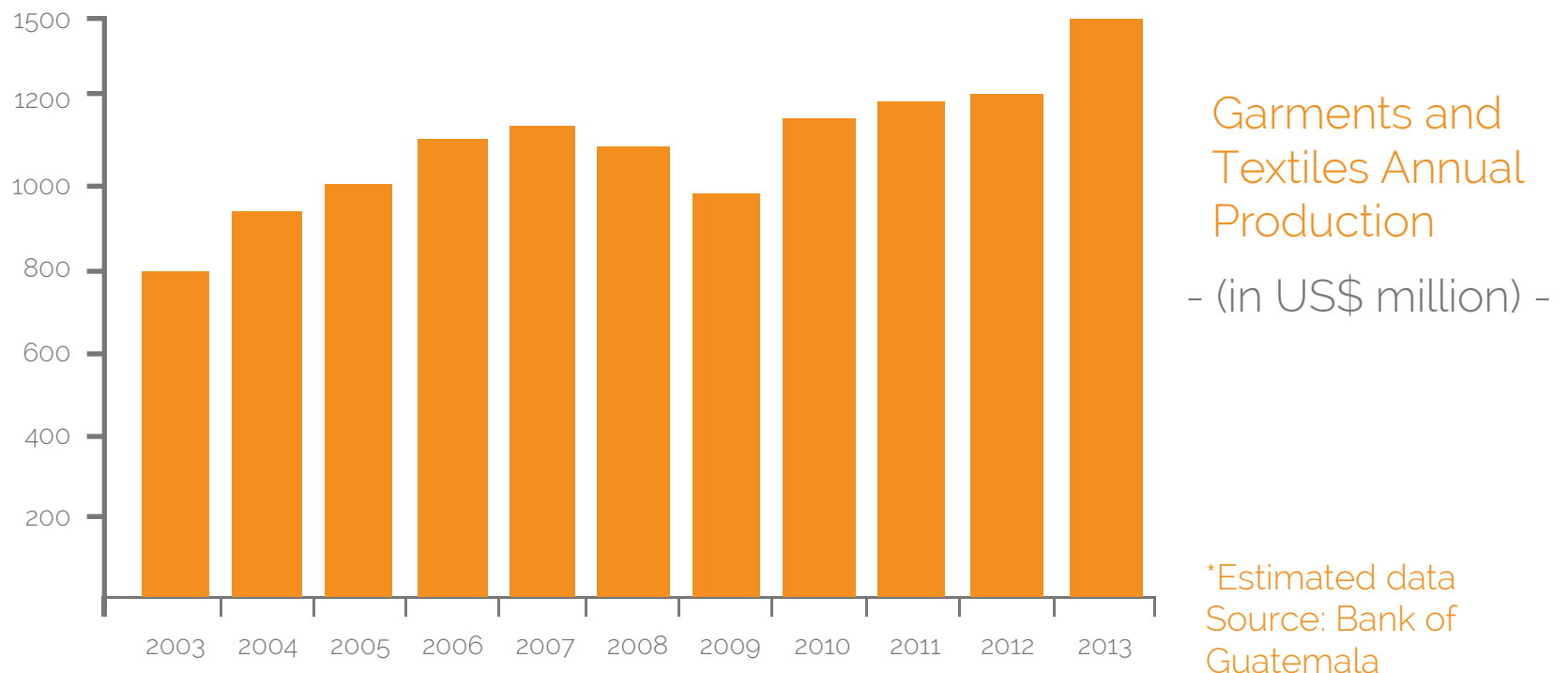
- Guatemala has a strategic geographical position for export development and participation in major international markets; with access to both the Pacific and Atlantic oceans. Also, is the bridge within a market of more than 68 million people over a production area of about US\$319 million (Southern Mexico and Central America)
- Guatemala is an important supplier of raw materials needed by this industry, producing: synthetic filament, fabrics, special woven fabrics, knitted fabric, dyed yarn fabric, serge, fabrics for special purposes, Oxford fabrics, among others.
- It is a country that produces for renowned brands like: Adidas, Nike, Polo Ralph Lauren, American Eagle Outfitters, Dona Karan New York, Guess, Tommy Hilfiger, Old Navy, Gap, Abercrombie & Fitch, and Hollister, demonstrating the high quality and efficiency of the labor force.
- There is abundant skilled labor force at a competitive price available, this sector is an important source of work for women (approximately 46% of the sector's workforce are females).
- Guatemala shares Free Trade Agreements and Preferential Trade Agreements with the main international markets (USA, Mexico, Central America, some South American and Caribbean countries, Taiwan and other Asian countries). Also, the country recently signed a Preferential Trade Agreements with the European Union.
- Guatemala has a well organized Garment and Textiles Commission (Cluster) known as VESTEX, promoting the sector in terms of technical assistance, training, marketing, export promotion and establishing communication with the Guatemalan Government and with potential international markets.

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In terms of exports, this sector is of high importance for the national economy, producing an approximate US\$1.5 Billion in 2013.

Guatemala has more than 146 clothing companies, 41 textile companies, and 260 accessories producers, giving direct employment to more than 90,000 people from which 46% are women.

The garments and textiles sector has experienced an important growth in the last decade, demonstrating how this sector has been able to consolidate as one of the main economic activities in Guatemala. In 2002, the total textiles, garments, leather and shoes production was US\$713.7 million. During the following years, these products experienced an important growth, rising in 2013 to US\$1.5 billion; and reporting an average yearly growth of 5.37%.



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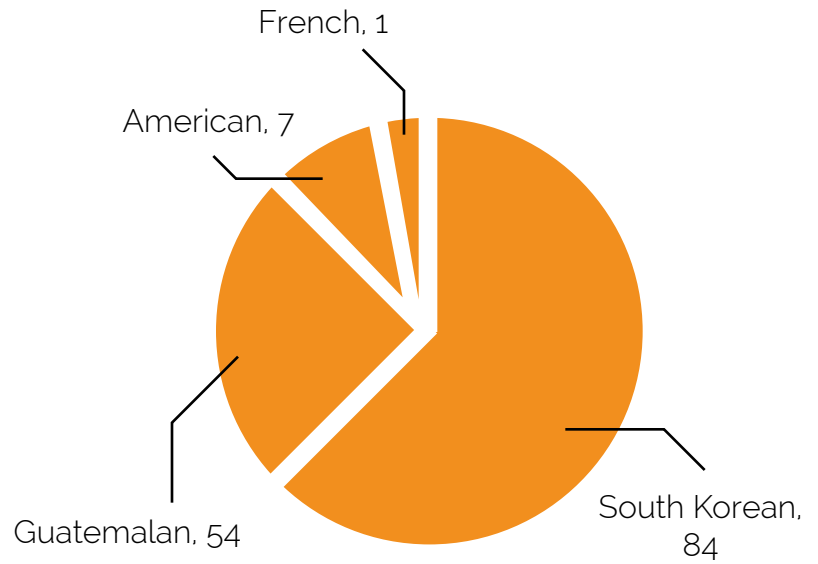
Nowadays, most of its national production goes to international markets, mainly to the United States. As of 2013, Guatemala reported a total commerce of US\$1,200 million in garment exports and US\$300 million in exports of textiles and raw fibers. Its main destinations were: the United States (more than 80%), Central America (around 13%), Mexico (around 3%), Canada (around 1%), and some South American Countries.

The potential of this industry has been recognized by international corporations, which have chosen Guatemala for their investment, especially in the elaboration of garments.

This foreign investment comes mainly from South Korea, representing 84 out of 146 foreign companies operating in this sector. In addition, American and French companies are also settled within the national borders.

In the period 2007-2013, Guatemala has successfully been able to attract a total of US\$2210 million in Foreign Direct Investment to this sector according to information from FDI Intelligence Market.

Origin of Garments and Textiles Companies



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Some of the most renowned clothing brands are made in Guatemala



Legal Framework

The garments and textiles sector in the country is regulated by specific laws; the Commercial Code and the Immigration Law are two of the most important laws for the industry:

Law	Decree	Description
Commercial Code	Decree 2-70	Main legal framework for all commercial activities, mercantile businesses and other relevant issues. This Code recognizes all people dedicated to produce and/or transform goods and services as merchants. Also recognizes as merchants people dedicated to the intermediation of services like banking, insurance and bailing; and other related to commerce and investment in Guatemala.
Immigration Law	Decree 95-98	Its main objective is to regulate working relationships between foreign workers and companies located in Guatemala; when for any reason they are in national territory.

Labor Law and Minimum Wage

The Guatemalan Government establishes the monthly minimum wage. For 2014, the monthly minimum wage is set on Q.2,280.34 + Q.250.00 = Q.2,530.34 (approximately US\$325.00).. In addition to this, the employer also needs to add the costs for: Social Security, training and recreation, as follows:

- IGSS (Guatemalan Social Security Institute): By law, employers are required to contribute to this institution with an amount equivalent to 10.67% of the monthly salary of their employees. Also, each employee contributes with 4.83% of their own monthly salary. IGSS is the institution in charge of offering Social Security (mainly health and retirement) to all workers in Guatemala.
- INTECAP (Technical Institute of Training and Productivity): Employers are required to contribute to this institution an amount equivalent to 1% of the monthly salary of their employees. This institution offers, throughout its more than 30 campuses and delegations,

training and certified studies for the Guatemalan labor force in a wide range of areas and with the objective of raising the employment opportunities for Guatemalans and help boost the nation's competitiveness and development

- IRTRA (Institution of Recreation for the Employees of the Private Sector in Guatemala): This institution receives an equivalent of 1% of the monthly salaries of the employees of all private companies in the country. IRTRA is in charge of providing recreation opportunities for the employees of the private companies in the country through different parks and recreational centers throughout the country, including the theme parks Xetulul and Xocomil, the biggest theme parks in the entire Central American region.

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Other relevant information that the Labor Law establishes in Guatemala includes working shifts, schedules and restrictions, and employment benefits.

Working Hours	Schedule	Can't Exceed
Regular Shift	6:00 to 18:00	8 hours per day / 44 hours a week
Night Shift	18:00 to 6:00	6 hours per day / 36 hours a week
Over Time	One regular shift can be extended with a mutual agreement between the employer and the employee, up to 4 more hours per day. Each hour of "overtime" has to be paid 1.5 times the regular hour wage.	A regular shift cannot exceed (normal plus overtime) 12 hours per day.

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Benefits	Description
Weekly Day Off	The employee has the right for one day off after 6 consecutive workdays. If the employee works during this day, those hours have to be paid as "overtime".
National Holidays	Guatemala has 13 national holidays, which are: January 1st, Holy Thursday, Good Friday, Holy Saturday, May 1st, June 30th, September 15th, October 20th, November 1st, December 24th (Half Day), December 25th, December 31st (Half Day), and the day of the local festivity (for Guatemala City is August 15th). If the employee works during these days, employer has to pay as overtime.
Vacations	Minimum of 15 days after one consecutive year of work. The employee acquires the right for vacations after 150 workdays.
Annual Bonus	Annual bonus equivalent to a monthly salary for employees that have worked during one consecutive year. This bonus has to be paid during the first 14 days of July.
Christmas Bonus	Annual bonus equivalent to a monthly salary for all employees that have worked for one consecutive year. This bonus has to be paid 50% during the first 15 days of December and the other 50% during the first 15 days of January.
Severance Payment	Only applicable in case of dismissal, when the employee had a contract of indefinite duration. The severance payment is equivalent to one monthly salary per year of work for the same employer. If the employee did not finish one consecutive year, the payment has to be proportional to the time worked for the employer.

Key incentives for the sector

Guatemala has developed several incentives to make the country attractive for foreign investment. For investors interested in Guatemala's garments and textiles industry, laws like the "Free Trade Zones Law", "Promotion and Development of Exports and Drawback (Maquila) Activity Law", and "Free Trade Zone for Industry and Commerce Law" offer incentives for foreign companies, as they are exonerated of Rent Taxes, Value Added Taxes (VAT) and import taxes.

- "Free Trade Zones" Law (Decree 65-89): This law establishes that, by locating a company in one of the existing "Free Trade Zones", it can enjoy the following benefits: exonerated of the company's customs duties and value added tax (VAT) for all machinery, equipment, furniture, tools and other materials destined mainly for the construction of infrastructure. Also, this law offers 100% exemption of Rent Tax for up to 10 years, 5-year exemption of Property Tax for all properties used in the

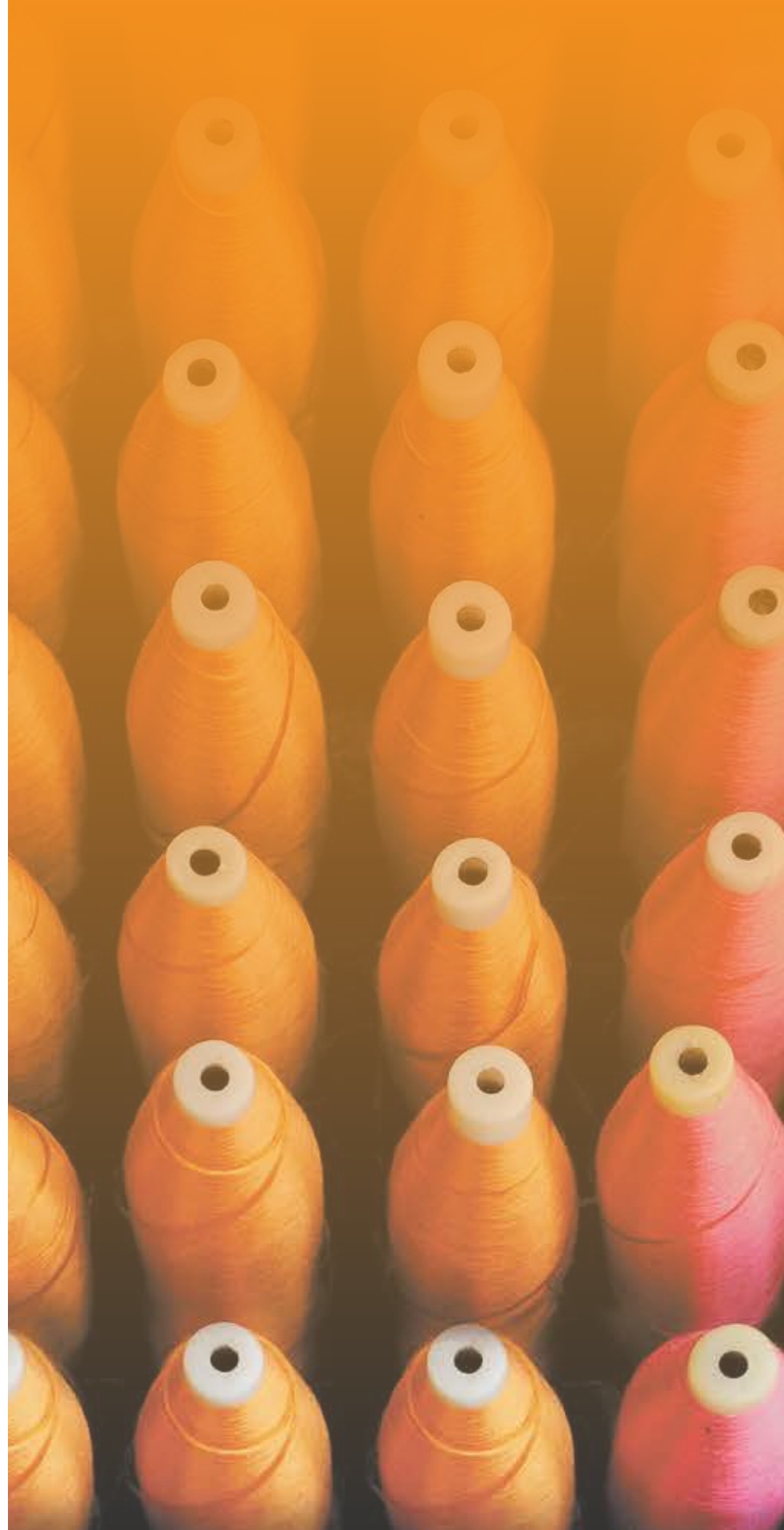
- "Free Trade Zone", and the exemption of all other taxes existing and to be created that could affect the equity and profits of the company, for this specific period of time.

There are currently in Guatemala a total of 18 "Free Trade Zones" located in Guatemala City (11), San Marcos (2), Escuintla (2), Santa Rosa (1) and Izabal (2).



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- "Promotion and Development of Exports and Drawback (Maquila) Activity Law" (Decree 29-89): This law seeks to boost the exports of Guatemalan products and services by offering tax incentives to both national and foreign companies. Without any location requirements, it offers a temporary exoneration of customs duties, VAT, and the complete exoneration of Rent Taxes for up to 10 years and any ordinary and/or extraordinary export taxes for this period of time.
- "Free Zone for Industry and Commerce Law" (Decree 22-73): This law, commonly known in Guatemala as ZOLIC, for its acronym in Spanish) offers about the same incentives as the other laws in terms of tax exemptions. The main difference is that it seeks to develop big territories that would be dedicated to Industry and Commerce (a bigger concept of the "Free Trade Zones"). Nowadays, there is one ZOLIC located in the department of Izabal, near the Santo Tomás de Castilla port in the Caribbean Sea.



Free Trade Agreements

In addition to the existing incentives, Guatemala offers the advantage of several Free Trade Agreements and Preferential Trade Agreements with the major markets.

Guatemala also has Preferential Agreements and Free Trade Agreements with Mexico, European Union, Taiwan and some other South American countries. These agreements offer an invaluable opportunity for investors, added to the strategic geographical location of the country and the relatively short distance to the most important export markets.

It is of particular interest the advantages offered by the Free Trade Agreement with the United States, best known as DR-CAFTA. This agreement allows the Central American countries, as well as the Dominican Republic, to have free trade with the United States.

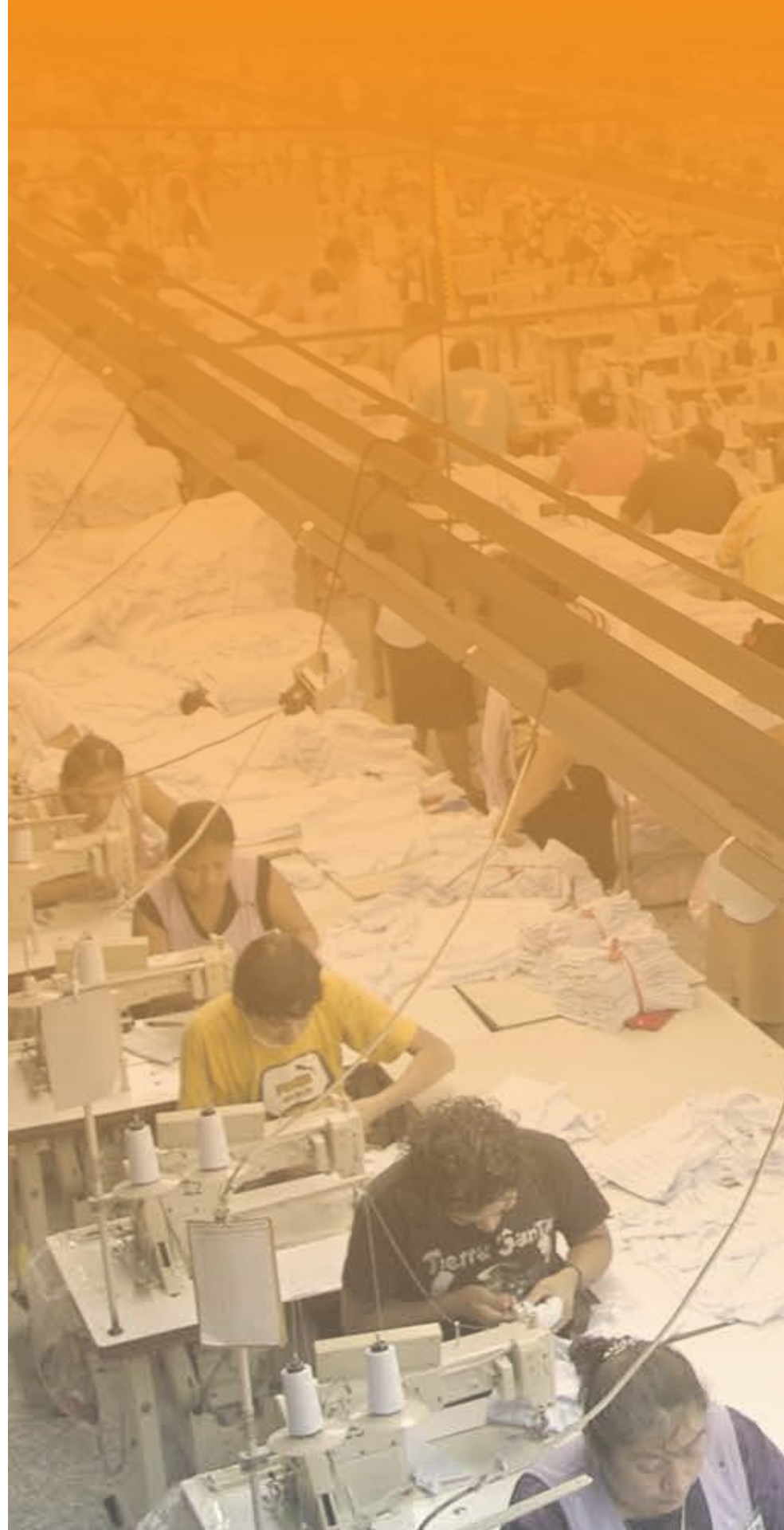


- IN FORCE:** DR-CAFTA, Central America, Colombia, Mexico, Taiwan, Dominican Republic, Chile.
- IN PROCESS:** European Union, Peru, Ecuador.
- IN NEGOTIATION:** Canada, Trinidad and Tobago.

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Specifically for the garments and textiles industry, the DR-CAFTA gives the following guidelines and specifications in order to enjoy the benefits given:

- "SIMPLE TRANSFORMATION" rule: allows the usage of fabrics formed and finished without any origin restrictions. Can also use linings, and/or sewing thread from all over the world.
- Free trade of garments if they qualify for the "extended accumulation of origin" (that allows the usage of 100 million sq meters of fabric originated from Mexico or Canada).
- It is allowed to use filaments of Nylon from Mexico, Canada or Israel; and will be considered as materials originated from a DR-CAFTA country.
- "MINIMIS" rule: allows the usage of fibers and yarn not originated from a DR-CAFTA country, as long as it does not exceed 10% of the product.
- "MOST FAVORED NATION'S TARIFF" program: garments cut and sewed on a DR-CAFTA country and elaborated with USA's fabrics will only pay VAT.



Other Institutions that offer support for this sector are:



Garments & Textiles
Commission
www.vestex.com.gt



National Competitiveness
Program
www.pronacom.org



Guatemalan Chamber of
Industry
www.industriaguatemala.com

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