

2021 and an estimated value of 1.74 billion euros for 2022⁶, an increase of 38.5% mainly based on agricultural products (79% of exports to the EU). In 2015, Guatemala, together with Honduras, signed the "Enabling Protocol for the Process of Deep Integration towards the Free Transit of Goods and Natural Persons between the Republics of Guatemala and Honduras"⁷ which has led to the release of 75% of the commercial exchange between both countries, representing 50% of the Central American population and close to 52% of intraregional trade. These results have motivated the incorporation of El Salvador into the deep integration process.

The EU is Guatemala's third largest trading partner, accounting for 8% of total Guatemalan trade representing a significant potential for formal employment creation in the framework of the trade chapter of the EU-CA AA. Continued EU support in this area can build on several successful initiatives, which have helped Guatemala adopt more effective legislation on technical trade and labour standards. Although there are many factors that influence the creation of formal employment, increased demand for goods and services produced by Guatemalan enterprises is key for this purpose. The trade pillar of the EU-CA AA has resulted in increased trade flows between these regions since its signature 11 years ago. It is expected that the Agreement's positive effect on trade and consequently on employment will continue, as long as Guatemalan enterprises prepare themselves to compete in ever tougher market conditions and successfully tap into such demand. The Central American Integration System (SICA) was partially designed "to set up a new model of regional integration that based on the reasonable balance of forces, the strengthening of civilian authority, the overcoming of extreme poverty, the promotion of sustainable development, the protection of the environment, and the eradication of violence, corruption, terrorism, and drug and arms trafficking. By economically developing rural, isolated and vulnerable communities through regional integration and trade, illegal economic activities can be fought.

2.2 Problem Analysis

Guatemala has continued to face systemic and structural challenges, including in relation to inequality and discrimination. The country faces significant challenges to achieve more inclusive growth and is characterised by a fragmented social contract and a weak institutional set up that has not been able to provide the necessary levels and quality of public services, or to create equal opportunities for individuals and companies.

High levels of poverty go hand in hand with high levels of inequality. The ranking of Guatemala on the 2020 Human Development Index is 0.663 (127th out of 189 countries), and its Gender Inequality Index ranking is 0.479, indicating some of the highest inequalities in LAC. According to official records, 64.7% of the population lives in multidimensional poverty. However, for indigenous peoples (41% of the population) the figure rises to 80%.⁸ This context includes discrimination, difficult working conditions, limited freedom of association, forced and child labour and adverse impacts on the environment such as deforestation, lack of respect for the rights of indigenous peoples.

The Global Competitiveness Index ranks Guatemala in 96th place out of a total of 140 economies. Its biggest competitive strengths are macroeconomic stability and health, but it has the lowest performance in Innovation, ICT adoption and institutions. In this regard, the business sector in Guatemala, together with the Government, designed the 'Guatemala moving forward' agenda, which is defined as a "transformational" plan that promotes the generation of 2.5 million jobs by 2030, of which 1.5 million are linked to exports and one million to investment in infrastructure.

According to the World Bank's Jobs Diagnostics for Guatemala carried out in 2021, the main labour market challenges are:

- *Limited growth and structural change.* Per capita income growth has been slow, averaging 1.7% per year since 2004, with declining labour productivity since 2014. Most Guatemalans are stuck with agriculture and low-quality, low-productivity services sector jobs, while good jobs in larger and better-capitalised businesses remain scarce.

⁶ <https://trade.ec.europa.eu/access-to-markets/en/statistics>

⁷ Enabling Protocol for the Deep Integration Process towards the Free Transit of Goods and Natural Persons between the Republics of Guatemala and Honduras (2015).

⁸ Country programme document for Guatemala (2022–2025). United Nations Development Programme. June 2021.