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Central American Governments Consider Alternatives to Trade with U.S.

by George Rodríguez

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US President Donald Trump has the world in suspense regarding his foreign policy. For Central America, the uncertainty extends to the economic field.

Trump's aggressive stand against immigration threatens with massive deportation of people living in the US without documentation—an important number having fled the extreme violence and poverty of the Northern Triangle of Central

America—thus reducing the volume of remittances to relatives and friends back home ([NotiCen, Jan. 26, 2017](#), and [March 2, 2017](#); [SourceMex, May 11, 2016](#), and [Feb. 15, 2017](#)).

Trump's protectionist "America first" agenda also includes the potential renegotiation of pacts such as the North America Free Trade Agreement (NAFTA), which has bound Canada, Mexico, and the US as partners since 1994 ([SourceMex, July 27, 2016](#), [Feb. 1, 2017](#), [March 8, 2017](#)).

This has set off the alarm among Central American nations regarding the future of the Central American Free Trade Agreement (DR-CAFTA), a commerce treaty that has been in force for a decade and also includes the Dominican Republic. ([NotiCen, Jan. 23, 2003](#), [Feb. 6, 2003](#), [Sept. 28, 2006](#)).

Voices of concern have been heard throughout Central America, mainly in El Salvador, Guatemala, and Honduras, whose economies are strongly dependent on the US, both as trading partner and as the major source of cash in the form of billions of dollars in remittances.

Free-trade area without the US?

As a result of the uncertainty, some analysts are proposing the idea of a regional free-trade area without the US. The Chilean economist Andrés Velasco, for one, sees that option as a feasible stand in the face of what he describes as "Trump's nationalist and protectionist bullying."

In an article published March 3 by the influential Costa Rican daily *La Nación*, Velasco, a former finance minister, discussed possible Latin American responses to Trump's approach to global economy.

"Here is a possible answer: establishing a free trade zone in the Americas without the United States," he said. He acknowledged that the idea wasn't new, since "the founding fathers of several Latin American republics spoke of it 200 years ago." The project was never implemented, he wrote.

Latin American integration was also a central topic in the 1960s, but nothing much came out of that, and later the US reached independent agreements with many Latin American nations, Velasco pointed out.

Despite their concern, the region's leaders seem cautiously optimistic that Trump will not meddle with DR-CAFTA. After a visit to the US last week, where he met with Vice President Mike Pence and

other US authorities, Costa Rican President Luis Guillermo Solís said he was confident the change of leadership at the White House would not impact DR-CAFTA.

"I don't see any reason to suppose at this point in time that the main trade agreement between the United States, Central America, and the Dominican Republic would undergo a process putting it to question," he told reporters shortly after returning to Costa Rica from Washington. Some of his regional colleagues have expressed similar hopes, including Guatemala's Jimmy Morales, in whose opinion, "where many see a crisis" looming, others "should see opportunities."

However, President Juan Orlando Hernández of Honduras more realistically suggested that the region must be "ready to face the consequences, in economic or other terms," of Trump's decisions.

Trump 'must be watched'

Echoing Hernández's realism, Nicaraguan presidential adviser Bayardo Arce, a journalist and former guerrilla commander, warned that the new US president "must be watched," because "nobody knows" what he might do.

According to Guatemalan economist Guido Rodas, a wise measure would be for Central America to diversify trade partners and start focusing on its closest neighbors in the Caribbean and South America for both exports and imports.

His colleague Jonathan Menkos, who heads the Instituto Centroamericano de Estudios Fiscales (Central American Institute for Fiscal Studies, ICEFI), has focused on remittances and the outlook for Guatemala and the rest of the region should its nationals in the US be targeted for massive expulsion.

Menkos suggests that Central American nations should start drawing up a joint policy for job creation, something he said would not be easy "because it forces the economic elite to abandon the idea that you can be successful only if you export coffee and sugar."

Guatemalan political analyst Gustavo Gatica, a researcher with Costa Rica's Centro de Investigación en Cultura y Desarrollo at Universidad Estatal a Distancia (Culture and Development Research Center of the State Distance University, CICDE-UNED) agrees that intra-regional trade should be boosted.

"That is a need, with or without Trump in the government," he said. "I believe it's a need of the region's economies. They have it in the sense that, for a long time, they've put all their eggs in the same basket, which is the United States ... The uncertainty of having now a president like Trump, who is volatile in his opinions, who can change from one week to the next, could at any time put specific sectors at risk."

Gatica noted that Central America depends on the US for investments and trade.

"It's imperative to look for new markets," he said, adding that Costa Rica is the Central American nation with more initiative, since it is slowly reducing its exports to the US and is managing to reach other trade destinations.

"That should be the trend of the region's economies, to depend gradually less on exports to the United States, precisely because of that: The unpredictability of a president such as that could, at any time, place Central American exporters in a predicament," he underlined.

Gatica said the countries in the region should see each other as part of the solution, since the area "is a natural market" for their economies. The individual economies should step up regional commerce, he said, simultaneously looking at South America.

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